MARION WATER DEPARTMENT
A COMPONENT UNIT OF THE
CITY OF MARION, IOWA

MARION, IOWA

JUNE 30, 2014

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Officials

Name	Title	Term Expires
	(Before January 1, 2014)	
Mary Ann McComas	Chairperson	December 31, 2018
Gregory O. Hapgood	Trustee	December 31, 2016
Robert A. Anderson	Trustee	December 31, 2014
John D. McIntosh	Trustee	December 31, 2017
John C. Bender	Trustee	December 31, 2015
Todd R. Steigerwaldt	General Manager	Indefinite
	(After January 1, 2014)	
John C. Bender	Chairperson	December 31, 2015
Mary Ann McComas	Trustee	December 31, 2018
Gregory O. Hapgood	Trustee	December 31, 2016
Robert A. Anderson	Trustee	December 31, 2014
John D. McIntosh	Trustee	December 31, 2017
Todd R. Steigerwaldt	General Manager	Indefinite

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Certified Public Accountants and Consultants

Independent Auditor's Report

To the Board of Trustees
Marion Water Department
Marion, Iowa

Report on the Financial Statements
We have audited the accompanying financial statements of the Marion Water Department, a component unit of the City of Marion, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Marion Water Department's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

2750 First Avenue, NE, Suite 150, Cedar Rapids, IA 52402-4800 • (319) 366-8267 • Fax (319) 366-8301 • E-Mail cr@hoganhansen.com
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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion Water Department as of June 30, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Required Supplementary Information - Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for the retiree health plan on pages 4 through 7 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2014 on our consideration of the Marion Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marion Water Department's internal control over financial reporting and compliance.

Hogan - Hansen

HOGAN - HANSEN

Cedar Rapids, Iowa
October 3, 2014

Management's Discussion and Analysis

As management of the Marion Water Department, we offer readers of the Department's financial statements this narrative and analysis of the financial statements of the Marion Water Department for the fiscal year ended June 30, 2014, with a comparison to the prior fiscal year's results. We encourage readers to consider this information in conjunction with the Department’s financial statements which follow.

FINANCIAL HIGHLIGHTS

The assets of the Marion Water Department exceeded its liabilities at the close of June 30, 2014 by $19,532,385 (net position). Of this amount, $3,359,790 (unrestricted net position) may be used to meet the Department's ongoing obligations to citizens and creditors.

The Department's net position increased by $1,765,446 for the year ended June 30, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Marion Water Department's basic financial statements. The Department is a single-purpose enterprise component unit of the City of Marion, Iowa. The Department provides water to its customers at rates designed to recover the cost of providing the water, including costs associated with installation and maintenance of water pumping, storage and transmission systems. The Department also bills customers for sanitary sewer, garbage, stormwater and urban forest charges for the City of Marion. The Department remits all sanitary sewer, garbage, stormwater and urban forest fees collected to the City of Marion and charges the City an administrative fee for performing this service. As a result, the Department prepares financial statements in a manner similar to a private-sector business.

The statement of net position presents information on all of the Department’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statement of revenue, expenses and changes in net position presents information showing how the Department’s net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenue and expenses are reported in this statement for some transactions that will result in cash flows in the following year.

The statement of cash flows presents information showing major sources and uses of cash by four types of activities. The activities are operating; noncapital financing; capital and related financing; and investing. Also included is a schedule which reconciles income from operations to net cash provided by operating activities.

The basic financial statements can be found on pages 8 through 10 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Notes are considered to be an integral part of financial statements prepared in accordance with generally accepted accounting principles. The notes to the financial statements can be found on pages 11 through 22 of this report.

FINANCIAL ANALYSIS

Statements of Net Position

This section discusses and analyzes significant differences between this and the prior fiscal year. The following is a summary of the composition of net position as of June 30:

	2014	2013 (As Restated)
Cash	$ 3,232,418	$ 2,781,651
Other assets	712,501	757,794
Capital assets	18,724,595	17,484,374
Total Assets	**22,669,514**	**21,023,819**
Current liabilities	616,129	628,880
Long-term liabilities	2,521,000	2,628,000
Total Liabilities	**3,137,129**	**3,256,880**
Net Position		
Net investment in capital assets	16,172,595	14,821,374
Unrestricted	3,359,790	2,945,565
Total Net Position	**$ 19,532,385**	**$ 17,766,939**

Net investment in capital assets is by far the largest portion of the Department's net position, 83% as of June 30, 2014, and reflects its net investment in capital assets (e.g., land, water plant distribution system and equipment). The Department uses these capital assets to provide water and services to the citizens; consequently, these assets are not available for future spending.

