

CLEAR LAKE SANITARY DISTRICT
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 7
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	9 - 10
Statement of Cash Flows	11
Notes to Financial Statements	12 - 21
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)	22
Budget to GAAP Reconciliation	23
Notes to Required Supplementary Information - Budgetary Reporting	24
Schedule of the District's Proportionate Share of the Net Pension Liability	25
Schedule of District Contributions	26
Notes to Required Supplementary Information - Pension Liability	27
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	28 - 29
Schedule of Findings	30

**CLEAR LAKE SANITARY DISTRICT
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Trustees (as of June 30, 2015)		
John R. Miller	President/Trustee	January 1, 2019
Tim Clark	Vice President/Trustee	January 1, 2019
Robert Wolfram	Clerk/Trustee	January 1, 2021
Lothar Meyer	Treasurer/Trustee	January 1, 2017
Steve Lahner	Trustee	January 1, 2017

Administrator

Kevin Moler

Independent Auditor's Report

To the Board of Trustees
Clear Lake Sanitary District

Report on the Financial Statements

We have audited the accompanying financial statements of the Clear Lake Sanitary District as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clear Lake Sanitary District as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 11 to the financial statements, Clear Lake Sanitary District adopted new accounting guidance related to the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions information on pages 4-7, 22-23, and 25-26 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2016, on our consideration of the Clear Lake Sanitary District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clear Lake Sanitary District's internal control over financial reporting and compliance.

Potter & Brant, P.L.C.

Potter & Brant, P.L.C.
Certified Public Accountants
Clear Lake, IA

January 14, 2016

CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2015

The Clear Lake Sanitary District 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 District's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The District's operating revenues decreased 0.1%, or \$3,886, from fiscal year 2014 to fiscal year 2015.
- The District's operating expenses were 1.2%, or \$28,147, less in fiscal year 2015 than in fiscal year 2014.
- The District's net position increased 0.8%, or \$130,730, 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 District's financial activities.
- The Statement of Net Position presents information on the District's assets and deferred outflows of resources less the District's liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on the District's operating revenues and expenses, non-operating revenues and expenses and whether the District's financial position has improved or deteriorated as a result of the year's activities.
- The Statement of Cash Flows presents the change in the District's cash and cash equivalents during the year. This information can assist readers of the report in determining how the District financed its activities and how it met its cash requirements.
- 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 District's budget for the year and with a proportionate share of the net pension liability and related contributions.

FINANCIAL ANALYSIS OF THE DISTRICT

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's net position at the end of fiscal year 2015 totaled approximately \$16,359,000. This compares to approximately \$16,228,000 at the end of fiscal year 2014. For 2015, unrestricted net position totaled approximately \$15,718,000 and restricted net position totaled approximately \$641,000.

CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2015

A summary of the District's net position is presented below.

Net Position		
	June 30,	
	2015	2014
Current assets	\$ 1,703,079	\$ 2,038,351
Capital assets, at cost, less accumulated depreciation	14,860,626	15,325,393
Noncurrent assets	<u>2,053,354</u>	<u>2,287,698</u>
Total assets	<u>18,617,059</u>	<u>19,651,442</u>
Deferred outflows of resources	<u>72,342</u>	-
Current liabilities	976,962	1,204,663
Noncurrent liabilities	<u>1,236,543</u>	<u>2,218,520</u>
Total liabilities	<u>2,213,505</u>	<u>3,423,183</u>
Deferred inflows of resources	<u>116,907</u>	-
Net position:		
Unrestricted	15,717,820	15,612,243
Restricted	<u>641,169</u>	<u>616,016</u>
Total net position	<u>\$ 16,358,989</u>	<u>\$ 16,228,259</u>

The unrestricted portion of the District's net position (96%) may be used to meet the District's obligations as they come due. The remaining net position is restricted for the Sinking Fund, Reserve Fund, Debt Service Fund, Sewer Revenue Improvement Fund and County Sewer Line Fund.

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 \$373,520 to retroactively report the net position 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.

Statement of Revenues, Expenses and Changes in Net Position

Operating revenues are received for property taxes and for sewer rental and connection fees. Operating expenses are expenses paid to operate the District. Non-operating revenues and expenses are for interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014 is presented below.

