



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ February 27, 2014

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Perry Municipal Waterworks, Perry, Iowa.

The Waterworks' receipts totaled \$2,101,366 for the year ended June 30, 2013, an 18% decrease from the prior year. The receipts included \$1,600,062 in charges for service, miscellaneous operating receipts of \$194,114, \$18,216 of rental income, \$4,670 in interest on investments and \$284,304 in sewer and garbage fees collected for the City of Perry.

Disbursements for the year ended June 30, 2013 totaled \$1,961,114, a 19% decrease from the prior year, and included operating disbursements of \$1,245,773, debt service of \$96,073, capital outlay of \$334,964 and \$284,304 of sewer and garbage fees remitted to the City of Perry.

A copy of the audit report is available for review in the office of the Perry Municipal Waterworks, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1323-0237-B00F.pdf>.

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**PERRY MUNICIPAL WATERWORKS**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENT**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2013**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-9
Financial Statement:	<u>Exhibit</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balance	A	12
Notes to Financial Statement		13-17
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Cash Balance – Budget and Actual (Cash Basis)		20-21
Notes to Other Information – Budgetary Reporting		22
Supplementary Information:	<u>Schedule</u>	
Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Enterprise Fund Accounts	1	24-25
Schedule of Indebtedness	2	26-27
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <u>Government Auditing Standards</u>		29-30
Schedule of Findings		31-33
Staff		34

## Perry Municipal Waterworks

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marcus Carris	Chairperson/Trustee	April 2019
Lori Lott	Trustee	(Resigned April 2013)
Amy Rathje	Trustee	April 2015
Lonnie Ostransky	Trustee	April 2017
Hank Schmidt	Superintendent	Indefinite
Pamela Ballard	Secretary	Indefinite

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Independent Auditor's Report

To the Board of Trustees of the  
Perry Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Perry Municipal Waterworks as of and for the year ended June 30, 2013, and the related Notes to Financial Statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Perry Municipal Waterworks' preparation and fair presentation of the financial statement 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 Waterworks' 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 statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Perry Municipal Waterworks as of June 30, 2013, and the changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

*Supplementary and Other Information*


Our audit was conducted for the purpose of forming an opinion on the financial statement. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statement. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, Management's Discussion and Analysis and budgetary comparison information on pages 7 through 9 and pages 20 through 22, have not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2014 on our consideration of the Perry Municipal Waterworks' 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 Perry Municipal Waterworks' internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 13, 2014



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Perry Municipal Waterworks provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the Waterworks' financial statement, which follows.

### **2013 FINANCIAL HIGHLIGHTS**

- The Waterworks' total receipts decreased 18%, or approximately \$463,000, from fiscal year 2012 to fiscal year 2013. The Waterworks refinanced outstanding bonds and notes in fiscal year 2012 and raised water rates in June 2013.
- The Waterworks' total disbursements decreased 19.3%, or approximately \$468,000, from fiscal year 2012 to fiscal year 2013. The Waterworks made additional payments to refund \$719,000 of bond and note principal during fiscal year 2012. In fiscal year 2013, the Waterworks spent an additional \$169,500 over the prior year on roof repair, plant accuators, valve replacements, other upgrades and maintenance costs.
- The Waterworks' total cash basis fund balance increased 19%, or approximately \$140,000, from June 30, 2012 to June 30, 2013.

### **USING THIS ANNUAL REPORT**

The Perry Municipal Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Perry Municipal Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Perry Municipal Waterworks' cash basis of accounting.

This discussion and analysis is intended to serve as an introduction to the Perry Municipal Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Perry Municipal Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Waterworks' budget for the year.

Supplementary Information provides detailed information about the individual Enterprise Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2013.

**FINANCIAL ANALYSIS OF THE PERRY MUNICIPAL WATERWORKS**

*Statement of Cash Receipts, Disbursements and Changes in Cash Balance*

The purpose of the statement is to present the receipts received by the Perry Municipal Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Perry Municipal Waterworks' financial position by analyzing the increase and decrease in cash balance.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. The City of Perry pays the Perry Municipal Waterworks contract fees to include sewer and garbage charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2013 and June 30, 2012 is presented below:

	Changes in Cash Balances	
	Year ended June 30	
	2013	2012
<b>Receipts:</b>		
Use of money and property	\$ 22,886	23,257
Charges for service	1,600,062	1,504,806
Sewer and garbage fees collected for the City	284,304	257,370
Bond proceeds	-	632,000
Miscellaneous	194,114	147,229
Total receipts	2,101,366	2,564,662
<b>Disbursements:</b>		
Plant operation and maintenance	650,198	590,928
Distribution operation and maintenance	202,142	207,363
Administration	393,433	393,541
Sewer and garbage fees remitted to the City	284,304	257,370
Debt service:		
Principal redeemed	85,000	80,000
Interest paid	10,573	14,024
Service fees	500	1,050
Capital outlay	334,964	165,456
Payments to refund bonds and notes	-	719,000
Total disbursements	1,961,114	2,428,732
Net change in cash balance	140,252	135,930
Cash balance beginning of year	725,080	589,150
Cash balance end of year	\$ 865,332	725,080
<b>Cash Basis Fund Balance</b>		
Restricted for:		
Sinking account	\$ 68,426	130,431
Reserve account	58,000	-
Customer water deposits	92,910	83,635
Total restricted cash basis fund balance	219,336	214,066
Unrestricted	645,996	511,014
Total cash basis fund balance	\$ 865,332	725,080

The Waterworks' unrestricted cash balance is available for use in the routine operation of the plant, distribution and administrative areas of the Waterworks and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Perry Municipal Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution. The Waterworks' restricted cash balances for the repayment of the revenue refunding bonds issued in 2011, improvements to the water plant and customer water deposits.

### **BUDGETARY HIGHLIGHTS**

The Perry Municipal Waterworks did not amend its budget during the year ended June 30, 2013 and did not exceed the amounts budgeted during the year ended June 30, 2013.

The Waterworks' charges for service receipts were \$65,438 less than budgeted as water consumption was not as high as anticipated. The Waterworks' disbursements were \$41,473 less than budgeted for the year as a result of not having a full time Superintendent from July 2012 through October 2012. In addition, disbursements for workers' compensation insurance were less than budgeted for the year.

### **DEBT ADMINISTRATION**

At June 30, 2013, the Perry Municipal Waterworks had a total of \$475,000 of revenue refunding bond debt outstanding, compared to \$560,000 at June 30, 2012.

### **ECONOMIC FACTORS**

The Perry Municipal Waterworks raised water rates in June 2013 to improve its financial position. Current economic conditions beyond the Perry Municipal Waterworks Trustees control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, wells, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and well-head protection.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

### **CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Perry Municipal Waterworks' finances and to show the Waterworks' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Perry Municipal Waterworks, 1101 W 3<sup>rd</sup> Street, PO Box 604, Perry, Iowa 50220.

**Perry Municipal Waterworks**

## **Financial Statement**

**Exhibit A**

## Perry Municipal Waterworks

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balance

As of and for the year ended June 30, 2013

Operating receipts:	
Charges for service	\$ 1,600,062
Miscellaneous	194,114
Total operating receipts	<u>1,794,176</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	650,198
Distribution operation and maintenance	202,142
Administration	393,433
Total operating disbursements	<u>1,245,773</u>
Excess of operating receipts over operating disbursements	<u>548,403</u>
Non-operating receipts (disbursements):	
Interest on investments	4,670
Rental income	18,216
Sewer and garbage fees collected for the City	284,304
Sewer and garbage fees remitted to the City	(284,304)
Debt service	(96,073)
Capital outlay	(334,964)
Net non-operating receipts (disbursements)	<u>(408,151)</u>
Change in cash balance	140,252
Cash balance beginning of year	<u>725,080</u>
Cash balance end of year	<u>\$ 865,332</u>
<b>Cash Basis Fund Balance</b>	
Restricted for:	
Sinking account	\$ 68,426
Reserve account	58,000
Customer water deposits	92,910
Total restricted cash basis fund balance	<u>219,336</u>
Unrestricted	<u>645,996</u>
Total cash basis fund balance	<u>\$ 865,332</u>

See notes to financial statement.

Perry Municipal Waterworks

Notes to Financial Statement

June 30, 2013

**(1) Summary of Significant Accounting Policies**

A. Reporting Entity

The Perry Municipal Waterworks is a component unit of the City of Perry, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a three-member Board of Trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Fund Balance

Funds set aside for bond principal and interest payments and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

**(2) Cash and Pooled Investments**

The Waterworks' deposits at June 30, 2013 were 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 ensure there will be no loss of public funds.