Unrestricted net position may be used to meet the Department's ongoing obligations to citizens and creditors. It is the Department's intention to use these assets for future operating purposes and capital asset acquisition and improvements.

Net position increased mainly due to capital contributions of new subdivisions, water mains and equipment from the City and developers totaling $808,355 for the fiscal year 2014 as well as an increase in water sales resulting from increased usage. As of both June 30, 2014 and 2013, the Department reported positive balances in all categories of net position.

Governmental activities. Since the Department is a single-purpose enterprise, it has no activities classified as "governmental".

Statement of Revenue, Expenses and Changes in Net Position

The following is a summary of the changes in net position for the years ended June 30:

	2014	2013
Operating revenue	$ 3,737,586	$ 3,419,183
Operating expenses	2,759,174	2,437,310
Operating Income	978,412	981,873
Net nonoperating revenue (expenses)	(21,321)	26,338
Net capital contributions	808,355	281,548
Change in Net Position	1,765,446	1,289,759
Net Position - Beginning of Year, as restated	17,766,939	16,477,180
Net Position - End of Year	**$ 19,532,385**	**$ 17,766,939**

Operating revenue is the Department's primary source of revenue and is generated from water sales and other services to customers. For 2014, operating revenue increased $318,403 from 2013.

Operating expenses totaled $2,759,174 for 2014, a $321,864 increase from 2013. These expenses represent the Department's costs to provide water and services to customers. Operating expenses included depreciation expense of $575,370 and $481,259 for the years ended June 30, 2014 and 2013, respectively.

Net nonoperating revenue and expenses includes interest income, rent from leasing space, interest expense and debt service fees. Net nonoperating expense increased by $47,659 between 2014 and 2013. The increase was due mainly to interest expense. Interest was capitalized to the associated project in 2013.

Capital contributions of $504,161 were received from contractors due to subdivision development.

The Department also received $304,194 of generator equipment and water mains from the City of Marion.

BUDGETARY HIGHLIGHTS

Each year, the City Council adopts a budget using the cash basis of accounting which differs from the accrual basis of accounting used for the accompanying financial statements. The Department's budget is included in the total business-type activities budget of the City.

CAPITAL ASSETS AND LONG-TERM DEBT

The Department's investment in capital assets amounted to approximately $18.7 million and $17.5 million as of June 30, 2014 and 2013, respectively, (net of accumulated depreciation of approximately $5.3 million and $4.7 million as of June 30, 2014 and 2013, respectively). This investment in capital assets includes land, construction in progress, land improvements, buildings, wells and towers, distribution system, equipment and vehicles.

The following is a summary of the capital assets, at cost, as of June 30:

	2014	2013
Land	$ 474,126	$ 474,126
Construction in progress	356,085	138,128
Land improvements	35,664	—
Building, wells and towers	6,163,913	6,163,913
Distribution system	15,878,015	14,737,052
Equipment and vehicles	1,121,615	700,608
Accumulated depreciation	(5,304,823)	(4,729,453)
Total	**$ 18,724,595**	**$ 17,484,374**

The following table reconciles the change in capital assets:

	2014	2013
Beginning balance	$ 17,484,374	$ 16,704,624
Additions	1,597,634	4,875,611
Depreciation	(575,370)	(481,259)
Construction in progress, net	217,957	(3,614,602)
Ending Balance	**$ 18,724,595**	**$ 17,484,374**

Long-Term Debt

As of June 30, 2014, the Department had a $2,552,000 bond outstanding, compared to $2,663,000 last year, as shown below.

Outstanding Debt at Year End

	June 30,	
	2014	**2013**
SRF Bond Payable	**$ 2,552,000**	**$ 2,663,000**

Debt decreased as a result of principal payments made on the SRF construction bond.

ECONOMIC FACTORS

The unemployment rate for Linn County as of June 30, 2014 was 4.5%, which is 0.4% less than where it was the previous year and less than the national unemployment rate of 6.1%.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2013, retail sales were $339.7 million for Marion and $3.585 billion for Linn County. For fiscal year 2012, retail sales were $341 million for Marion and $3.528 billion for Linn County.

The total value of building permits for fiscal year 2014 was approximately $48.2 million, which is up from the fiscal year 2013 amount of $46.3 million.

