

**MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF  
MT. PLEASANT, IOWA**

Independent Auditors' Reports  
Basic Financial Statements  
and Supplemental Information  
Schedule of Findings

June 30, 2015

**MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

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MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Board of Trustees and Officials  
June 30, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expiration</u>
Dan McCabe	Chairman of the Board	October, 2017
David George	Board Member	October, 2019
Michelle Rosell	Board Member	October, 2019
Harvey Ungerman	Board Member	October, 2015
Carol Nemitz	Board Member	October, 2015
Jack Hedgecock	General Manager	Indefinite
Randall Neff	Treasurer/Business Manager	Indefinite
David McCoid	Attorney	Indefinite

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## Independent Auditors' Report

To the Board of Trustees  
Mt. Pleasant Municipal Utilities  
Mt. Pleasant, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business type activities of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the Utilities' 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.

### **Auditors' Responsibility**

Our responsibility is to express opinions 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 of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Mt. Pleasant Municipal Utilities' 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 Mt. Pleasant Municipal Utilities' 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 opinions.

### **Basis for Qualified Opinions**

As explained in Note 2 of the notes to financial statements, an accurate listing of property and equipment acquired in prior years has not been retained. Because of this, it is likely that Mt. Pleasant Municipal Utilities no longer owns some of the assets included in the property and equipment. In our opinion, an accurate listing should be kept in order to make sure that the balance conforms to accounting principles generally accepted in the United States of America. The effect on the financial statements of this practice is not reasonably determined.

## **Qualified Opinions**

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of June 30, 2015, and the changes in financial position and its 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 the Management’s Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utilities’ Proportionate Share of the Net Pension Liability, and the Schedule of Utilities Contributions on pages 4 through 8 and 31 through 36 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 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mt. Pleasant Utilities’ basic financial statements. The supplemental information included in pages 37 through 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. The information on pages 38 through 47 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements and has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the supplementary information of the qualified opinions on the basic financial statements as explained in the “Basis for Qualified Opinions” paragraph, the supplementary information on pages 38 through 47 is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information on page 37 has not been subjected to the auditing procedures applied in the audit of the basic financial statements 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 October 8, 2015, on our consideration of Mt. Pleasant Municipal Utilities’, a component unit of the City of Mt. Pleasant, Iowa, 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* and should be considered in assessing the results of our audit.

*TDE&T CPAs and Advisors, P.C.*

Mt. Pleasant, Iowa  
October 8, 2015

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Mt. Pleasant Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

## **2015 FINANCIAL HIGHLIGHTS**

- Operating revenues of the Utilities' activities decreased 4.4%, or approximately \$478,000, from fiscal year 2014 to fiscal year 2015.
- Operating expenses decreased 8.7%, or approximately \$832,000, from fiscal year 2014 to fiscal year 2015.
- Mt. Pleasant Municipal Utilities' net position increased 8.4%, or approximately \$1,476,700, from June 30, 2014 to June 30, 2015.

## **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Financial Statements consist of a Combining Statement of Net Position, a Combining Statement of Revenue, Expenses and Changes in Net Position, and a Combining Statement of Cash Flows. These provide information about the activities of Mt. Pleasant Municipal Utilities as a whole and present an overall view of the Utilities' finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year and the Utilities' proportionate share of the net position liability and related contributions.

Other Supplementary Information provides unaudited comparative operating statistics as well as additional detail for the Combining Statement of Net Position, Combining Statement of Revenue, Expenses and Changes in Net Position, and note maturities.

## **REPORTING THE UTILITIES' FINANCIAL ACTIVITIES**

### *The Combining Statement of Net Position and the Combining Statement of Revenue, Expenses and Changes in Net Position*

One of the most important questions asked about the Utilities' finances is, "Is Mt. Pleasant Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Position and the Combining Statement of Revenue, Expenses and Changes in Net Position report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Combining Statement of Net Position presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the Utilities' net position may serve as a useful indicator of whether the financial position of Mt. Pleasant Municipal Utilities is improving or deteriorating.

The Combining Statement of Revenue, Expenses and Changes in Net Position presents information showing how the Utilities' net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Combining Statement of Net Position and the Combining Statement of Revenue, Expenses and Changes in Net Position report one kind of activity:

- Business type activities, which include the water and the electric funds. These activities are financed primarily by user charges.

## FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for business type activities.

	Net Position June 30,	
	<u>2015</u>	<u>2014</u> <i>Not Restated</i>
Current and other assets	\$ 6,759,415	6,248,244
Capital assets	<u>17,807,497</u>	<u>17,473,582</u>
Total assets	24,566,912	23,721,826
Deferred outflows of resources	<u>262,118</u>	-
Total assets and deferred outflows of resources	\$ <u>24,829,030</u>	<u>23,721,826</u>
Long-term liabilities	\$ 2,854,416	2,664,326
Other liabilities	<u>2,553,270</u>	<u>2,189,092</u>
Total liabilities	<u>5,407,686</u>	<u>4,853,418</u>
Deferred inflows of resources	<u>423,481</u>	-
Net position:		
Net investment in capital assets	15,136,094	13,881,628
Restricted	360,256	360,190
Unrestricted	<u>3,501,513</u>	<u>4,626,590</u>
Total net position	<u>18,997,863</u>	<u>18,868,408</u>
Total liabilities, deferred outflows of resources and net position	\$ <u>24,829,030</u>	<u>23,721,826</u>

Net position of business type activities increased approximately \$1,476,700, or 8.4%, over fiscal year 2014. The largest portion of the Utilities' net assets is the invested in capital assets (e.g., buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements, is \$3,501,513 at the end of this year.

The Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The beginning net position was restated \$1,347,256, to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal year 2014 net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Changes in Net Position  
Year Ended June 30,

	2015	2014
		<i>Not Restated</i>
Revenues:		
Operating revenues:		
Charges for services and sales	\$ 10,408,650	10,886,371
Non-operating revenues:		
Investment earnings	4,675	4,588
Grant revenue	-	16,313
Insurance proceeds	-	82,645
Other non-operating revenue	22,734	7,743
Total revenues	10,436,059	10,997,660
Operating expenses:		
Power, pumping and treatment plant	5,874,359	6,596,873
Transmission and distribution	1,578,255	1,606,534
General and administration	1,327,831	1,408,988
Non-operating expenses:		
Interest expense	77,903	101,916
Other non-operating expense	1,000	1,000
Total expenses	8,859,348	9,715,311
Increase in net position	1,576,711	1,282,349
Net position beginning of year, as restated	17,521,152	17,686,059
Permanent transfer to City of Mt. Pleasant	(100,000)	(100,000)
Net position end of year	\$ 18,997,863	18,868,408

The Utilities' net position increased approximately \$1,476,700 during the year. Revenues decreased by approximately \$561,600 over the prior year while total expenses were approximately \$856,000 less than the prior fiscal year.