Changes in Net Position		
	Year ended June 30,	
	2015	2014
Operating revenues:		
Property taxes	\$ 798,236	\$ 812,036
Sewer rentals and connection fees	1,391,630	1,393,570
Other operating revenues	<u>409,181</u>	<u>397,327</u>
Total operating revenues	<u>2,599,047</u>	<u>2,602,933</u>

CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2015

Operating expenses:		
Salaries	542,101	518,998
Payroll taxes and employee benefits	226,081	231,877
Office supplies	31,359	26,269
Professional fees	21,734	18,979
Printing and postage	18,739	19,939
Insurance	43,765	43,812
Dues and subscriptions	5,974	4,051
Trustee fees	6,900	8,900
Telephone	6,716	5,911
Education and training	1,690	2,864
Travel and mileage	2,416	3,316
Repairs and maintenance	336,550	316,456
Engineering	-	807
Utilities	177,115	197,449
Sludge disposal	21,658	24,892
Programming	13,196	5,476
Plant and laboratory supplies	68,203	70,447
Depreciation	867,221	907,454
County sewer	944	15,122
Miscellaneous	<u>10,996</u>	<u>8,486</u>
Total operating expenses	<u>2,403,358</u>	<u>2,431,505</u>
Operating income	<u>195,689</u>	<u>171,428</u>
Non-operating revenues (expenses):		
Interest income	(831)	2,243
Gain/Loss on disposal of capital asset	1,050	(658)
Interest expense and fees	<u>(65,178)</u>	<u>(76,441)</u>
Net non-operating (expenses)	<u>(64,959)</u>	<u>(74,856)</u>
Change in net position	130,730	96,572
Net position, beginning of year	16,228,259	16,505,207
Restatement	<u>-</u>	<u>(373,520)</u>
Net position, end of year	<u>\$ 16,358,989</u>	<u>\$ 16,228,259</u>

The Statement of Revenues, Expenses and Changes in Net Position reflects a positive year with an increase in net position at the end of the fiscal year. In fiscal year 2015, operating revenues decreased \$3,886, or 0.1%. Operating expenses decreased \$28,147, or 1.2%.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes property taxes and sewer rental and connection fees reduced by payments to employees and to suppliers. Cash used by capital and related financing activities includes long-term debt payments and the purchase of capital assets. Cash used by investing activities includes purchases and sales of certificates of deposit and interest income.

CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2015

CAPITAL ASSETS

At June 30, 2015 the District had approximately \$14,860,000 invested in capital assets, net of accumulated depreciation of approximately \$18,072,000. Depreciation expense totaled \$867,221 for fiscal 2015. More detailed information about the District's capital assets is presented in Note 7 to the financial statements.

LONG-TERM DEBT

At June 30, 2015, the District had \$1,060,000 in general obligation bonds outstanding, a decrease of \$515,000 from 2014. The District also had \$785,000 in revenue bonds outstanding, a decrease of \$385,000 from 2014. Additional information about the District's long-term debt is presented in Note 3 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt sanitary districts can issue to 5% of the assessed value of all taxable property within the District's corporate limits. The District's outstanding general obligation debt of \$1,060,000 is significantly below its constitutional debt limit of approximately \$23,000,000.

ECONOMIC FACTORS

The District continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for District officials. Some of the realities that may potentially become challenges for the District to meet are:

- Facilities at the District require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an on going challenge to maintain up-to-date technology at a reasonable cost.

The District anticipates the current fiscal year will be much like the last fiscal year and will maintain a close watch over resources to maintain the District's ability to react to unknown issues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Clear Lake Sanitary District, 5631 235th Street, Clear Lake, Iowa 50428.