NEXT YEAR'S BUDGET AND RATES

The Marion Water Board of Trustees has established a FY 2014-15 budget with a 5% adjustment in water rates and 25 cent increase in the monthly service charge fee. The Board of Trustees, under provisions of Section 388 of the Code of Iowa, establishes and approves the budget for the Department. As a component unit of the City of Marion, the Department's budget is filed for record as part of the City of Marion's budget.

FINANCIAL INFORMATION CONTACT

The Department's financial statements are designed to present users (citizens, customers and prospective customers) with a general overview of the Department's finances and to demonstrate the Department's accountability. If you have questions about the report or need additional financial information, please contact the Marion Water Department General Manager, City Hall, 1225 - 6th Avenue, Suite 150, Marion, Iowa 52302.

Basic Financial Statements

Statement of Net Position

As of June 30, 2014

Assets	
Current Assets	
Cash	$ 3,106,933
Receivables	
Trade accounts	236,296
Accrued interest	312
Unbilled revenue	344,781
Inventories	131,112
Total Current Assets	**3,819,434**
Capital Assets	
Land	474,126
Construction in progress	356,085
Land improvements	35,664
Buildings, wells and towers	6,163,913
Distribution system	15,878,015
Equipment and vehicles	1,121,615
Totals	24,029,418
Less accumulated depreciation	(5,304,823)
Total Capital Assets	**18,724,595**
Other Assets	
Restricted cash - customer deposits	**125,485**
Total Assets	**$ 22,669,514**
Liabilities and Net Position	
Current Liabilities	
Accounts payable	$ 226,114
Self-insured premiums and estimated claims	22,068
Accrued interest	4,090
Accrued expenses	49,179
Compensated absences	74,193
Current maturities of SRF bond payable	115,000
Payable from restricted assets - customer deposits	125,485
Total Current Liabilities	**616,129**
Long-Term Liabilities	
SRF bond payable	2,437,000
Net OPEB liability	84,000
Total Long-Term Liabilities	**2,521,000**
Total Liabilities	**3,137,129**
Net Position	
Net investment in capital assets	16,172,595
Unrestricted	3,359,790
Total Net Position	**19,532,385**
Total Liabilities and Net Position	**$ 22,669,514**

Statement of Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2014

Operating Revenue	
Water sales	$ 3,254,148
Billing and collection fees	102,976
Other sales and services	338,604
Miscellaneous	41,858
Total Operating Revenue	**3,737,586**
Operating Expenses	
Salaries and benefits	1,067,341
Contractual services	1,045,155
Commodities	64,262
Depreciation	575,370
Other	7,046
Total Operating Expenses	**2,759,174**
Operating Income	**978,412**
Nonoperating Revenue (Expenses)	
Interest income	17,293
Lease and rental fees, net of expense	16,166
Interest expense	(48,123)
Bond servicing fee	(6,657)
Total Nonoperating Revenue (Expenses)	**(21,321)**
Change in Net Position Before Capital Contributions	**957,091**
Capital contributions	504,161
Capital contributions from primary government	304,194
Total Capital Contributions	**808,355**
Change in Net Position	**1,765,446**
Net Position - Beginning of Year, as Restated (Note 16)	17,766,939
Net Position - End of Year	**$ 19,532,385**

See accompanying notes to the financial statements.

Statement of Cash Flows

Year Ended June 30, 2014

Cash Flows From Operating Activities	
Cash received from customers	$ 3,686,108
Cash collected on behalf of primary government	6,336,203
Cash paid to primary government	(6,336,203)
Cash paid to employees for services	(1,028,070)
Cash paid to suppliers for goods and services	(1,001,409)
Net Cash Provided by Operating Activities	**1,656,629**
Cash Flows From Noncapital Financing Activities	
Lease and rental fees received	**16,166**
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets	(1,073,051)
Principal paid on SRF bond	(111,000)
Interest paid on SRF bond	(48,301)
Bond servicing fee paid	(6,657)
Net Cash Used in Capital and Related Financing Activities	**(1,239,009)**
Cash Flows From Investing Activities	
Interest received	**16,981**
Net Increase in Cash	**450,767**
Cash - Beginning of Year	2,781,651
Cash - End of Year	**$ 3,232,418**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	$ 978,412
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	575,370
Changes in Assets and Liabilities	
Increase in trade accounts and unbilled revenue receivable	(64,360)
Decrease in inventories	109,965
Increase in accounts payable and self-insured premiums and estimated claims	5,089
Increase in accrued expenses, compensated absences and net OPEB liability	39,271
Increase in liabilities payable from restricted assets	12,882
Net Cash Provided by Operating Activities	**$ 1,656,629**
Reconciliation of Cash to Specific Assets Included on the Balance Sheet	
Cash	$ 3,106,933
Restricted cash	125,485
	$ 3,232,418

See accompanying notes to the financial statements.