**INDIVIDUAL MAJOR FUND ANALYSIS**

- The Electric Fund, which accounts for the operation and maintenance of the Utilities' electric system, ended fiscal 2015 with a \$11,690,627 net position balance compared to the prior year ending net position balance of \$11,270,656.
- The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2015 with a \$7,307,236 net position balance compared to the prior year ending net position balance of \$7,597,752.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Mt. Pleasant Municipal Utilities amended its budget two times. The amendments occurred in February and May of 2015 to decrease budgeted revenues and increase budgeted expenses.

The Utilities' receipts were \$95,320 more than budgeted, a variance of 0.9% and total disbursements were \$1,001,559 less than budgeted, a variance of 9.2%.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Utilities' capital assets include buildings, improvements, and equipment. Capital assets totaled \$17,807,497 (net of accumulated depreciation) at June 30, 2015. See Note 2 to the financial statements for more information about the Utilities' capital assets.

Construction in progress at June 30, 2015 for electric and water activities consists primarily of new construction in the Mt. Pleasant area.

### **Long-Term Debt**

At June 30, 2015, long-term debt outstanding, including notes payable and a capital lease, was \$2,624,000. Debt decreased as a result of scheduled payments.

Additional information about the Utilities' long-term debt is presented in Note 11 to the financial statements.

## **ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE**

Several economic factors affected decisions made by the Utilities in setting its fiscal 2016 budget.

## **CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Mt. Pleasant Municipal Utilities' finances and operating activities. If you have any questions or require additional financial information, please contact the General Manager, 509 N. Adams; Mt. Pleasant, Iowa.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Net Position  
June 30, 2015

Assets and Deferred Outflows of Resources

	Electric	Water	Total
Current assets:			
Cash	\$ 3,938,598	30,615	3,969,213
Receivables:			
Customer	490,269	110,566	600,835
Unbilled usage	588,062	128,562	716,624
Due from water fund	111,574	-	111,574
Material and supplies inventory	457,824	154,182	612,006
Prepaid expenses	78,385	23,550	101,935
Restricted assets:			
Cash	254,553	32,419	286,972
Certificates of deposit	360,000	-	360,000
Accrued interest receivable	256	-	256
Total current assets	6,279,521	479,894	6,759,415
Non-current assets:			
Property and equipment	25,508,716	19,609,193	45,117,909
Accumulated depreciation	(17,293,508)	(10,016,904)	(27,310,412)
Total non-current assets	8,215,208	9,592,289	17,807,497
Total assets	14,494,729	10,072,183	24,566,912
Deferred outflows of resources:			
Pension related deferred outflows	168,385	93,733	262,118
Total assets and deferred outflows of resources	\$ 14,663,114	10,165,916	24,829,030

See accompanying notes to financial statements.

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Combining Statement of Net Position**  
**June 30, 2015**

Liabilities, Deferred Inflows of Resources and Net Position

	Electric	Water	Total
Current liabilities:			
Accounts payable and accrued expenses	\$ 965,566	382,165	1,347,731
Due to electric fund	-	111,574	111,574
Customer deposits	166,562	-	166,562
Accrued interest	4,658	2,419	7,077
Capital lease payable	40,326	-	40,326
Notes payable	500,000	380,000	880,000
Total current liabilities	1,677,112	876,158	2,553,270
Long-term liabilities:			
Notes payable	310,000	1,434,000	1,744,000
Net pension liability	713,331	397,085	1,110,416
Total long-term liabilities	1,023,331	1,831,085	2,854,416
Total liabilities	2,700,443	2,707,243	5,407,686
Deferred inflows of resources:			
Pension related deferred inflows	272,044	151,437	423,481
Net position:			
Net investment in capital assets	7,360,224	7,775,870	15,136,094
Restricted for:			
Reserve account	360,256	-	360,256
Unrestricted	3,970,147	(468,634)	3,501,513
Total net position	11,690,627	7,307,236	18,997,863
Total liabilities, deferred inflows of resources and net position	\$ 14,663,114	10,165,916	24,829,030

See accompanying notes to financial statements.

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Combining Statement of Revenue, Expenses  
and Changes in Net Position  
Year Ended June 30, 2015**

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
<b>Operating revenue:</b>			
Metered sales	\$ 8,271,378	1,971,158	10,242,536
Other sales	36,102	-	36,102
Other revenue	44,113	18,418	62,531
Cut-off notice fee	13,059	3,135	16,194
Sewer and solid waste service fee	14,515	3,485	18,000
Penalty charges and bad debt recoveries	26,842	6,445	33,287
Total operating revenue	<u>8,406,009</u>	<u>2,002,641</u>	<u>10,408,650</u>
<b>Operating expenses:</b>			
Power, pumping and treatment plant	5,067,456	806,903	5,874,359
Transmission and distribution	841,411	736,844	1,578,255
General and administration	1,070,736	257,095	1,327,831
Total operating expenses	<u>6,979,603</u>	<u>1,800,842</u>	<u>8,780,445</u>
Net operating income	<u>1,426,406</u>	<u>201,799</u>	<u>1,628,205</u>
<b>Non-operating revenue:</b>			
Interest income	1,392	(227)	1,165
Interest income - restricted	2,998	512	3,510
Gain on disposition of property and equipment	-	22,734	22,734
Total non-operating revenue	<u>4,390</u>	<u>23,019</u>	<u>27,409</u>
<b>Non-operating expenses:</b>			
Interest expense	44,848	33,055	77,903
Banking fees	500	500	1,000
Total non-operating expenses	<u>45,348</u>	<u>33,555</u>	<u>78,903</u>
Change in net position	1,385,448	191,263	1,576,711
Net position, beginning of year, as restated	10,405,179	7,115,973	17,521,152
Permanent transfer to City of Mt. Pleasant	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Net position, end of year	<u>\$ 11,690,627</u>	<u>7,307,236</u>	<u>18,997,863</u>

See accompanying notes to financial statements.

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Combining Statement of Cash Flows**  
**Year Ended June 30, 2015**

	Electric	Water	Total
Cash flows from operating activities:			
Cash received from customers and users	\$ 8,376,951	1,998,505	10,375,456
Cash paid to employees for services	(1,108,886)	(746,874)	(1,855,760)
Cash paid to suppliers	(5,208,133)	(346,950)	(5,555,083)
Net cash provided (used) by operating activities	2,059,932	904,681	2,964,613
Cash flows from non-capital financing activities:			
Permanent transfer to City of Mt. Pleasant	(100,000)	-	(100,000)
Cash flows from capital and related financing activities:			
Principal paid on notes payable	(505,000)	(373,000)	(878,000)
Interest paid on notes payable	(45,366)	(33,552)	(78,918)
Principal paid on capital lease	(39,151)	-	(39,151)
Interest paid on capital lease	(2,385)	-	(2,385)
Cash paid for banking fees on notes payable	(500)	(500)	(1,000)
Purchase of property and equipment	(760,963)	(720,337)	(1,481,300)
Proceeds from disposition of property and equipment	-	50,055	50,055
Net cash provided (used) by capital activities	(1,353,365)	(1,077,334)	(2,430,699)
Cash flows from investing activities:			
Interest on investments	4,324	285	4,609
Net change in cash and cash equivalents	610,891	(172,368)	438,523
Cash and cash equivalents at beginning of year	3,582,260	235,402	3,817,662
Cash and cash equivalents at end of year	\$ 4,193,151	63,034	4,256,185

(continued)

See accompanying notes to financial statements.