Basic Financial Statements

CLEAR LAKE SANITARY DISTRICT
Statement of Net Position
June 30, 2015

ASSETS

Current assets:			
Cash	\$	911,171	
Investments		620,400	
Receivables:			
Accounts		83,787	
Taxes		5,588	
Delinquent special assessment		45,010	
Interest		2,446	
Prepaid expenses		<u>34,677</u>	
Total current assets			1,703,079
Noncurrent assets:			
Investments		2,019,889	
Unamortized bond issuance costs		33,465	
Capital assets (net of accumulated depreciation)		<u>14,860,626</u>	
Total noncurrent assets			<u>16,913,980</u>
Total Assets			<u>18,617,059</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related deferred outflows			<u>72,342</u>
-----------------------------------	--	--	---------------

LIABILITIES

Current liabilities:			
Accounts payable		28,098	
Salaries and benefits payable		26,028	
Current portion of general obligation bonds payable		525,000	
Current portion of revenue bonds payable		390,000	
Accrued liabilities		<u>7,836</u>	
Total current liabilities			976,962
Noncurrent liabilities:			
Net pension liability		306,543	
General obligation bonds payable, less current portion		535,000	
Revenue notes payable, less current portion		<u>395,000</u>	
Total noncurrent liabilities			<u>1,236,543</u>
Total Liabilities			<u>2,213,505</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable revenues:			
Pension related deferred inflows			<u>116,907</u>

NET POSITION

Unrestricted:			
Operations and maintenance fund		-	
Board designated:			
Revenue fund		125,000	
Capital improvement fund		12,308,640	
Replacement fund		<u>3,284,180</u>	
Total unrestricted net position			<u>15,717,820</u>
Restricted:			
Sinking fund		33,891	
Reserve fund		266,000	
Sewer revenue improvement fund		250,000	
Debt service fund		11,087	
County sewer line fund		<u>80,191</u>	
Total restricted net position			<u>641,169</u>
Total Net Position			<u>\$ 16,358,989</u>

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2015

	Major Funds				
	Revenue Fund	Operations & Maintenance Fund	Sinking Fund	Reserve Fund	Capital Improvement Fund
Operating revenues:					
Real estate and personal property taxes	\$ 798,236	\$ -	\$ -	\$ -	\$ -
Sewer rentals and connection fees	1,391,630	-	-	-	-
Interest on investments	1,253	-	-	-	-
Alliant project	266,616	-	-	-	-
County sewer	30,390	-	-	-	-
Other operating revenues	<u>85,580</u>	-	-	-	-
Total operating revenues	<u>2,573,705</u>	-	-	-	-
Operating expenses:					
Salaries	-	542,101	-	-	-
Payroll taxes and employee benefits	-	226,081	-	-	-
Office supplies	-	29,957	-	-	-
Professional fees	-	21,734	-	-	-
Printing and postage	-	18,739	-	-	-
Insurance	-	43,765	-	-	-
Dues and subscriptions	-	5,974	-	-	-
Trustee fees	-	6,900	-	-	-
Telephone	-	6,716	-	-	-
Education and training	-	1,690	-	-	-
Travel and mileage	-	2,416	-	-	-
Repairs and maintenance	-	284,435	-	-	-
Utilities	-	177,115	-	-	-
Sludge disposal	-	21,658	-	-	-
Programming	-	13,196	-	-	-
Plant and laboratory supplies	-	68,203	-	-	-
Depreciation	-	-	-	-	867,221
County sewer	-	-	-	-	-
Miscellaneous	-	<u>10,996</u>	-	-	-
Total operating expenses	-	<u>1,481,676</u>	-	-	<u>867,221</u>
Operating income	<u>2,573,705</u>	<u>(1,481,676)</u>	-	-	<u>(867,221)</u>
Non-operating revenues (expenses):					
Interest reimbursed	(831)	-	-	-	-
Interest expense, amortization and fees	-	-	(30,642)	-	-
Gain on disposal of fixed asset	<u>1,050</u>	-	-	-	-
Net non-operating revenues (expenses)	<u>219</u>	-	<u>(30,642)</u>	-	-
Change in net position	2,573,924	(1,481,676)	(30,642)	-	(867,221)
Transfers in (out)	(2,573,924)	1,481,676	30,514	-	877,832
Net position, beginning of year, as restated	<u>125,000</u>	-	<u>34,019</u>	<u>266,000</u>	<u>12,298,029</u>
Net position, end of year	<u>\$ 125,000</u>	<u>\$ -</u>	<u>\$ 33,891</u>	<u>\$ 266,000</u>	<u>\$12,308,640</u>