(1) Summary of Significant Accounting Policies and Other Matters

Reporting Entity

The Marion Water Department (Department) is a municipal utility that is a political subdivision and component unit of the City of Marion, Iowa, located in Linn County. The Department provides water to customers within the City. The Department is governed by a Board of Trustees appointed by the City of Marion, Iowa, City Council and is managed by an administrator. All activities with which the Board has oversight responsibility are included in the financial statements. These financial statements of the Department are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Measurement Focus and Basis of Accounting

The Department is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when incurred.

The Department applies all applicable GASB pronouncements, as well as the following pronouncements unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Department distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the Department's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses.

Trade Accounts Receivable

Utility sales are billed bimonthly. Payment is due within 20 days of billing. After proper notice, unless other arrangements are made by the customer, service may be discontinued to customers with unpaid bills 30 days or more past due. Uncollected accounts are normally written off against water sales after 90 days. Historically, account balances written off have not been material. Department management estimates that all trade accounts receivable as shown on the balance sheet will be collectible.

Unbilled Revenue Receivable

Sales of water used from the time of the last meter reading prior to June 30 that have not been billed and the resulting receivable is not included in trade receivables. The Department estimates unbilled revenue based on the proportion of unbilled days in June to the number of days in the billing period times the amount billed in July. The result is reported as unbilled revenue receivable.

(1) Summary of Significant Accounting Policies and Other Matters

The following accounting policies are followed in preparing the financial statements:

Cash - For purposes of the statement of cash flows, the Department considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Inventories - Inventories are valued at cost using the first-in/first-out method and consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets - Restricted assets are customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets consist of property, equipment and vehicles and infrastructure assets (e.g. buildings, wells, towers and distribution system which are immovable and of value only to the Department). Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the Department as assets with initial, individual costs in excess of $5,000.

Capital assets of the Department are depreciated using the straight-line method over the following estimated useful lives.

Asset Class	Estimated Useful Lives
Land improvements..	50 Years
Buildings, wells and towers	5 - 40 Years
Distribution system..	5 - 50 Years
Equipment and vehicles	5 - 50 Years

Compensated Absences and Early Separation Plan - Department employees accumulate a limited amount of earned but unused vacation hours and compensatory time off for subsequent use or for payment upon termination, death or retirement. In addition, Department employees who elect an early separation agreement at retirement may receive the benefits outlined as follows: three and one-half months of salary as well as the equivalent of two years of health insurance coverage paid by the Department. As of June 30, 2014, the Department had no liabilities under the early separation agreement.

Operating Revenue - The Department defines operating revenue as revenue derived from the sale of water billing and collection fees and other sales and services provided to customers. Nonoperating revenue is defined as anything other than revenue from the sale of water.

Budgeting - The Department's budget is included as part of the City's budget and is prepared on the cash basis of accounting. Disbursements are for legal budget compliance, combined for all City proprietary activities. Budget amounts for capital outlay, debt service and transfers out are presented on a combined basis only. The Utility's budget and comparison to cash basis activity is as follows

(1) Summary of Significant Accounting Policies and Other Matters

Business-Type Activity - Water

Actual disbursements	$ 2,813,954
Budgeted disbursements	4,560,100
Actual Disbursements Under Budget	**$ (1,746,146)**

Restricted Resources - The Department first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Unrestricted resources are used once the restricted resources have been depleted.

(2) Cash Flow Statement Supplementary Information

Schedule of Noncash Investing and Financing Activities

Cost of capital asset acquisitions	$ 1,815,591
Amounts Payable	
Current year	(142,045)
Prior year	207,860
Contributed capital	(808,355)
Cash Paid for Acquisition of Capital Assets	**$ 1,073,051**

(3) Deposits and Investments

The Department's deposits are entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Department is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Department had no investments meeting the disclosure requirements of GASB Statement No. 3, as amended by Statement No. 40.