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Combining Statement of Cash Flows (Continued)**  
**Year Ended June 30, 2015**

	Electric	Water	Total
Cash flows from operating activities:			
Operating income	\$ 1,426,406	201,799	1,628,205
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	634,983	485,081	1,120,064
Changes in assets, deferred outflows, liabilities and deferred inflows:			
(Increase) decrease in due from other fund	(6,440)	6,440	-
(Increase) decrease in customer receivables	(27,727)	(6,407)	(34,134)
(Increase) decrease in unbilled usage	(11,379)	(4,169)	(15,548)
(Increase) decrease in inventories	(37,360)	221	(37,139)
(Increase) decrease in prepaid expense	23,027	(2,348)	20,679
Increase (decrease) in customer deposits	16,488	-	16,488
Increase (decrease) in accounts payable and accrued expenses	90,421	251,054	341,475
Increase (decrease) in net pension liability	(257,249)	(143,201)	(400,450)
(Increase) decrease in deferred outflows	(63,282)	(35,226)	(98,508)
Increase (decrease) in deferred inflows	272,044	151,437	423,481
	<u>2,059,932</u>	<u>904,681</u>	<u>2,964,613</u>
Net cash provided (used) by operating activities			
Cash flows from non-capital financing activities:			
Permanent transfer to City of Mt. Pleasant	(100,000)	-	(100,000)
Cash flows from capital and related financing activities:			
Principal paid on notes payable	(505,000)	(373,000)	(878,000)
Interest paid on notes payable	(45,366)	(33,552)	(78,918)
Principal paid on capital lease	(39,151)	-	(39,151)
Interest paid on capital lease	(2,385)	-	(2,385)
Cash paid for banking fees	(500)	(500)	(1,000)
Purchase of property and equipment	(760,963)	(720,337)	(1,481,300)
Proceeds from disposition of property and equipment	-	50,055	50,055
	<u>(1,353,365)</u>	<u>(1,077,334)</u>	<u>(2,430,699)</u>
Net cash provided (used) by capital activities			

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)  
Year Ended June 30, 2015

	Electric	Water	Total
Cash flows from investing activities:			
Interest on investments	4,324	285	4,609
Net change in cash and cash equivalents	610,891	(172,368)	438,523
Cash and cash equivalents at beginning of year	3,582,260	235,402	3,817,662
Cash and cash equivalents at end of year	\$ 4,193,151	63,034	4,256,185
Cash and cash equivalents at end of year consists of:			
Current assets:			
Cash	\$ 3,938,598	30,615	3,969,213
Restricted assets:			
Customer deposits	166,562	-	166,562
Notes payable retirement	87,991	32,419	120,410
Total cash and cash equivalents at end of year	\$ 4,193,151	63,034	4,256,185

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements  
June 30, 2015

Note 1 – Significant Accounting Policies

Mt. Pleasant Municipal Utilities is a component unit of the City of Mt. Pleasant, Iowa. It was first formed in 1897 and operates under a trustee form of government provided by the Code of Iowa. A five-member board of trustees is appointed by the City Council of Mt. Pleasant to six year staggered terms. The Utilities provides electric and water service to citizens, businesses, industry, and other entities in Mt. Pleasant and surrounding areas.

The financial statements of Mt. Pleasant Municipal Utilities have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Mt. Pleasant Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities.

These financial statements present the Mt. Pleasant Municipal Utilities and there are no component units to be presented. The Utilities is legally separate, but financially accountable to the City of Mt. Pleasant. The Mt. Pleasant City Council appoints the board and the Utilities' legal budget is subject to approval by the City Council.

Basis of Presentation

The accounts of Mt. Pleasant Municipal Utilities are organized on the basis of enterprise funds. The operations of each fund are accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, net position, revenues and expenses. Mt. Pleasant Municipal Utilities reports the following major enterprise funds:

The Electric Fund is used to account for the operation and maintenance of the electric system.

The Water Fund is used to account for the operation and maintenance of the water system.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2015

Note 1 – Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. Operating expenses for the Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

For purposes of the Combining Statement of Cash Flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Accounts Receivable and Unbilled Usage

The Utilities grants credit to the businesses and residents of Mt. Pleasant and surrounding areas to which electric and water services are supplied. Accounts receivable are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due From and Due to Other Funds

During the course of its operations, the Utilities has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2015, balances of interfund amounts receivable or payable have been recorded.

Inventories

Inventories are valued at the lower of average cost or market. Inventories consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2015

Note 1 – Significant Accounting Policies (Continued)

Restricted Assets

Funds set aside for payment of revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

General and Administrative

The allocation of general and administrative expenses and penalty income on the Combining Statement of Revenue, Expenses and Changes in Net Position are allocated 80.638% and 19.362% to the Electric and Water Funds, respectively.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2015

Note 1 – Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting

The Utilities adopts an accrual basis budget for operating purposes. The Utilities then submits a cash basis (legal) budget to the City Council for approval in the City's budget process. The legal budget may be amended during the year utilizing the statutory procedures available to the City.

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2 – Property and Equipment Accounting Policies

An accurate listing of assets acquired in prior years has not been retained by the Utilities. Because of this, it is likely that there are items included in the balance of property and equipment that are no longer owned by the Utilities, which is not in accordance with accounting principles generally accepted in the United States of America. Because the cost records are not available, it is impossible to determine the effect on the presentation of financial position and results of operations.

