

**CENTRAL WATER SYSTEM**  
**INDEPENDENT AUDITORS' REPORTS**  
**FINANCIAL STATEMENTS AND**  
**SCHEDULE OF FINDINGS**  
**DECEMBER 31, 2015**

CENTRAL WATER SYSTEM

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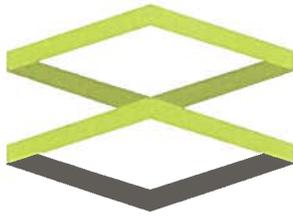
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CENTRAL WATER SYSTEM

DECEMBER 31, 2015

OFFICIALS

<u>NAME</u>	<u>TITLE</u>
Jake Hinshaw	Director - Chairman
Gary Vos	Director - Secretary/Treasurer
Russ Eckard	Director
Michael Miller	Plant Superintendent



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Central Water System  
Okoboji, IA 51355

We have audited the accompanying statement of cash receipts, disbursements, and change in cash balance of Central Water System (System) as of and for the year ended December 31, 2015, and the related notes to the financial statement, which collectively comprise the System's financial statement.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of Central Water System as of December 31, 2015 and the change in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Emphasis of a Matter**

As disclosed in Note 3 to the financial statement, Central Water System adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the System's financial statement. The Schedule of the System's Proportionate Share of the Net Pension Liability and the Schedule of System Contributions on pages 14 through 18, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statement. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2016 on our consideration of Central Water System'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 Central Water System's internal control over financial reporting and compliance.

*Winter, Starn & Co., LLP*

May 26, 2016  
Spencer, Iowa

## FINANCIAL STATEMENT

CENTRAL WATER SYSTEM  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGE IN CASH BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2015

OPERATING RECEIPTS:	
Water sales .....	<u>\$ 453,456</u>
OPERATING DISBURSEMENTS:	
Salaries - superintendent .....	55,747
Salaries - other .....	50,535
Chemicals .....	83,672
Repairs .....	22,274
Utilities .....	81,561
Payroll taxes and benefits .....	17,619
Employee insurance .....	37,438
General insurance .....	33,118
Lab supplies .....	4,524
Testing and lab fees .....	635
Vehicle expenses .....	1,178
Clothing allowance .....	908
Legal and professional .....	10,244
Office supplies and postage .....	1,198
Telephone .....	4,110
Board expense .....	1,300
Continuing education .....	370
TOTAL OPERATING DISBURSEMENTS	<u>406,431</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>47,025</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Rental income .....	30,000
Miscellaneous income .....	600
Interest income .....	128
Equipment purchases .....	<u>(10,000)</u>
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS) - NET	<u>20,728</u>
CHANGE IN CASH BALANCE	67,753
CASH BALANCE - BEGINNING OF YEAR.....	<u>138,449</u>
CASH BALANCE - END OF YEAR	<u>\$ 206,202</u>
CASH BASIS FUND BALANCE:	
Unrestricted .....	<u>\$ 206,202</u>

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 2015

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Central Water System was organized by a Joint Public Improvement Agreement between the City of Arnolds Park and the City of Okoboji dated April 11, 1977. Central Water System, organized under the Code of Iowa, Chapter 28E, was designed to operate a water system to jointly serve the two municipalities. Iowa Lakes Regional Water was later added as a customer through a water purchase contract with Central Water System dated January 11, 1989. All facilities and land acquired or constructed in connection with the System are to be owned by the two municipal parties as tenants in common with undivided ownership interest, the common facilities to be referred to as "Central Water System".

Central Water System is a component unit of the City of Arnolds Park, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The System is operated by the parties through a joint Board of Directors consisting of one member from each city council, or such other individual as that council shall designate, and a third member appointed and approved by a majority vote of the city councils of the municipalities.

**Reporting Entity**

For financial reporting purposes, Central Water System has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The System 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 System are such that exclusion would cause the System'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 included appointing a voting majority of an organization's governing body, and (1) the ability of the System 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 System. Central Water System has no component units which meet the Governmental Accounting Standards Board criteria.

**Basis of Presentation**

The accounts of Central Water System 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 that the costs 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, expenditures made, and/or change in cash balance is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2015

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Measurement Focus and Basis of Accounting**

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

The System distinguishes operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with the System's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**Compensated Absences**

Central Water System has established a written policy for sick leave and vacation accrual which states that no sick leave or vacation pay will accumulate one year to the next. Therefore, there are no accrued compensated absences at December 31, 2015.

**Use of Estimates**

The preparation of the financial statement in conformity with a comprehensive basis of accounting other than 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.

**Income Taxes**

Central Water System is exempt from federal and state income taxes.

**Management's Review**

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

**2. CASH AND INVESTMENTS**

The System's deposits in banks at December 31, 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 System 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 Directors; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2015

**3. PENSION AND RETIREMENT BENEFITS**

Plan Description - IPERS membership is mandatory for employees of the System, except for those covered by another retirement system. Employees of the System 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, PO Box 9117, Des Moines, IA 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 information 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.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2015

**3. PENSION AND RETIREMENT BENEFITS**

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

The System's contributions to IPERS for the year ended June 30, 2015 were \$9,442.