(4) Restricted Assets

Restricted assets represent monies set aside to provide security for deposits and advances. As of June 30, 2014, $125,485 of cash was restricted for customer deposits or for refunds to customers.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land	$ 474,126	$ —	$ —	$ 474,126
Construction in progress	138,128	739,366	521,409	356,085
Total Capital Assets Not Being Depreciated	612,254	739,366	521,409	830,211
Capital Assets Being Depreciated				
Land improvements	—	35,664	—	35,664
Buildings, wells and towers	6,163,913	—	—	6,163,913
Distribution system	14,737,052	1,140,963	—	15,878,015
Equipment and vehicles	700,608	421,007	—	1,121,615
Total Capital Assets Being Depreciated	21,601,573	1,597,634	—	23,199,207
Less Accumulated Depreciation for				
Land improvements	—	297	—	297
Buildings, wells and towers	966,424	143,332	—	1,109,756
Distribution system	3,369,699	381,877	—	3,751,576
Equipment and vehicles	393,330	49,864	—	443,194
Total Accumulated Depreciation	4,729,453	575,370	—	5,304,823
Net Capital Assets Being Depreciated	16,872,120	1,022,264	—	17,894,384
Net Capital Assets	**$ 17,484,374**	**$ 1,761,630**	**$ 521,409**	**$ 18,724,595**

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year	Interest Rate
Business-Type Activities						
SRF bond payable	$ 2,663,000	$ —	$ 111,000	$ 2,552,000	$ 115,000	3.0%
Net OPEB liability	76,000	8,000	—	84,000	—	N/A
Total	**$ 2,739,000**	**$ 8,000**	**$ 111,000**	**$ 2,636,000**	**$ 115,000**	

(6) Long-Term Liabilities

In October, 2010, the Department, through the City of Marion, issued water revenue bonds (Build America Bonds) in the amount of $3.5 million to repay the planning loan and fund the remaining costs of the planning and designing and constructing improvements and extensions to the Municipal Waterworks System. In December, 2010, the Build America Bond agreement was to draw all remaining funds and place them in the custody of an escrow agent. In February, 2013, the bond was finalized for $2,898,000 after the Department returned $602,000 of unspent funds which were applied to the principal of the bond.

The bond bears interest at 3%, of which 1.05% is reimbursed to the Department through the Build America Bond program. The agreement also requires the Department to annually pay a 0.25% servicing fee on the outstanding principal balance.

The bond is payable in semiannual installments and is payable in full in June, 2031. Annual principal and interest payments on the bonds are expected to be paid from net receipts. Total principal and net interest remaining to be paid on the bonds is $3,037,960. For the current year, principal paid, interest paid and total customer net receipts were $111,000, $48,301 and $1,553,782, respectively.

The resolution providing for the issuance of the water revenue bonds (Build America Bonds) includes the following provisions:

a. The bond is payable from the net revenue of the Utility.

b. Produce and maintain net revenue at a level not less than 110% of the amount of principal and interest due during the fiscal year.

c. Sufficient monthly transfers shall be made to the water revenue bond sinking fund for the purpose of making principal and interest payments when due.

During the year ended June 30, 2014, the Department was not in compliance with the bond provisions. The Department did not make adequate transfers to the sinking fund.

Annual debt service requirements to maturity for the water revenue bonds as of June 30, 2014 are as follows:

Year Ending June 30,	Principal	Net Interest (After Build America Bond Reimbursement - 1.05%)
2015	$ 115,000	$ 49,764
2016	119,000	47,522
2017	122,000	45,201
2018	126,000	42,822
2019	130,000	40,365
2020-2024	719,000	161,987
2025-2029	844,000	87,204
2030-2031	377,000	11,095
Total	**$ 2,552,000**	**$ 485,960**

(7) Pension and Retirement Benefits

Plan Description

The Department contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the Department is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Department's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were $76,999, $72,410 and $60,102, respectively, equal to the required contributions for each year.

Deferred Compensation Plan

The Department offers its employees a deferred compensation plan under Internal Revenue Code Section 457. The plan allows Department employees to defer a portion of their current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The Department deposits all amounts of compensation deferred under the plan to the fiduciary designated by the employee.

(8) Other Postemployment Benefits (OPEB)

Plan Description

The Department operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses in combination with the City of Marion. There are 12 active and 2 retired Department members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Department. The Department currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The Department’s annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

(8) Other Postemployment Benefits (OPEB)

The following table shows the components of the Department's share of annual OPEB cost for June 30, 2014, the amount actually contributed to the plan and changes in the Department's share of net OPEB obligation:

Annual required contribution	$ 16,693
Interest on net OPEB obligation	1,902
Adjustment to annual required contribution	(9,410)
Annual OPEB Cost	9,185
Contributions made	(1,185)
Increase in Net OPEB Obligation	8,000
Net OPEB Obligation - Beginning of Year	76,000
Net OPEB Obligation - End of Year	$ 84,000

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the Department contributed $1,185 to the medical plan. Plan members eligible for benefits contributed $36, or 3% of premium costs.