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2015

Debt Service Fund	Major Funds		Nonmajor Fund	Total
	Sewer Revenue Improvement Fund	Replacement Fund	County Sewer Line Fund	
\$ -	\$ -	\$ -	\$ -	\$ 798,236
-	-	-	-	1,391,630
-	-	25,342	-	26,595
-	-	-	-	266,616
-	-	-	-	30,390
-	-	-	-	85,580
-	-	25,342	-	2,599,047
-	-	-	-	542,101
-	-	-	-	226,081
-	-	1,402	-	31,359
-	-	-	-	21,734
-	-	-	-	18,739
-	-	-	-	43,765
-	-	-	-	5,974
-	-	-	-	6,900
-	-	-	-	6,716
-	-	-	-	1,690
-	-	-	-	2,416
-	-	52,115	-	336,550
-	-	-	-	177,115
-	-	-	-	21,658
-	-	-	-	13,196
-	-	-	-	68,203
-	-	-	-	867,221
-	-	-	944	944
-	-	-	-	10,996
-	-	53,517	944	2,403,358
-	-	(28,175)	(944)	195,689
-	-	-	-	(831)
(34,536)	-	-	-	(65,178)
-	-	-	-	1,050
(34,536)	-	-	-	(64,959)
(34,536)	-	(28,175)	(944)	130,730
30,372	-	123,141	30,389	-
15,251	250,000	3,189,214	50,746	16,228,259
\$ 11,087	\$ 250,000	\$ 3,284,180	\$ 80,191	\$16,358,989

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from real estate and personal property taxes	\$ 800,235
Cash received from sewer rentals and connection fees	1,395,053
Cash received from other revenues	438,668
Cash paid to suppliers for goods and services	(1,263,200)
Cash paid to employees and trustees for services	<u>(549,691)</u>
Net cash provided by operating activities	<u>821,065</u>
Cash flows from capital and related financing activities:	
Principal paid on revenue notes	(385,000)
Interest and fees paid on revenue notes	(23,196)
Principal paid on general bonds	(515,000)
Interest and fees paid on general bonds	(24,522)
Payments for work in progress	(210,156)
Purchase of capital assets	<u>(192,298)</u>
Net cash used by capital and related financing activities	<u>(1,350,172)</u>
Cash flows from investing activities:	
Purchase of certificates of deposit	(1,019,515)
Sale of certificates of deposit	1,864,683
Principal received on note receivable	98,871
Interest reimbursed on note receivable	<u>(831)</u>
Net cash provided by investing activities	<u>943,208</u>
Net increase in cash and cash equivalents	414,101
Cash and cash equivalents beginning of year	<u>497,070</u>
Cash and cash equivalents end of year	<u>\$ 911,171</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 195,689</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	867,221
Gain on sale of capital assets	1,050
Changes in assets and liabilities:	
Decrease in accounts receivable	33,859
Increase in prepaid expenses	(11,642)
Decrease in accounts payable	(175,485)
Decrease in salary and benefits payable	(690)
Decrease in accrued liabilities	(66,525)
Decrease in net pension liability	(112,143)
Increase in deferred outflows of resources	(27,176)
Increase in deferred inflows of resources	<u>116,907</u>
Total adjustments	<u>625,376</u>
Net cash provided by operating activities	<u>\$ 821,065</u>
Information about noncash investing, capital, and financing activities:	
Amortization on revenue notes	7,448
Amortization on general bonds	10,013

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Clear Lake Sanitary District is incorporated under the laws of the State of Iowa. The District operates under a Board of Trustees consisting of five members. The District is an independent taxing authority organized under Chapter 358 of the Iowa Code and has the ability to issue debt. The purpose of the District is to safely collect, treat, and properly dispose of wastewater generated by businesses and residents in an effort to protect the environment with an emphasis on lake water quality. Its territory includes the City of Clear Lake, Iowa, and Ventura, Iowa and the unincorporated area surrounding the lake, and is located in Cerro Gordo County.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, the District has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The District 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 District are such that exclusion would cause the District's 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 District 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 District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of the Clear Lake Sanitary District are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The District reports the following major enterprise funds:

Revenue Fund – The majority of the District's revenue begins in this fund and is then distributed to the various funds according to bond requirements. The District has designated \$125,000 to remain in this fund after all other revenue is distributed.