Property and equipment is recorded at historical cost. 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 as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Buildings and improvements	\$ 25,000
Equipment and vehicles	5,000
Infrastructure	25,000
Intangibles	5,000

(continued)

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Notes to Financial Statements (Continued)**  
**June 30, 2015**

Note 2 – Property and Equipment Accounting Policies (Continued)

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	20-40
Improvements other than buildings	15
Vehicles	7-8
Equipment	5-30
Infrastructure	30-40
Intangibles	5-8

A summary of the Electric Fund's capital assets at June 30, 2015 follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Capital assets not being depreciated:				
Construction in progress	\$ 183,732	10,549	( 183,732)	10,549
Land	-	33,982	-	33,982
Total capital assets not being depreciated	<u>183,732</u>	<u>44,531</u>	<u>( 183,732)</u>	<u>44,531</u>
Capital assets being depreciated:				
Buildings and improvements	1,144,416	35,162	-	1,179,578
Generating equipment	12,043,500	21,001	-	12,064,501
Distribution equipment	9,569,287	806,376	-	10,375,663
Other equipment	<u>1,806,818</u>	<u>37,625</u>	<u>-</u>	<u>1,844,443</u>
Total capital assets being depreciated	<u>24,564,021</u>	<u>900,164</u>	<u>-</u>	<u>25,464,185</u>
Less accumulated depreciation for:				
Buildings and improvements	909,407	15,940	-	925,347
Generating equipment	6,678,868	334,005	-	7,012,873
Distribution equipment	7,582,995	219,521	-	7,802,516
Other equipment	<u>1,487,255</u>	<u>65,517</u>	<u>-</u>	<u>1,552,772</u>
Total accumulated depreciation	<u>16,658,525</u>	<u>634,983</u>	<u>-</u>	<u>17,293,508</u>
Total capital assets being depreciated, net	<u>7,905,496</u>	<u>265,181</u>	<u>-</u>	<u>8,170,677</u>
Total capital assets, net	\$ <u>8,089,228</u>	<u>309,712</u>	<u>( 183,732)</u>	<u>8,215,208</u>

(continued)

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Notes to Financial Statements (Continued)**  
**June 30, 2015**

**Note 2 – Property and Equipment Accounting Policies (Continued)**

A summary of the Water Fund's capital assets at June 30, 2015 follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Capital assets not being depreciated:				
Construction in progress	\$ -	23,331	-	23,331
Land	<u>131,975</u>	<u>-</u>	<u>-</u>	<u>131,975</u>
Total capital assets not being depreciated	<u>131,975</u>	<u>23,331</u>	<u>-</u>	<u>155,306</u>
Capital assets being depreciated:				
Buildings and improvements	1,439,959	3,128	-	1,443,087
Pumping and treatment equipment	8,174,465	313,534	-	8,487,999
Distribution equipment	6,713,392	33,896	-	6,747,288
Water tower	1,592,798	110,000	-	1,702,798
Other equipment	<u>912,767</u>	<u>236,448</u>	<u>( 76,500)</u>	<u>1,072,715</u>
Total capital assets being depreciated	<u>18,833,381</u>	<u>697,006</u>	<u>( 76,500)</u>	<u>19,453,887</u>
Less accumulated depreciation for:				
Buildings and improvements	1,067,918	29,428	-	1,097,346
Pumping and treatment equipment	3,164,271	230,273	-	3,394,544
Distribution equipment	3,724,048	125,535	-	3,849,583
Water tower	831,166	42,580	-	873,746
Other equipment	<u>793,599</u>	<u>57,265</u>	<u>( 49,179)</u>	<u>801,685</u>
Total accumulated depreciation	<u>9,581,002</u>	<u>485,081</u>	<u>( 49,179)</u>	<u>10,016,904</u>
Total capital assets being depreciated, net	<u>9,252,379</u>	<u>211,925</u>	<u>( 27,321)</u>	<u>9,436,983</u>
Total capital assets, net	\$ <u>9,384,354</u>	<u>235,256</u>	<u>( 27,321)</u>	<u>9,592,289</u>

The land on which the Utilities' general offices, power, and water plants are located is owned by the City of Mt. Pleasant, Iowa. The Utilities paid the City \$48,000 for the permanent use of the land. However, see Note 3 regarding electricity, water, and related services furnished to the City without charge.

**Note 3 – Donated Electricity and Water**

The municipal parks, city hall, and other municipally operated facilities in the City of Mt. Pleasant are not billed for electricity and water usage, service, and materials provided them during the year. The meters from these facilities are read monthly and the resulting amount computed at normal rates is considered to be a donation to the City. During the year ended June 30, 2015, services donated to the City totaled \$244,337 and \$71,687 for the Electric and Water Funds, respectively. No revenue or expense has been recognized in the financial statements for these amounts.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2015

Note 4 – Cash and Pooled Investments

The Municipal Utilities' deposits at June 30, 2015 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 insure there will be no loss of public funds.

The Municipal Utilities 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.

Certificates of deposit are carried at historical cost.

Note 5 – Pension and Retirement Benefits

Plan Description

IPERS membership is mandatory for employees of the Utilities, except for those covered by another retirement system. Employees of the Utilities are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes a multiplier (based on years of service) and the member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2015

Note 5 – Pension and Retirement Benefits (Continued)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utilities contributed 8.93 percent for a total rate of 14.88 percent. The Utilities' total contributions to IPERS for the year ended June 30, 2015 were \$166,631.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2015

Note 5 – Pension and Retirement Benefits (Continued)

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Utilities reported a liability of \$1,110,416 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion of the net pension liability was based on the Utilities' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Utilities collective proportion was .0279990 percent which was an increase of .001685 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$91,153. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 12,068	-
Changes of assumptions	49,005	-
Net difference between projected and actual earnings on pension plan investments	-	423,481
Changes in proportion and differences between Utility contributions and proportionate share of contributions	34,414	-
Utility contributions subsequent to the measurement date	<u>166,631</u>	<u>-</u>
Total	<u>\$ 262,118</u>	<u>423,481</u>

\$166,631, reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2015

Note 5 – Pension and Retirement Benefits (Continued)

Year ended June 30,		
2016	\$	(83,560)
2017		(83,560)
2018		(83,560)
2019		(83,560)
2019		<u>6,246</u>
Total	\$	<u>(327,994)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.0 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2015

Note 5 – Pension and Retirement Benefits (Continued)

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US equity	23%	6.31
Non US equity	15	6.76
Private equity	13	11.34
Real estate	8	3.52
Core plus fixed income	28	2.06
Credit opportunities	5	3.67
TIPS	5	1.92
Other real assets	2	6.27
Cash	<u>1</u>	(0.69)
 Total	 <u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease 6.5%</u>	<u>Discount Rate 7.5%</u>	<u>1% Increase 8.5%</u>
Utilities' proportionate share of the net pension liability:	\$ <u>2,098,099</u>	<u>1,110,416</u>	<u>(276,708)</u>

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2015

Note 5 – Pension and Retirement Benefits (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan

At June 30, 2015, the Utilities reported a payable to the defined benefit pension plan of \$14,336 for legally required employer contributions and legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 6 – Major Suppliers

All of the Utilities' purchased power is from one supplier. The total amount purchased was \$4,141,077 which represents 99.9% of total kilowatt hours generated and purchased.

Note 7 – Compensated Absences

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. A liability is recorded when incurred and has been computed based on rates of pay in effect at June 30, 2015.

Vacation pay has been accrued in the financial records as a liability for time earned but not used at June 30, 2015. This amount based on June 30, 2015 wages and salaries was \$130,405.