The Department's share of the annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended June 30,	Annual OPEB Cost (Expense)	Percentage of Annual OPEB Cost (Expense) Contributed	Net OPEB Obligation
2012	$ (12,125)	(39.4)%	$ 70,000
2013	7,437	19.3	76,000
2014	9,185	12.9	84,000

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period of July 1, 2013 through June 30, 2014, the actuarial accrued liability was $117,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $117,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately $865,000, and the ratio of the UAAL to the covered payroll was 14%. As of June 30, 2014, there were no trust fund assets.

(8) Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress for the retiree health plan, presented as required supplementary information in the section following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the Department’s funding policy. The ultimate medical trend rate is 6%. An inflation rate of 0% is assumed for this computation.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement was assumed at the rate of retirement by attained age after becoming eligible to retire and continue health coverage and termination probabilities were assumed at a modest rate for active employees while no turnover was assumed after the benefit start date.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Compensated Absences

Department employees accumulate vacation, compensatory time and sick leave hours for subsequent use or, in the case of the accumulated vacation pay and compensatory time, for payment upon termination, retirement or death. The accumulations are not recognized as disbursements by the Department until used or paid in its cash basis records. The Department's liability for earned compensated absences payable to employees as accrued to the GAAP basis financial statements as of June 30, 2014 was as follows:

Type of Benefit	**Amount**
Vacation and Compensatory Time..	$ 74,193

This liability has been computed based on rates of pay and rates for payroll taxes and IPERS as of June 30, 2014.

Sick leave is payable when used. No amounts of sick leave were accrued as of June 30, 2014.

(10) Related Party Transactions

The Department bills and collects for sewer and garbage services provided for the City of Marion to its residents. During the year ended June 30, 2014, the Department collected and remitted to the City of Marion $4,561,373 for sewer, $1,502,786 for garbage service and $272,043 for urban forest. Fees earned by the Department from the City of Marion during the year for this service totaled $102,976, of which $8,939 was receivable as of June 30, 2014.

The City of Marion applied for and received a grant from the Iowa Homeland Security and Emergency Management Division on behalf of the Department for an emergency backup generator at Well Sites #4 and #5. The total grant award was $386,960. The project was completed during the year ended June 30, 2014. The Department paid the City of Marion $59,341 for the local match portion of the grant.

(11) Local Government Risk Pool

Health Insurance

The Department has chosen to participate in the City of Marion’s risk financing program for risks associated with the employee's health insurance plan. The Department self-funds health insurance claims arising from the Department's employees to a stop-loss insured amount of $30,000 per participant and a 125% aggregate stop-loss amount based on the "pure premiums" amount multiplied by the number of single and family contracts covered during the contract year. The total cost of these benefits is transferred from the Water Fund based upon the number of employees and the type of plan (single or family) chosen by the employee. Amounts charged are approximately $477 per month single and $1,194 per month family which is an amount based on past claim history. Employees pay $40 per month single and $80 per month family. The amount transferred will be adjusted over a reasonable period of time so that the Medical Benefits Fund receipts and disbursements are approximately equal. Claims paid totaled $108,260 during the year ended June 30, 2014. As of June 30, 2014, the Department's share of estimated claims incurred but unpaid was approximately $18,000 based upon an actuarial determination.

Iowa Municipalities Workers' Compensation Association

The Department obtains its workers' compensation coverage through the City of Marion, which is a member in the Iowa Municipal Workers' Compensation Association (IMWCA). The Association is a local government risk-sharing pool whose approximately 500 members include various municipal and county governments throughout the State of Iowa. The Pool was formed in July, 1981 to formulate, develop and administer, on behalf of the member governments, a program of joint self-insurance to stabilize costs related to members’ workers’ compensation liabilities. Program components include claims management, member education and loss control services. There have been no reductions in insurance coverage from prior years.

Each member pays annual premiums determined by using applicable standard rates for the exposure to risk and applicable experience modification factors of the National Council on Compensation Insurance. Each member may be subject to additional premiums to pay its pro rata share of claims which exceeds the Association’s resources available to pay such claims. A distribution to members may also be made if the Association has excess monies remaining after payment of claims and expenses.