The Waterworks 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; 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 Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Revenue Bonds Payable**

Annual debt service requirements to maturity for water revenue refunding bonds are as follows:

Year Ending June 30,	Water Revenue Refunding Bonds			
	Issued July 26, 2011			
	Interest Rates	Principal	Interest	Total
2014	1.65%	\$ 90,000	9,637	99,637
2015	1.65	85,000	8,151	93,151
2016	1.90	100,000	6,750	106,750
2017	2.25	100,000	4,850	104,850
2018	2.60	100,000	2,600	102,600
Total		\$ 475,000	31,988	506,988

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$640,000 of water revenue refunding bonds issued in July 2011. The bonds were issued for the purpose of refunding and early retirement of the Waterworks' outstanding water revenue bonds/notes. The refunding bonds are payable solely and only out of the net earnings of the Waterworks and are payable through 2018. The total principal and interest remaining to be paid on the refunding bonds is \$506,988. For the current year, principal and interest paid on the refunding bonds and total customer net receipts were \$95,573 and \$548,403, respectively. Annual principal and interest payments on the water revenue refunding bonds are expected to require less than 20% of net receipts.

The resolution providing for the issuance of the water revenue refunding bonds includes the following provisions:

- (a) The Board shall provide for the collection of rates sufficient to pay the expenses of the utility and to leave a balance of net revenues equal to at least 110% of the principal and interest due in the fiscal year.
- (b) Sufficient monthly transfers shall be made to a sinking account for the purpose of making the bond principal and interest payments when due.
- (c) A reserve account shall be established and maintained in the amount of the lesser of (1) the maximum amount of the principal and interest coming due on the bonds in any succeeding fiscal year (2) 10% of the principal amount of the bonds then outstanding, which is \$47,500 or (3) 125% of the average amount of principal and interest coming due on the bonds in any succeeding fiscal year.

**(4) Pension and Retirement Benefits**

The Waterworks 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 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 5.78% of their annual covered salary and the Waterworks is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The Waterworks' contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$42,555, \$39,234 and \$32,992, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

Waterworks' employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned compensated absences payable to employees at June 30, 2013 is \$32,000. This liability has been computed based on rates of pay in effect at June 30, 2013.

**(6) Risk Management**

The Waterworks is included under the insurance for the City of Perry. The City of Perry 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 679 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 prior years.

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 the 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 Waterworks' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Waterworks' contributions to the Pool for the year ended June 30, 2013 were \$17,262.

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 in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, 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 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. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Waterworks is also included under the City of Perry's commercial insurance purchased from other insurers for coverage associated with worker's compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **(7) Other Postemployment Benefits (OPEB)**

Plan Description – The Waterworks operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 10 active and no retired 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 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$277 for single coverage and \$1,240 for family coverage. For the year ended June 30, 2013, the Waterworks contributed \$104,397 and plan members eligible for benefits contributed \$6,156 to the plan.

#### **(8) Water Tank Maintenance Contract**

In December 2008, the Waterworks entered into an agreement with Utility Service Co. for the maintenance of the water tower, including annual inspections of the tank, repair, cleaning and repainting the interior and exterior of the tank. The agreement was amended in May 2010 to include maintenance for the mixing system. The contract is for an indefinite period of time. Beginning in contract year ten and each third anniversary thereafter, the annual fee can be adjusted to reflect the current cost of service, with a maximum change of 5% per annum. The Waterworks is scheduled to pay quarterly installments of \$11,401 on the contract. During the year ended June 30, 2013, the Waterworks paid \$45,605 on the contract.

**(9) Lime Removal Contract**

In March 2013, the Waterworks entered into an agreement with Huitt Farms, Inc. for the cleaning and removal of lime from the west lagoon site for the Waterworks. The work began in July 2013. Huitt will be paid \$54,000 for the completed cleaning and removal of lime from the lagoon.

**Perry Municipal Waterworks**

## **Other Information**

Perry Municipal Waterworks  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements and Changes in Balance –  
 Budget and Actual (Cash Basis)

Other Information

Year ended June 30, 2013

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Use of money and property	\$ 22,886	-
Charges for service	1,884,366	284,304
Miscellaneous	194,114	-
Total receipts	2,101,366	284,304
Disbursements:		
Business type activities	1,961,114	284,304
Excess of receipts over disbursements	140,252	-
Cash balance beginning of year	725,080	-
Cash balance end of year	\$ 865,332	-

See accompanying independent auditor's report.