Employee sick leave accumulates up to a maximum of 120 days, which does not vest. However, upon retirement or death, whichever occurs first, the employee will be paid 100% of their accumulated sick leave to a maximum of 90 days. To receive this benefit, the employee must have applied for and been approved for IPERS retirement benefits or reached age 62 and retired. An employee who quits or is fired is not eligible for payment of accumulated sick leave. The liability for employee sick leave is reported in the Combining Statement of Net Position only for employees who have retired. As of June 30, 2015, there was no liability for sick leave accrued.

The maximum contingent liability for employee sick leave accruals at June 30, 2015 is approximately \$216,000.

(continued)

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Notes to Financial Statements (Continued)**  
**June 30, 2015**

Note 8 – Unrestricted Net Position Designated by the Board

The Utilities by resolution of the board set aside funds on a monthly basis for specific purposes. These funds are only available upon board authorization. As of June 30, 2015 the amounts that are board designated are as follows:

<u>Fund</u>	<u>Purpose</u>	<u>Designated Net Position</u>
Electric Fund	Light Improvement	\$ 889,040
Water Fund	Water Improvement	362,862
Electric Fund	Light Contingency	<u>694,257</u>
Total board designated net position		\$ <u>1,946,159</u>

Note 9 – Allowance for Doubtful Accounts

As of June 30, 2015, accounts receivable was shown net of their allowance for doubtful accounts for electric and water of \$4,193 and \$1,007, respectively.

Note 10 – Risk Management

The Utilities is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by the purchase of commercial insurance coverage. Settled claims from risks have not exceeded commercial insurance coverage in any of the past three years.

The Utilities changed to a partially self funded health insurance plan effective July 1, 2012 and maintains a risk management account for the risks related to the plan. For individual coverage, the employee pays the first \$500 of the annual deductible and the Utilities pays the remaining \$1,500. For family coverage, the employee pays the first \$1,000 of the annual deductible and the Utilities pays the remaining \$3,000.

Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. The estimate is based on a percentage of claims unpaid at year end considering the Utilities claims payment history.

Changes in the balances of claims liabilities during the past year are as follows:

Unpaid claims and IBNR, beginning of year	\$ 1,100
Current year costs including IBNR	21,399
Claims paid	<u>( 20,622)</u>
Unpaid claims and IBNR, end of year	\$ <u>1,877</u>

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2015

Note 11 – Notes Payable

The Utilities issued electric revenue bonds in an aggregate principal amount of \$3,600,000 dated May 20, 2009 for the purpose of paying costs of the refunding of the outstanding electric revenue bonds dated May 1, 2001. The bonds bear interest of 3.45%, require annual principal payments, and semiannual interest payments. The resolution providing for the issuance includes the following provisions:

1. Gross revenues shall be deposited into an electric revenue account to be used in maintaining and operating the utility.
2. Monthly transfers equal to 1/12<sup>th</sup> of the next principal payment and 1/6<sup>th</sup> of the next interest payment into an electric sinking account.
3. Monthly transfers equal to 100 percent of the amount required to be deposited in the electric sinking account; provided, however, that when the amount on deposit in the reserve account shall be not less than the reserve fund requirement, no further deposits shall be made into the reserve account except to maintain such level, and when the amount on deposit in the reserve account is greater than the balance required above, such additional amounts shall be withdrawn and paid into the electric revenue account. The reserve fund requirement is the lesser of the maximum annual amount of principal and interest coming due on the note, 10% of the stated principal of the note or 125% of the average annual principal and interest coming due on the note.

The Utilities issued water revenue bonds in an aggregate amount of \$2,950,000 dated April 2, 2012 for the purpose of paying costs of the refunding of the outstanding water revenue capital loan notes, series 1999. The bonds bear interest of 1.60% and require semiannual principal and interest payments. The resolution providing for the issuance includes the following provisions:

1. Gross revenues shall be deposited into a water revenue account to be used in maintaining and operating the utility.
2. Monthly transfers equal to 1/6<sup>th</sup> of the next principal payment and 1/6<sup>th</sup> of the next interest payment into a water sinking account.

During the year ended June 30, 2015, the Utilities was in compliance with the revenue note provisions.

Annual debt service requirements to maturity for revenue notes per the resolutions are as follows:

(continued)

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Notes to Financial Statements (Continued)**  
**June 30, 2015**

Note 11 – Notes Payable (Continued)

Year Ending June 30,	<u>Electric Revenue Notes</u>			<u>Water Revenue Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 500,000	27,945	527,945	380,000	27,584	407,584
2017	310,000	10,695	320,695	385,000	21,464	406,464
2018	-	-	-	390,000	15,264	405,264
2019	-	-	-	400,000	8,944	408,944
2020	-	-	-	<u>259,000</u>	<u>2,072</u>	<u>261,072</u>
	\$ <u>810,000</u>	<u>38,640</u>	<u>848,640</u>	<u>1,814,000</u>	<u>75,328</u>	<u>1,889,328</u>

Note 12 – Capital Lease

The Utilities leases certain equipment under a capital lease. The economic substance of the lease is that the Utilities is financing the acquisition of the equipment through the lease, and accordingly it has been recorded in the Utilities' assets and liabilities. Amortization of equipment held under the capital lease is included with depreciation expense. The gross value of the leased equipment is \$157,487 and at June 30, 2015 accumulated depreciation on the equipment was \$49,215.

Annual capital lease payments to maturity are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ <u>40,326</u>	<u>1,210</u>	<u>41,536</u>

Note 13 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	<u>Electric Revenue Notes</u>	<u>Water Revenue Notes</u>	<u>Capital Lease</u>	<u>Net Pension Liability</u>	<u>Total</u>
Balance, 6/30/2014	\$ 1,315,000	2,187,000	79,477	1,510,866	5,092,343
Increases	-	-	-	-	-
Decreases	<u>505,000</u>	<u>373,000</u>	<u>39,151</u>	<u>400,450</u>	<u>1,317,601</u>
Balance, 6/30/2015	\$ <u>810,000</u>	<u>1,814,000</u>	<u>40,326</u>	<u>1,110,416</u>	<u>3,774,742</u>
Due within one year	\$ <u>500,000</u>	<u>380,000</u>	<u>40,326</u>	<u>-</u>	<u>920,326</u>

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)  
June 30, 2015

Note 14 – Related Party Transactions

The Utilities had business transactions between the Utilities and employees and relatives of Utility employees, totaling \$9,658 during the year ended June 30, 2015.

Note 15 – Transfer of Funds to City

Beginning in 2003, the Utilities was required to transfer funds to the general fund of the City of Mt. Pleasant. The amount transferred for the year ended June 30, 2015 was \$100,000.

Note 16 – Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Water	\$ <u>111,574</u>

This balance results from cash being transferred from the electric fund to the water fund to cover amounts billed for water services prior to the billed amounts being received.