(11) Local Government Risk Pool

The Department's premium contributions to the Association are recorded as expenditures from its operating funds at the time of payment to the risk pool. Premiums paid to the Association for the year ended June 30, 2014 were $13,387.

The Association uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. Claims exceeding $750,000 are reinsured in an amount not to exceed $2,000,000 per occurrence.

Members may withdraw from the Association at any time provided they provide assets for settlement of all pending claims.

(12) Risk Management

The Department is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from the prior year.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Department's property and casualty contributions to the risk pool are recorded as expenses at the time of payment to the risk pool. The Department's contributions to the Pool for the year ended June 30, 2014 were $26,569.

(12) Risk Management

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to $350,000 per claim. Claims exceeding $350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to $150,000 each occurrence, each location. Property risks exceeding $150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. The Department does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, as of June 30, 2014, no liability has been recorded in the Department's financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

Settled claims resulting from these risks exceeded insurance coverage during the year ended June 30, 2014. See Note 14. Settled claims resulting from these risks did not exceed insurance coverage during the year ended June 30, 2013.

(13) Commitments

Construction

The Department is involved in construction of capital assets and agreements to purchase capital assets. As of June 30, 2014, the Department was committed to approximately $170,000 in construction and purchase agreements.

(14) Insurance Recovery

In August, 2013, the Department experienced damage to Well Site #7. The cost to repair the damages was approximately $185,000 of which $100,000 was received from the insurance company. The proceeds were used to offset the repair costs within the financial statements. The Department and insurer will seek to recoup the uninsured loss from the contractor and manufacturer.

(15) Subsequent Events

Management has evaluated subsequent events through October 3, 2014, the date which the financial statements were available to be issued.

Subsequent to June 30, 2014, the Department entered into various agreements to purchase and construct capital assets totaling approximately $330,000.

(16) Accounting Change/Restatement

Government Accounting Standards Board Statement No. 65, *Financial Reporting on Items Previously Reported as Assets and Liabilities*, was implemented during the year ended June 30, 2014. In adopting GASB Statement No. 65, the Department has reclassified bond issuance costs from an asset to a nonoperating expense. The financial statements have been restated to reflect retroactive application of this reclassification as follows:

	2014	**2013**
Net position - beginning of year, as previously reported	$ 17,796,689	$ 16,506,930
Change in treatment of bond issuance costs due to implementation of GASB Statement No. 65	(29,750)	(29,750)
Net Position - Beginning of Year, as Restated	**$ 17,766,939**	**$ 16,477,180**

(17) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the statement of net position is expected to include a liability for the Department's proportionate share of the IPERS unfunded pension liability.

Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	$ —	$ 293,077	$ 293,077	0%	$ 771,000	38%
2010	7-1-08	—	293,077	293,077	0	752,000	39
2011	7-1-10	—	309,000	309,000	0	777,000	40
2012	7-1-10	—	309,000	309,000	0	745,000	41
2013	7-1-12	—	115,000	115,000	0	860,000	13
2014	7-1-12	—	117,000	117,000	0	865,000	14

See Note 8 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

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Independent Auditor's Report on Internal Control Over Financial Reporting Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Marion Water Department
Marion, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Marion Water Department, a component unit of the City of Marion, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Marion Water Department's basic financial statements, and have issued our report thereon dated October 3, 2014.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Marion Water Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marion Water Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marion Water Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Marion Water Department's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying schedule of findings as Items 14-I-R-1, 14-I-R-2, 14-I-R-3 and 14-I-R-4 to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marion Water Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance or other matters which is described in Part II of the accompanying schedule of findings.

Comments involving statutory and other legal matters about the Marion Water Department's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Marion Water Department. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Marion Water Department's Responses to Findings

The Marion Water Department's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Marion Water Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hogan - Hansen

HOGAN - HANSEN

Cedar Rapids, Iowa
October 3, 2014

Part I: Findings Related to the Financial Statements

14-I-R-1 Segregation of Duties

Prior Year Finding and Recommendation - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

With a limited number of office employees, segregation of duties is difficult. However, the Department management should review its control procedures to obtain the maximum internal control possible under the circumstances, segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports. The potential effect of this material weakness is an error occurring or fraudulent activity being committed and not detected.

Current Year Finding - We found the same condition existed. We reiterate our prior year recommendation.

Department’s Response - The Board of Trustees is aware of the condition. We will review procedures and make changes when appropriate.

Auditor's Conclusion - Response accepted.