Operations & Maintenance Fund – Most of the District's basic services are reported here, which include providing sanitary sewer lines and facilities for the safe treatment and disposal of wastewater for property owners in the District. Revenue is transferred to this fund each month to cover operating and maintenance expenses.

Sinking Fund – Revenue is transferred to this fund to cover the principal and interest payments on the Sewer Revenue Refunding Capital loan. Each month one sixth of the next interest payment due and one twelfth of the next principal payment due must be deposited into this fund.

Reserve Fund – This fund must maintain a balance equal to the lesser of a) the maximum annual amount of the principal and interest payment coming due on the note, b) 10% of the stated principal amount of the note, or c) 125% of the average annual principal and interest coming due on the note.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

Sewer Revenue Improvement Fund – This fund represents funds that are available for the payments of interest or principal when the Sinking Fund has insufficient funds available. If not needed for that purpose, then the funds can be used for the cost of extraordinary maintenance expenses or repairs, renewals and replacements, or other capital improvements not included in the annual budget of revenues and current expenses. Each month, \$7,500 should be set aside until the funds reach \$250,000.

Capital Improvement Fund – This fund represents funds that are available for upcoming capital improvements. The remaining revenue is distributed to this fund after all other fund balance requirements have been met.

Debt Service Fund – This fund is utilized to account for the payment of interest and principal on the District's general obligation long-term debt.

Replacement Fund – This fund represents an amount designated by the Board of Trustees for future equipment replacement and improvements.

Measurement Focus and Basis of Accounting

The District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are reported on 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The District distinguishes 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 the District's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash, Investments and Cash Equivalents – The District considers all short-term investments that are highly liquid 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. Cash investments not meeting the definition of cash equivalents at June 30, 2015 include certificates of deposit of \$2,640,289.

Restricted Investments – Funds set aside for payment of sinking fund, reserve fund, debt service fund and county sewer line fund costs are classified as restricted.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the District as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

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

Buildings and Improvements	30 – 40 years
Machinery and Equipment	4 – 20 years
Sewer Infrastructure	8 – 50 years

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.

Long-term Obligations – Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond issuance costs are reported as deferred charges and are amortized over the life of the bonds.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Employees are also allowed to bank overtime as comp time to be used at a later date. Accumulated sick leave is not paid out upon retirement or termination of employment. The District's liability for accumulated vacation and comp time at June 30, 2015 and 2014, was \$11,921 and \$12,672, respectively. This liability has been computed based on rates of pay in effect at June 30, 2015 and 2014.

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 measureable, 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 the fund financial statements represent the amount of assets that have been recognized, but the related revenue has not be recognized since the assets are not 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 in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

NOTE 2. CASH AND POOLED INVESTMENTS

The District's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or 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.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

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

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

Investments are in certificates of deposit and are stated at fair value.

At June 30, 2015, the District had the following investments:

<u>Certificates of Deposit</u>	<u>Interest Rate</u>	<u>Date Matures</u>	<u>Cost</u>	<u>Fair Value</u>
Farmers State Bank	0.85%	06/20/16	\$ 620,400	\$ 620,400
Farmers State Bank	0.75%	08/21/16	1,013,183	1,013,183
Farmers State Bank	1.35%	11/21/19	<u>1,006,706</u>	<u>1,006,706</u>
			<u>\$ 2,640,289</u>	<u>\$ 2,640,289</u>

NOTE 3. LONG-TERM LIABILITIES

General obligation bonds and revenue bonds have been issued by Clear Lake Sanitary District to improve the sanitary sewer plant and collection system. These bonds were refinanced in 2011 and are required to be fully paid within 6 years from the date of issue and are backed by the full faith and credit of the Clear Lake Sanitary District.

Annual debt service requirements to maturity for general obligation and revenue bonds of the District as of June 30, 2015 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 915,000	\$ 33,915	\$ 948,915
2017	<u>930,000</u>	<u>16,620</u>	<u>946,620</u>
Totals	<u>\$1,845,000</u>	<u>\$ 50,535</u>	<u>\$ 1,895,535</u>

A summary of the terms of the general obligation and revenue bond issues are as follows:

Project Construction – Iowa State Revolving Fund – Series 2010. Originally issued 2/25/97, refinanced 10/28/10, maturity date 6/1/17. Interest rate is from 0.80% to 2.25%. Outstanding balance as of June 30, 2015 and 2014, were \$785,000 and \$1,170,000, respectively.