Note 17 – Prior Period Restatement

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*, was implemented during fiscal year 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, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
Net position June 30, 2014, as previously reported	\$ 11,270,656	7,597,752	18,868,408
Net pension liability at June 30, 2014	(970,580)	(540,286)	(1,510,866)
Change in outflows of resources related to contributions made after the June 30, 2013 measurement date	<u>105,103</u>	<u>58,507</u>	<u>163,610</u>
Net position July 1, 2014, as restated	<u>\$ 10,405,179</u>	<u>7,115,973</u>	<u>17,521,152</u>

## Required Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances -  
Budget and Actual (Cash Basis)  
Required Supplementary Information  
Year Ended June 30, 2015

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts	\$ 10,430,120	10,754,700	10,334,800	95,320
Disbursements	9,891,597	10,748,751	10,893,156	1,001,559
Net	538,523	5,949	(558,356)	1,096,879
Other financing sources, net	(100,000)	(100,000)	(100,000)	-
Beginning balances	3,817,662	4,177,662	4,177,662	(360,000)
Ending balances	\$ 4,256,185	4,083,611	3,519,306	736,879

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budget to GAAP Reconciliation  
Required Supplementary Information  
Year Ended June 30, 2015

	Proprietary Funds		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 10,430,120	5,939	10,436,059
Expenditures / expenses	9,891,597	(1,032,249)	8,859,348
Net	538,523	1,038,188	1,576,711
Other financing sources, net	(100,000)	-	(100,000)
Beginning net position	3,817,662	13,703,490	17,521,152
Ending net position	\$ 4,256,185	14,741,678	18,997,863

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2015

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 nine major classes of disbursements known as functions, not by fund. One of the nine functions includes the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments decreased budgeted revenues by \$419,900 and increased budgeted disbursements by \$144,405. These budget amendments are reflected in the final budgeted amounts.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of the Utilities' Proportionate Share of the Net Pension Liability  
Iowa Public Employees' Retirement System  
Last Fiscal Year\*  
(In Thousands)

Required Supplementary Information

	2015
Utilities' proportion of the net pension liability (asset)	0.0279990%
Utilities' proportionate share of the net pension liability	\$ 1,110
Utilities' covered-employee payroll	\$ 1,842
Utilities proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.26%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* - The amounts presented for each fiscal year were determined as of June 30.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utilities will present information for those years for which information is available.

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Utilities Contributions  
Iowa Public Employees' Retirement System  
Last 10 Fiscal Years  
(In Thousands)

Required Supplementary Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	167	164	150	142
Contributions in relation to the statutorily required contribution	<u>(167)</u>	<u>(164)</u>	<u>(150)</u>	<u>(142)</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Utilities' covered-employee payroll	1,866	1,842	1,731	1,761
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
123	112	104	97	89	86
<u>(123)</u>	<u>(112)</u>	<u>(104)</u>	<u>(97)</u>	<u>(89)</u>	<u>(86)</u>
<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
1,769	1,690	1,641	1,603	1,554	1,499
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

See accompanying independent auditors' report.

**MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Notes to Required Supplementary Information – Pension Liability**

**June 30, 2015**

Changes of Benefit Terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of Assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

## Supplementary Information

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Unaudited Comparative Operating Statistics**

	Year Ended June 30,		
	2015	2014	2013
Number of customers served:			
Electricity:			
Residential	3,206	3,222	3,232
Commercial	826	797	785
Electric heat	42	49	54
Security lights	126	113	117
Commercial demand	34	34	34
Steam	-	-	-
Water	3,716	3,715	3,702
Kilowatt hours:			
Number of kilowatt hours purchased	76,608,783	82,414,763	79,482,402
Number of kilowatt hours produced	63,877	1,222,941	1,066,472
	<u>76,672,660</u>	<u>83,637,704</u>	<u>80,548,874</u>
Number of kilowatt hours sold	68,537,122	72,845,356	71,589,039
% of kilowatt hours sold to total produced and purchased	89.39%	87.10%	88.88%
Number of kilowatt hours for export	42,407	454,247	531,865
Number of kilowatt hours for internal use	4,021,144	4,300,759	4,291,653
Number of kilowatt hours donated to city	2,336,012	2,367,746	2,331,454
	<u>6,399,563</u>	<u>7,122,752</u>	<u>7,154,972</u>
Gallons:			
Number of gallons pumped	599,563,000	613,543,000	635,711,000
Number of gallons billed	395,921,692	413,038,483	436,112,864
% of gallons billed to total pumped	66.04%	67.32%	68.60%
Number of gallons for internal use	105,650,963	106,200	147,945
Number of gallons donated to city	11,502,827	2,523,090	2,175,046
	<u>117,153,790</u>	<u>2,629,290</u>	<u>2,322,991</u>

The foregoing operating statistics are presented on the basis of unaudited records maintained in the Utilities' offices. The amounts and the accuracy of the operating statistics were not tested by the auditor.

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Unaudited Comparative Operating Statistics**

Year Ended June 30,			
2012	2011	2010	2009
3,226	3,224	3,192	3,166
789	794	817	823
64	70	74	76
116	113	116	120
34	30	30	30
-	-	1	1
3,677	3,677	3,667	3,666
78,321,147	78,364,471	77,027,608	79,467,625
1,014,317	982,739	379,933	2,977,414
79,335,464	79,347,210	77,407,541	82,445,039
69,432,802	70,533,023	67,546,011	70,015,683
87.52%	88.89%	87.26%	84.92%
561,717	305,603	161,778	70,643
4,230,644	4,724,157	4,280,387	4,244,158
2,319,775	2,841,483	2,955,426	3,006,871
7,112,136	7,871,243	7,397,591	7,321,672
613,883,000	585,919,000	598,517,000	571,562,000
427,489,140	410,598,689	403,845,395	405,198,141
69.64%	70.08%	67.47%	70.89%
130,500	1,765,900	2,640,675	1,796,175
2,928,561	2,055,455	2,376,125	2,751,678
3,059,061	3,821,355	5,016,800	4,547,853

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Position Detail  
June 30, 2015

	Electric	Water	Total
Accounts payable and accrued expenses, payable from current assets:			
Trade accounts payable	\$ 643,573	328,123	971,696
Salaries and wages	106,497	54,042	160,539
Payroll and withholding taxes	62,080	-	62,080
Sales tax payable	40,778	-	40,778
Sewer and trash payable	112,638	-	112,638
 Total	 \$ 965,566	 382,165	 1,347,731

See accompanying independent auditors' report.