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Net	Budgeted Amounts <u>Original and Final</u>	Final to Net Variance
22,886	21,776	1,110
1,600,062	1,665,500	(65,438)
194,114	166,000	28,114
1,817,062	1,853,276	(36,214)
1,676,810	1,718,283	41,473
140,252	134,993	5,259
725,080	1,011,690	(286,610)
865,332	1,146,683	(281,351)

Perry Municipal Waterworks

Notes to Other Information – Budgetary Reporting

June 30, 2013

The Perry Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. There were no budget amendments for the Waterworks during the year ended June 30, 2013.

During the year ended June 30, 2013, disbursements did not exceed the amount budgeted.



**Supplementary Information**

Perry Municipal Waterworks

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Enterprise Fund Accounts

As of and for the year ended June 30, 2013

	Waterworks	Customer Deposit	2011 Revenue Bonds		Total
			Sinking Account	Reserve Account	
<b>Operating receipts:</b>					
Charges for service:					
Sale of water	\$ 1,551,831	-	-	-	1,551,831
Other charges for service	48,131	-	-	-	48,131
Installations and connections	100	-	-	-	100
	<u>1,600,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,600,062</u>
Miscellaneous:					
Sales tax collected	98,999	-	-	-	98,999
Customer deposits	-	37,760	-	-	37,760
Miscellaneous	57,355	-	-	-	57,355
	<u>156,354</u>	<u>37,760</u>	<u>-</u>	<u>-</u>	<u>194,114</u>
Total operating receipts	<u>1,756,416</u>	<u>37,760</u>	<u>-</u>	<u>-</u>	<u>1,794,176</u>
<b>Operating disbursements:</b>					
Business type activities:					
Plant operation and maintenance:					
Salaries	256,288	-	-	-	256,288
Employee benefits	106,605	-	-	-	106,605
Contractual services	135,030	-	-	-	135,030
Commodities	152,275	-	-	-	152,275
	<u>650,198</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>650,198</u>
Distribution operation and maintenance:					
Salaries	103,021	-	-	-	103,021
Employee benefits	44,554	-	-	-	44,554
Contractual services	39,318	-	-	-	39,318
Commodities	15,249	-	-	-	15,249
	<u>202,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>202,142</u>
Administration:					
Salaries	136,560	-	-	-	136,560
Employee benefits	48,789	-	-	-	48,789
Contractual services	59,580	28,485	-	-	88,065
Sales tax remitted	89,718	-	-	-	89,718
Commodities	30,301	-	-	-	30,301
	<u>364,948</u>	<u>28,485</u>	<u>-</u>	<u>-</u>	<u>393,433</u>
Total operating disbursements	<u>1,217,288</u>	<u>28,485</u>	<u>-</u>	<u>-</u>	<u>1,245,773</u>

## Perry Municipal Waterworks

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Enterprise Fund Accounts

As of and for the year ended June 30, 2013

	Waterworks	Customer Deposit	2011 Revenue Bonds		Total
			Sinking Account	Reserve Account	
Excess of operating receipts over operating disbursements	539,128	9,275	-	-	548,403
Non-operating receipts (disbursements):					
Interest on investments	4,602	-	68	-	4,670
Rental income	18,216	-	-	-	18,216
Sewer and garbage fees collected for the City	284,304	-	-	-	284,304
Sewer and garbage fees remitted to the City	(284,304)	-	-	-	(284,304)
Debt service:					
Principal redeemed	-	-	(85,000)	-	(85,000)
Interest paid	-	-	(10,573)	-	(10,573)
Service fees	-	-	(500)	-	(500)
Capital outlay	(334,964)	-	-	-	(334,964)
Total non-operating receipts (disbursements)	(312,146)	-	(96,005)	-	(408,151)
Excess (deficiency) of receipts over (under) disbursements	226,982	9,275	(96,005)	-	140,252
Operating transfers in (out):					
Enterprise:					
Waterworks	-	-	92,000	-	92,000
Sinking Account	-	-	-	58,000	58,000
Reserve Account	(92,000)	-	(58,000)	-	(150,000)
Total operating transfers in (out)	(92,000)	-	34,000	58,000	-
Change in cash balances	134,982	9,275	(62,005)	58,000	140,252
Cash balances beginning of year	511,014	83,635	130,431	-	725,080
Cash balances end of year	\$ 645,996	92,910	68,426	58,000	865,332

See accompanying independent auditor's report.