14-I-R-2 Financial Statement Preparation

Prior Year Finding and Recommendation - The Department does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with generally accepted accounting principles. As is inherent in many organizations of this size, the Department has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply generally accepted accounting principles in preparing the financial statements and the related disclosures. The potential effect of this material weakness is financial statements and related disclosures may not be prepared in accordance with generally accepted accounting principles. The Department should obtain additional knowledge through reading relevant accounting literature and attending local professional education courses.

Current Year Finding - We found the same condition existed. We reiterate our prior year recommendation.

Department’s Response - The Department is aware of the condition and will consider obtaining additional knowledge where cost effective but will continue to rely on its audit firm for assistance with drafting the financial statements and disclosures.

Auditor’s Conclusion - Response accepted.

14-I-R-3 Inventory Valuation

Prior Year Finding and Recommendation - During our testing of inventory, we noted that the Department had not updated the price of units on hand thus understating the inventory value. The Department should update the inventory spreadsheet throughout the year as items are used and ordered. The spreadsheet should be reviewed by a second person annually. The potential effect of this material weakness is valuation of inventory that is materially misstated.

Current Year Finding - We found that the same condition existed. We reiterate our prior year recommendation.

Department's Response - The Department will consider a process to update the inventory spreadsheet as items are purchased and to use the lower of actual cost or market to value the items.

Auditor's Conclusion - Response accepted.

14-I-R-4 Asset Capitalization

Finding - The Department does not have a system of internal controls to identify assets that should be capitalized in accordance with the Department's policy. The potential effect of this material weakness is assets not being capitalized or not being capitalized in the proper period.

Auditor's Recommendation - The Department should review expenses to ensure that assets over the capitalization threshold are properly recorded, and the Department should place assets in service when accepted by the Trustees. The Department should also examine payables at year end for possible asset additions.

Department's Response - The Department will develop a process to accurately capitalize assets more frequently and then review them at the end of the fiscal year.

Auditor's Conclusion - Response accepted.

Part II: Findings Related to Statutory Reporting

14-II-A **Certified Budget** - Operating cash disbursements during the year ended June 30, 2014 did not exceed the amounts budgeted.

14-II-B **Questionable Disbursements** - We noted a disbursement that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived were not clearly documented. The disbursement was as follows:

Paid to	Purpose	Amount
Visa	Open house supplies - coffee, candy, etc.	$23

According to the Attorney General's opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Auditor's Recommendation - The Trustees should determine and document the public purpose served by these types of disbursements before authorizing any further payments. If this practice is continued, the Department should establish written policies and procedures, including the requirement for proper documentation.

Department's Response - The Trustees approved an open house and reception policy on May 14, 2013 similar to the City of Marion's policy which allows the Department to incur expenses related to open house and receptions/recognition events. The Department will continue this policy.

Auditor's Conclusion - Response accepted.

14-II-C **Travel Expense** - No disbursements of Department money for travel expenses of spouses of the Department officials or employees were noted.

14-II-D **Business Transactions** - No business transactions between the Department's officials or employees and the Department were noted.

14-II-E **Bond Coverage** - Surety bond coverage of Department officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

14-II-F **Board of Trustee Minutes** - No transactions were found that we believe should have been approved in the Trustee minutes that were not.

14-II-G **Deposits and Investments** - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Department's investment policy were noted.

14-II-H **Revenue Bonds** - The provisions of the water revenue bonds (Build America Bonds) require the Department to establish an account to be known as the "Water Revenue Bond Sinking Fund" which requires monthly amounts be set aside equal to 1/6th of the installment of interest coming due on the next succeeding interest installment date and an amount equal to 1/12th of the installment of principal coming due on such bonds on the next succeeding principal payment date until the full amount of such installment is on deposit in the sinking fund.

The Department failed to make the required monthly transfers. Approximately $50,000 was not transferred to the sinking fund as required.

Auditor's Recommendation - The Department should make monthly transfers to the sinking fund as required.

Department's Response - The Department will make transfers in accordance with the loan agreement.

Auditor's Conclusion - Response accepted.

14-II-I **Electronic Check Retention** - Chapter 554D.114 of the Code of Iowa allows the Department to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The Department does not receive an image of the back of each canceled check.

Auditor's Recommendation - The Department should obtain and retain images of both the front and bank of canceled checks as required by Chapter 554D.114 of the Code of Iowa.

Department's Response - The Department will contact the bank and request that the back of the checks be copied as well as the front.

Auditor's Conclusion - Response accepted.