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Schedule of Net Position Detail (Continued)**  
**June 30, 2015**

		Assets				
		Balance	Trades		Balance	Estimated
		June 30,	Acquisitions	and	June 30,	Life
		2014	(Eliminations)	(Adjustments)	2015	In Years
Property and equipment:						
Electric Fund:						
Land improvement	\$	41,003	-	-	41,003	15
Buildings		1,080,710	35,162	-	1,115,872	30
Generating equipment		12,043,500	21,001	-	12,064,501	10-30
Distribution equipment		8,441,129	596,517	183,732	9,221,378	30
Construction in progress		183,732	10,549	(183,732)	10,549	
Machinery and equipment		1,068,528	37,625	-	1,106,153	8-10
Transportation equipment		150,727	-	-	150,727	5
Office furniture and fixtures		209,403	-	-	209,403	5-10
Consultant services		1,128,158	26,127	-	1,154,285	5
Steam supply line		42,667	-	-	42,667	10-30
Computer		335,493	-	-	335,493	3-8
Leasehold improvements		22,703	-	-	22,703	5
Land		-	33,982	-	33,982	
Total	\$	<u>24,747,753</u>	<u>760,963</u>	<u>-</u>	<u>25,508,716</u>	

\* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Schedule of Net Position Detail (Continued)**  
**June 30, 2015**

Accumulated Depreciation/Amortization					
Balance June 30, 2014	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2015	Depreciated Cost June 30, 2015	
\$ 30,016	1,156	-	31,172	9,831	
856,688	14,784	-	871,472	244,400	
6,678,868	334,005	-	7,012,873	5,051,628	
6,454,837	216,908	-	6,671,745	2,549,633	
-	-	-	-	10,549	
785,932	51,762	-	837,694	268,459	
150,727	-	-	150,727	-	
187,692	6,508	-	194,200	15,203	
1,128,158	2,613	-	1,130,771	23,514	
42,667	-	-	42,667	-	
320,237	7,247	-	327,484	8,009	
22,703	-	-	22,703	-	
-	-	-	-	33,982	
\$ 16,658,525	634,983	-	17,293,508	8,215,208	

(continued)

See accompanying independent auditors' report.

**MT. PLEASANT MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Schedule of Net Position Detail (Continued)**  
**June 30, 2015**

		Assets				
		Balance	Trades		Balance	Estimated
		June 30,	Acquisitions	and	June 30,	Life
		2014	(Eliminations)	(Adjustments)	2015	In Years
Property and equipment:						
Water Fund:						
Buildings	\$	1,439,959	3,128	-	1,443,087	10-30
EDR treatment plant		6,618,908	310,499	-	6,929,407	40
Pumping and filtering equipment		1,555,557	3,035	-	1,558,592	25-40
Distribution system		5,828,088	17,353	-	5,845,441	40
Construction in progress		-	23,331	-	23,331	
Water tower		1,592,798	110,000	-	1,702,798	21-40
Machinery and equipment		795,284	88,420	(76,500)	807,204	5-10
Land		131,975	-	-	131,975	
Consultant services		885,304	16,543	-	901,847	5
Furniture and fixtures		117,483	148,028	-	265,511	10
<b>Total</b>	<b>\$</b>	<b><u>18,965,356</u></b>	<b><u>720,337</u></b>	<b><u>(76,500)</u></b>	<b><u>19,609,193</u></b>	

\* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Position Detail (Continued)  
June 30, 2015

Accumulated Depreciation/Amortization				
Balance June 30, 2014	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2015	Depreciated Cost June 30, 2015
\$ 1,067,918	29,428	-	1,097,346	345,741
2,356,229	195,368	-	2,551,597	4,377,810
808,042	34,905	-	842,947	715,645
2,849,182	123,476	-	2,972,658	2,872,783
-	-	-	-	23,331
831,166	42,580	-	873,746	829,052
715,757	43,637	(49,179)	710,215	96,989
-	-	-	-	131,975
874,866	2,059	-	876,925	24,922
77,842	13,628	-	91,470	174,041
\$ 9,581,002	485,081	(49,179)	10,016,904	9,592,289

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail  
June 30, 2015

	Actual	Operating Budget
Operating expenses:		
Electric Fund:		
Power, pumping and treatment plant:		
Supervision salaries	\$ 38,243	37,038
Power plant:		
Fuel, coal and oil	19,137	114,036
Purchased power	4,141,077	4,148,711
Production:		
Labor	269,607	254,700
Chemicals	1,907	5,000
Maintenance:		
Labor	36,944	36,000
Supplies	14,951	15,000
Other:		
Meal allowance	-	50
Heat and light expense	24,661	30,000
Miscellaneous	1,111	3,161
Depreciation	348,225	347,400
Freight	-	50
Miscellaneous contracted service	121,556	133,000
Permits	40	1,150
Repairs	1,059	17,000
Insurance	48,888	51,100
Education and training	50	200
Total power, pumping and treatment plant	\$ 5,067,456	5,193,596

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)  
June 30, 2015

	Actual	Operating Budget
Operating expenses:		
Electric Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 38,243	37,038
Maintenance of line:		
Labor	241,010	269,442
Supplies	16,042	36,000
Maintenance of park and street:		
Lighting:		
Labor	33,968	8,821
Supplies	10,025	4,500
Maintenance of meters:		
Labor	24,615	26,462
Supplies	21,295	17,500
Removing and resetting meters	44,834	44,103
Other:		
Depreciation	279,511	276,300
Vehicle supplies	5,858	1,000
Vehicle repair	8,986	5,000
Mileage	-	150
Lodging	925	1,000
Meals allowance	92	150
Freight	41	100
Miscellaneous contracted services	43,944	29,000
Repairs	2,008	1,500
Insurance	49,300	51,100
Tools	7,892	7,500
Miscellaneous	11,685	3,013
Books and instructional materials	-	600
Education and training	1,137	3,000
	\$ 841,411	823,279
Total transmission and distribution		

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)  
June 30, 2015

	Actual	Operating Budget
Operating expenses:		
Water Fund:		
Pumping and treatment plant:		
Supervision salaries	\$ 36,883	38,341
Maintenance of pumping equipment:		
Labor	276,714	316,392
Supplies	56,201	95,000
Outside analytical services	2,567	2,000
Pumping station expense	2,179	4,000
Insurance	43,142	45,000
Chemicals	109,252	100,000
Depreciation	264,290	243,000
Other pumping and treatment expenses:		
Permits	-	1,000
Education and training	1,265	1,300
Freight	-	100
Miscellaneous	1,560	2,201
Mileage	14	500
Lodging	522	1,200
Meal allowance	116	200
Miscellaneous contracted services	9,130	15,000
Repairs	-	5,000
Small Tools	1,993	5,000
Vehicle repairs and supplies	1,075	1,500
	\$ 806,903	876,734
Total pumping and treatment plant	\$ 806,903	876,734