Refinancing/refunding and sewer improvements – Series 2010B. Originally issued 5/31/05, refinanced 11/30/10, maturity date 6/1/17. Interest rate is from 0.60% to 1.95%. Outstanding balance as of June 30, 2015 and 2014, were \$1,060,000 and \$1,575,000, respectively.

The Code of Iowa requires that principal and interest on general obligation capital loan notes be paid from the Debt Service Fund.

The resolutions providing for the issuance of the general obligation capital loan notes dated May 2005 include the following provision:

The notes will be redeemed by a levy of annual tax on all taxable property in the Sanitary District, Cerro Gordo County, Iowa.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

The resolutions providing for the issuance of the Clean Water State Revolving Fund loan dated February 1997 includes the following provision:

A Sinking Fund shall be created. The Sinking Fund shall be used solely for the purpose of paying principal and interest on the loan.

NOTE 4. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as required supplementary information.

NOTE 5. PENSION PLAN

Plan Description. IPERS membership is mandatory for employees of the District, except those covered by another retirement system. Employees of the District 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.

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).
- 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.)

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.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

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 District contributed 8.93 percent for a total rate of 14.88 percent.

The District's total contributions to IPERS for the year ended June 30, 2015 were \$47,292.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the District reported a liability of \$306,543 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 District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's collective proportion was 0.007574 percent which was an increase of 0.000179 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$25,152. At June 30, 2015, the District 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	\$ 3,332	\$ -
Changes of assumptions	13,528	-
Net difference between projected and actual Earnings on pension plan investments	-	116,907
Changes in proportion and differences between County contributions and proportionate share of contributions	8,190	-
City contributions subsequent to the measurement date	<u>47,292</u>	<u>-</u>
Total	\$ <u>72,342</u>	\$ <u>116,907</u>

\$47,292 reported as deferred outflows of resources related to pensions resulting from the District 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:

<u>Year Ended June 30,</u>	
2016	\$ (22,873)
2017	(22,873)
2018	(22,873)
2019	(22,873)
2020	(365)
	<u>\$ (91,857)</u>

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

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)	3.00 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.0 to 17.0 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:

<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	1%	-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 District 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.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's 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</u> <u>(6.5%)</u>	<u>Discount Rate</u> <u>(7.5%)</u>	<u>1% Increase</u> <u>(8.5%)</u>
District's proportionate share of the net pension liability:	\$ 579,204	\$ 306,543	\$ 76,388

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.

Payables to the Pension Plan - At June 30, 2015, the District reported payables to the defined benefit pension plan of \$1,269 for legally required employer contributions and \$845 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE 6. LONG-TERM CONTRACT

The District entered into a contract with Alliant Energy (IPL) on July 25, 2003 for water use and discharge services for the term of 25 years, subject to right of termination by both parties. IPL shall have the option to extend the term of this agreement for a renewable term of 10 years from the expiration of the initial term. IPL paid for the direct costs associated with the design, procurement, and construction of certain improvements to the District's Wastewater Treatment System. IPL makes monthly payments to the District, which began at \$18,000 per month and will adjust annually on the anniversary date by the percent increase or decrease in the Consumer Price Index, All Urban Consumers, U.S. City Average (CPI-U). Total received on the contract for the year ended June 30, 2015 was \$266,616.