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Perry Municipal Waterworks  
Schedule of Indebtedness  
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue bonds: Water refunding	July 26, 2011	1.10-2.60%	\$ 640,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
560,000	-	85,000	475,000	10,573

**Perry Municipal Waterworks**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA

Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

To the Board of Trustees of the  
Perry Municipal Waterworks:

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statement of the Perry Municipal Waterworks as of and for the year ended June 30, 2013, and the related Notes to Financial Statement, and have issued our report thereon dated January 13, 2014. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Perry Municipal Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Perry Municipal Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Perry Municipal Waterworks' 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

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 Perry Municipal Waterworks' financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Perry Municipal Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. 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.

Perry Municipal Waterworks' Responses to the Findings


The Perry Municipal Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Perry Municipal Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement 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 Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Perry Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 13, 2014



Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2013

**Findings Related to the Financial Statement:**

**INTERNAL CONTROL DEFICIENCY:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Water utility billings, collections and deposits, posting to customer accounts and the cash receipts journal, posting journal entries and reconciliation of billings to collections and delinquent accounts are all performed by the same person. Also, bank accounts are not reconciled by an individual who does not sign checks, handle or record cash.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Waterworks should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including Waterworks officials.

Response – The Perry Waterworks will, to the best of our abilities, continue to enforce a schedule for a separation of duties. Utility payments are received by the water clerk, deputy water clerk and/or a water operator. The majority of the posting of payments and bank deposits is completed by the deputy water clerk. The reconciliation of accounts, which includes the posting of journal entries, are performed by the water clerk. These duties will be alternated between the office clerks at least twice in a fiscal year. All payroll and claim disbursements and corresponding reports rotate between the water clerk and deputy water clerk. All claims and the bank statements and ledger will be reviewed by a Board member.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2013

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – The budget certified by the City of Perry includes an amount budgeted for the Waterworks. Disbursements during the year ended June 30, 2013 did not exceed the amount budgeted for the Waterworks.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.
- (4) Business Transactions – No business transactions between the Waterworks and Waterworks' officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Waterworks' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

Although minutes of Board proceedings were published, the Waterworks did not publish annual gross salaries as required by an Attorney General's opinion dated April 12, 1978.

Recommendation – The Waterworks should publish annual individual gross salaries as required.

Response – The Water Clerk emailed and faxed the December 28<sup>th</sup> minutes, public notice and 2012 employee salaries. The salaries were not published in the January 11, 2013 issue of the Perry Chief. The Water Clerk will in the future be more aware to check the published items sent to the paper for legal publication.

Conclusion – Response accepted.

- (7) Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. The interest rate on a time certificate of deposit did not meet the minimum rate of interest set by the State Rate Setting Committee. Public fund time certificates of deposit, when renewed, shall be renewed at a rate of interest which conforms with current rates for public funds on the date of renewal.

Recommendation - The Waterworks should seek reimbursement of the additional interest due on this certificate of deposit. In addition, the Waterworks should be aware of the current allowable rates to ensure at least the minimum allowable rate is received for all investments.

Response – The minimal interest earned on CD would not justify closing this CD and incurring early withdrawal penalties to reinvest at a similar rate the CD is now earning.

Conclusion – Response acknowledged. The Waterworks should seek reimbursement of the additional interest due on the certificate of deposit.

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2013

- (8) Revenue Bonds – The required sinking account and reserve account have been combined. During the current year, the amount in the combined account was not sufficient to cover the future principal and interest payments, including the specific amount required to be placed in the reserve account as required by the bond resolution.

Recommendation – The Waterworks should establish separate accounts for the sinking and reserve accounts. The Waterworks should then ensure sufficient funds are maintained in accordance with the bond resolution for each account.

Response – To be in compliance with the bond resolution, the Perry Waterworks will transfer \$12,000 into our Water Revenue Reserve Account to ensure sufficient funds will be maintained. Fund 605 revisions are: 605-110 Investments have been reclassified as Water Revenue Reserve Account and 605-111 Raccoon Valley Bank has been reclassified as Bond 2011 Sinking Account.

Conclusion – Response accepted.

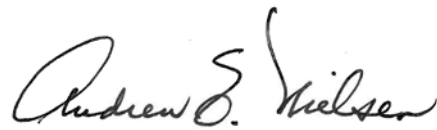
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Perry Municipal Waterworks

Staff

This audit was performed by:

Timothy D. Houlette, CPA, Manager  
Russell G. Jordan, CPA, Staff Auditor  
Kristie R. Hill, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, prominent initial "A".

Andrew E. Nielsen, CPA  
Deputy Auditor of State