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)  
June 30, 2015

	Actual	Operating Budget
Operating expenses:		
Water Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 36,883	38,341
Maintenance of mains:		
Labor	205,080	206,752
Supplies	66,395	51,000
Maintenance of meters:		
Labor	7,233	9,698
Supplies	16,255	29,000
Removing and resetting meters	81,597	72,717
Maintenance of hydrants:		
Labor	10,901	14,459
Supplies	13,100	10,500
Other transmission and distribution:		
Vehicle expense	7,208	7,000
Depreciation	220,791	220,800
Permits	806	500
Education and training	632	1,200
Miscellaneous	2,762	3,519
Mileage	54	500
Lodging	71	1,000
Meal allowance	180	500
Freight	368	100
Miscellaneous contracted services	11,686	33,100
Repairs	1,517	1,800
Vehicle repairs	2,831	3,500
Tools	7,127	6,900
Analytical service	200	300
Insurance	43,167	45,000
	\$ 736,844	758,186
Total transmission and distribution	\$ 736,844	758,186

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)  
June 30, 2015

	Actual	Operating Budget
Operating expenses:		
Electric and Water Funds:		
General and administrative:		
Education and training	\$ 1,183	1,200
Advertising	3,813	3,000
Repairs	382	1,000
Business meals	670	450
Administrative salaries	198,124	191,492
Administrative supplies	7,633	8,000
Trustee salaries	10,200	10,200
Accounting and collecting labor	217,474	248,069
Computer maintenance and supplies	31,210	29,500
Maintenance agreements	12,743	13,000
Bank charges	11,864	10,000
Courtesy	1,701	2,000
Insurance	23,008	23,000
Dues, assessments and subscriptions	30,155	34,000
Meter reading wages	57,407	63,938
Meter reading supplies	180	200
Provision for doubtful accounts	25,927	45,000
Printing	4,456	5,000
First aid supplies	60	-
Postage	24,711	28,450
Telephone	14,356	14,000
Contractual services	5,983	15,000
Professional fees	30,565	28,125
Payroll tax expense	137,838	146,800
Pension expense (IPERS)	91,153	171,362
Group insurance	271,517	307,510
Mileage	2,045	3,600
Transportation and vehicle expense	30,369	41,000
Eco@Home	32,740	33,500

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)  
June 30, 2015

	Actual	Operating Budget
Operating expenses:		
Electric and Water Funds (continued):		
General and administrative (continued):		
Use tax expense	10,759	12,000
Safety program	4,161	5,000
Miscellaneous	1,083	3,504
Lodging	929	1,500
Tools	13,486	14,700
Drug testing	449	1,000
Economic development	10,250	10,000
Depreciation	7,247	9,100
 Total general and administrative	\$ 1,327,831	1,535,200
 Allocated as follows:		
Electric Fund	\$ 1,070,736	80.638%
Water Fund	257,095	
 Total as above	\$ 1,327,831	

\* See Note 1 of the Notes to Financial Statements regarding the allocation method.

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Note Maturities  
June 30, 2015

Year Ending June 30,	Electric Revenue Note Issued May 20, 2009		Water Revenue Note Issued April 2, 2012	
	Interest Rate	Amount	Interest Rate	Amount
2016	3.45 %	\$ 500,000	1.60 %	\$ 380,000
2017	3.45	310,000	1.60	385,000
2018	-	-	1.60	390,000
2019	-	-	1.60	400,000
2020	-	-	1.60	259,000
Total		\$ 810,000		\$ 1,814,000

See accompanying independent auditors' report.

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Independent Auditors' Report on Internal Control over Financial 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  
Mt. Pleasant Municipal Utilities  
Mt. Pleasant, 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 business type activities of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the Mt. Pleasant Municipal Utilities' basic financial statements, and have issued our report thereon dated October 8, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mt. Pleasant Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mt. Pleasant Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Mt. Pleasant Municipal Utilities' 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 certain deficiency in internal control that we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

*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 Mt. Pleasant Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-15 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-B-15 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mt. Pleasant Municipal Utilities' 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 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 Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. 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.

### **Mt. Pleasant Municipal Utilities' Response to Findings**

Mt. Pleasant Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. Mt. Pleasant Municipal Utilities' 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mt. Pleasant Municipal Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*TDE&T CPAs and Advisors, P.C.*

Mt. Pleasant, Iowa  
October 8, 2015

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings  
Year Ended June 30, 2015

Part I: Summary of the Independent Auditors' Results:

1. A modified opinion was issued on the financial statements because Mt. Pleasant Municipal Utilities does not have an accurate listing of property and equipment.
2. A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
3. The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

II-A-15 Accounting Records – Accounts receivable general ledger control accounts do not match the subsidiary ledger on a month to month basis.

Recommendation – The accounts receivable subsidiary ledger and accounts receivable general ledger control accounts should be reviewed to determine the actual accounts receivable balance.

Response – We will review accounts receivable.

Conclusion – The balancing of a subsidiary ledger to a control account is a basic accounting procedure. Every effort should be made to correct the computer program for this weakness.

II-B-15 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. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings (Continued)  
Year Ended June 30, 2015

Part II: Findings Related to the Financial Statements (Continued):

Instances of Non-Compliance:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-15 Certified Budget – Municipal Utilities' budget is filed as part of the City of Mt. Pleasant's budget. Disbursements during the year ended June 30, 2015 were within the budgeted amount.

III-B-15 Questionable Expenditures – We noted no expenditures that were questionable costs.

III-C-15 Travel Expense – We noted no expenditures of Municipal Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees.

III-D-15 Business Transactions – Business transactions between the Utilities and employees and relatives of Utilities' employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Codeworks Software Factory owner Matt Gingerich, stepson of employee	Computer programming and software maintenance	\$ 6,071
Double D Pest Control owner Darren Davisson, employee of the Utilities	Pest control supplies	\$ 862
Washington Electric Service owners Eugene and Deidre Zehr, father and mother-in-law of employee	Electrical supplies and services	\$ 1,522
Ryan Wellington son of employee	Computer equipment and software	\$ 1,203

(continued)

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings (Continued)  
Year Ended June 30, 2015

Part III: Other Findings Related to Statutory Reporting (Continued):

III-D-15 Business Transactions (Continued)

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Double D Pest Control and Ryan Wellington do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year. The transactions with Codeworks Software Factory and Washington Electric Service may represent a conflict of interest as defined in Chapter 362.5(3)(j) of the Code of Iowa.

Recommendation – The Municipal Utilities should consult legal counsel to determine the disposition of this matter.

Response – We will consider consulting legal counsel.

Conclusion – Response accepted.

III-E-15 Bond Coverage – Surety bond coverage of Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-15 Utility Board Minutes – We noted no transactions that we believe should have been approved in the Board minutes but were not.

III-G-15 Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.

III-H-15 Revenue Notes – We noted no instances of non-compliance with water or electric note provisions.

MT. PLEASANT MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Staff

This audit was performed by:

Courtney De Ronde, CPA, Principal  
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