NOTE 7. CAPITAL ASSETS

A summary of capital assets at June 30, 2015 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 62,232	\$ ---	\$ ---	\$ 62,232
Construction-in-progress	148,477	270,482	60,326	358,633
Total capital assets not being depreciated	<u>\$ 210,709</u>	<u>\$ 270,482</u>	<u>\$ 60,326</u>	<u>\$ 420,865</u>
Capital assets being depreciated:				
Buildings	\$ 6,292,628	\$ ---	\$ ---	\$ 6,292,628
Improvements	366,677	71,652	---	438,329
Machinery & equipment	1,955,049	130,201	94,000	1,991,250
Sewer infrastructure	23,799,362	(9,555)	---	23,789,807
Total capital assets being depreciated	<u>\$ 32,413,716</u>	<u>\$ 192,298</u>	<u>\$ 94,000</u>	<u>\$ 32,512,014</u>
Less accumulated depreciation for:				
Buildings	\$ (2,604,674)	\$ (169,586)	\$ ---	\$ (2,774,260)
Improvements	(88,203)	(13,389)	---	(101,592)
Machinery & equipment	(1,649,391)	(71,359)	(94,000)	(1,626,750)
Sewer infrastructure	(12,956,764)	(612,887)	---	(13,569,651)
Total accum. depreciation for capital assets depreciated	<u>\$(17,299,032)</u>	<u>\$ (867,221)</u>	<u>\$ (94,000)</u>	<u>\$(18,072,253)</u>
Total capital assets, net	<u>\$ 15,325,393</u>	<u>\$ (404,441)</u>	<u>\$ 60,326</u>	<u>\$ 14,860,626</u>

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 8. RISK MANAGEMENT

The District is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose approximate 659 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The District's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The District's contributions to the Pool for the year ended June 30, 2015 were \$35,429.

NOTE 9. DUE FROM AND DUE TO OTHER FUNDS

The detail of inter-fund receivables and payables at June 30, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Improvement	Revenue	\$ (131,353)
Debt Service	Capital Improvement	1,000,000
Sinking	Capital Improvement	731,000
Capital Improvement	Various	(1,987,511)
Operations & Maintenance	Capital Improvement	387,864

NOTE 10. EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 14, 2016, the date which the financial statements were available to be issued.

NOTE 11. ACCOUNTING CHANGE/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

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

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 for governmental activities 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:

	Net Position
Net position June 30, 2014, as previously reported	\$ 16,601,779
Net pension liability at June 30, 2014	(418,686)
Change outflows of resources related contributions made after the June 30, 2013 measurement date	45,166
Net position July 1, 2014, as restated	\$ 16,228,259

Required Supplementary Information

CLEAR LAKE SANITARY DISTRICT
Budgetary Comparison Schedule of Receipts, Disbursements
and Changes in Balances - Budget & Actual (Cash Basis)
Required Supplementary Information
For the Year Ended June 30, 2015

	<u>Total Actual</u>	<u>Final Budget</u>	<u>Final to Actual Variance</u>
Receipts:			
Real estate and personal property taxes	\$ 800,235	\$ 789,285	\$ 10,950
Sewer rentals and connection fees	1,381,008	1,400,289	(19,281)
Interest income	54,201	36,500	17,701
Alliant project	266,616	266,350	266
County sewer	30,390	31,500	(1,110)
Other	<u>199,547</u>	<u>155,700</u>	<u>43,847</u>
Total receipts	<u>2,731,997</u>	<u>2,679,624</u>	<u>52,373</u>
Disbursements:			
Operations, maintenance & replacement	1,745,903	1,467,015	278,888
County sewer	944	31,500	(30,556)
Capital improvements	402,454	557,295	(154,841)
Debt service fund	539,522	540,081	(559)
Sinking fund	<u>408,196</u>	<u>408,733</u>	<u>(537)</u>
Total disbursements	<u>3,097,019</u>	<u>3,004,624</u>	<u>92,395</u>
Excess (deficiency) of receipts over (under) disbursements	(365,022)	(325,000)	(40,022)
Balances, beginning of year	<u>3,958,649</u>	<u>1,884,730</u>	<u>2,073,919</u>
Balances, end of year	<u>\$ 3,593,627</u>	<u>\$ 1,559,730</u>	<u>\$ 2,033,897</u>

See accompanying independent auditor's report.

**CLEAR LAKE SANITARY DISTRICT
Budget to GAAP Reconciliation
Required Supplementary Information
For the Year Ended June 30, 2015**

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 2,731,997	\$ (132,731)	\$ 2,599,266
Expenditures/expenses	<u>(3,097,019)</u>	<u>628,482</u>	<u>(2,468,537)</u>
Net	(365,022)	495,751	130,730
Beginning fund balances/net position	<u>3,958,649</u>	<u>12,269,610</u>	<u>16,228,259</u>
Ending fund balances/net position	<u>\$ 3,593,627</u>	<u>\$ 12,765,361</u>	<u>\$ 16,358,989</u>

See accompanying independent auditor's report.

CLEAR LAKE SANITARY DISTRICT
Notes to Required Supplementary Information - Budgetary Reporting
For the Year Ended June 30, 2015

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41.

In accordance with the Code of Iowa, the District 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 business type activities. Function disbursements required to be budgeted include disbursements for the General Fund and the Debt Service Fund. During the year, one amendment was made on May 19, 2015, to increase the budget for capital improvements for \$325,000.

CLEAR LAKE SANITARY DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
Last Fiscal Year*
Required Supplementary Information

	<u>2015</u>
District's proportion of the net pension liability (asset)	0.007574%
District's proportionate share of the net pension liability	306,543
District's covered-employee payroll	529,586
District's proportionate share of the net pension liability as percentage of its covered-employee payroll	57.88%
Plan fiduciary net position as a percentage of the total pension liability	86.60%

* - 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 District will present information for those years for which information is available.

See accompanying independent auditor's report.

CLEAR LAKE SANITARY DISTRICT
Schedule of District Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years
Required Supplementary Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Statutorily required contribution	\$ 47,292	\$ 45,469	\$ 39,920	\$ 38,915	\$ 31,197
Contributions in relation to the statutorily required contribution	<u>(47,292)</u>	<u>(45,469)</u>	<u>(39,920)</u>	<u>(38,915)</u>	<u>(31,197)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered-employee payroll	\$ 529,586	\$ 509,171	\$ 460,438	\$ 482,218	\$ 448,878
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contribution	\$ 26,885	\$ 30,168	\$ 26,243	\$ 24,320	\$ 25,075
Contributions in relation to the statutorily required contribution	<u>(26,885)</u>	<u>(30,168)</u>	<u>(26,243)</u>	<u>(24,320)</u>	<u>(25,075)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered-employee payroll	\$ 404,286	\$ 475,087	\$ 433,769	\$ 422,957	\$ 436,087
Contributions as a percentage of covered-employee payroll	6.65%	6.35%	6.05%	5.75%	5.75%

See accompanying independent auditor's report.

CLEAR LAKE SANITARY DISTRICT
Notes to Required Supplementary Information - Pension Liability
For the Year Ended 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.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

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.

**Independent Auditor's 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**

Independent Auditor's 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
Clear Lake Sanitary District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clear Lake Sanitary District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Clear Lake Sanitary District's basic financial statements and have issued our report thereon dated January 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clear Lake Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clear Lake Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Clear Lake Sanitary District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. However, significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as Item (A), that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's 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 District. 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.

Clear Lake Sanitary District's Response to Findings

Clear Lake Sanitary District's response to the findings identified in our audit are described in the accompanying schedule of findings. Clear Lake Sanitary District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Potter & Brant, P.L.C.

Potter & Brant, P.L.C.
Certified Public Accountants
Clear Lake, IA

January 14, 2016

CLEAR LAKE SANITARY DISTRICT
Schedule of Findings
For the Year Ended June 30, 2015

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas for the District:
- (1) Accounting system - record keeping for revenues, expenses and related reporting.
 - (2) Receipts - collecting, depositing, journalizing and posting.
 - (3) Payroll - changes to master list, preparation and distribution

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff or Board members.

Response - We recognize our limitations, however, it is not fiscally responsible to add additional staff at this time.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Questionable Expenses - No expenses we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (2) Travel Expense - No expenditures of money for travel expenses of spouses of District officials or employees were noted.
- (3) Board Minutes - No transactions were found that we believe should have been approved in the District minutes but were not.
- (4) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.
- (5) Bond Coverage - Surety bond coverage of District trustees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Certified Budget - Total disbursements during the year ended June 30, 2015, as amended, exceeded the total amounts budgeted for by \$92,395. The excess expenditures, in the Operations & Maintenance Fund, were due to damages from a force main break by a contractor. This may be a violation of Iowa state statutes.

Recommendation - The District should have amended its budgets to account for the additional expenditures in the fund.

Response - The over expenditure was due to emergency funds being used at the end of the previous fiscal year and a technical computer error calculating the amount of cash basis budget expenditures needed. The computer error has been noted and all future expenditures exceeding any portion of the budget will be amended as required by law.

Conclusion - Response accepted.