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

At June 30, 2015, the System's liability for its proportionate share of the collective net pension liability totaled \$62,308. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The System's proportion of the collective net pension liability was based on the System's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the System's proportion was .000154 percent which was a decrease of .000003 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the System's collective pension expense, collective deferred outflows, and collective deferred inflows totaled \$4,664, \$3,427, and \$23,763, respectively.

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)	4.00 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.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2015

**3. PENSION AND RETIREMENT BENEFITS**

Actuarial Assumptions - Continued - 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	<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 System 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.

CENTRAL WATER SYSTEM  
 NOTES TO FINANCIAL STATEMENT - Continued  
 YEAR ENDED DECEMBER 31, 2015

**3. PENSION AND RETIREMENT BENEFITS**

Sensitivity of the System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the System'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.

	1% Decrease <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
System's proportionate share of the net pension liability	\$117,730	\$ 62,308	\$ 15,527

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).

**4. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Plan Description - The District operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees. There are 2 active and no retired members in the plan. Retired participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees. The cost of retiree coverage is offset by the retiree contributions.

Funding Policy - The contribution requirements of plan members are established and may be amended by the System. The System currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premium ranges from \$926 to \$1,386 for family coverage. The same monthly premiums apply to retirees. For the year ended December 31, 2015, the System made no contributions to the retiree benefit plan.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2015

**5. RISK MANAGEMENT**

The System is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty 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 estimated for the year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300 percent of basis rates.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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 System'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 System's annual contributions to the Pool for the year ended December 31, 2015 were \$30,667.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

CENTRAL WATER SYSTEM  
 NOTES TO FINANCIAL STATEMENT - Continued  
 YEAR ENDED DECEMBER 31, 2015

**5. RISK MANAGEMENT - Continued**

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss, or series of claims or losses exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims or losses exhausts the Pool's fund and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The System does not disclose a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at December 31, 2015, no liability has been disclosed in the System's financial statements. As of December 31, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The System also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The System assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**6. MAJOR CUSTOMERS**

During the years ended December 31, 2015, the System received 86% of its revenues from two entities as follows:

	<u>Amount</u>	<u>Percent</u>
City of Arnolds Park .....	\$223,735	49%
City of Okoboji .....	165,796	37%

**7. LITIGATION**

The System may become party to routine legal proceedings and litigation arising in the normal course of operations. These legal proceedings typically are not expected to have a material adverse impact on the System's financial condition.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2015

**8. LEASES**

The System leases space on two water towers for cell phone antennae. Both leases are in the final 10-year option and expire in April 2025. Lease payments under the agreements totaled \$30,000 in 2015.

Future minimum/fixed rental payments required for each of the five years subsequent to December 31, 2015 are as follows:

December 31,

2016 .....	\$ 30,000
2017 .....	30,000
2018 .....	30,000
2019 .....	30,000
2020 .....	<u>150,000</u>
 TOTAL	 <u>\$ 270,000</u>

## OTHER INFORMATION

CENTRAL WATER SYSTEM  
 SCHEDULE OF THE SYSTEM'S PROPORTIONATE SHARE OF  
 THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
 LAST FISCAL YEAR \*  
 (IN THOUSANDS)

OTHER INFORMATION (UNAUDITED)

	<u>2015</u>
System's proportion of the net pension liability .....	.001540%
System's proportionate share of the net pension liability .....	\$ 62
System's covered-employee payroll .....	\$104
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll .....	60.01%
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 System will present information for those years for which information is available.

CENTRAL WATER SYSTEM  
SCHEDULE OF SYSTEM CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS  
(IN THOUSANDS)

OTHER INFORMATION (UNAUDITED)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution .....	\$ 9	\$ 9	\$ 9	\$ 8
Contributions in relation to the statutorily required contribution .....	<u>(9)</u>	<u>(9)</u>	<u>(9)</u>	<u>(8)</u>
Contribution deficiency (excess) .....	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
System's covered-employee payroll ...	\$ 106	\$ 104	\$ 103	\$ 102
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>
\$ 7	\$ 6	\$ 6	\$ 5	\$ 5	\$ 4
<u>(7)</u>	<u>(6)</u>	<u>(6)</u>	<u>(5)</u>	<u>5)</u>	<u>(4)</u>
<u>\$ 0</u>					
\$ 104	\$ 96	\$ 94	\$ 84	\$ 81	\$ 76
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

CENTRAL WATER SYSTEM  
NOTES TO OTHER INFORMATION - PENSION LIABILITY  
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 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.

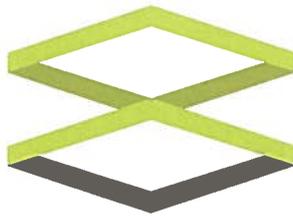
CENTRAL WATER SYSTEM  
NOTES TO OTHER INFORMATION - PENSION LIABILITY - Continued  
YEAR ENDED JUNE 30, 2015

**Changes of Assumptions - Continued**

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.



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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 Directors  
Central Water System  
Okoboji, IA 51355

We have audited 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 the financial statement of Central Water System as of and for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated May 26, 2016. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Central Water System's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting 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 combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of the System's financial statement will not be prevented, or

detected and corrected, on a timely basis. A significant deficiency is a deficiency, or 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. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-15 to be a material weakness.

### **Compliance and Other Matters**

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

Comments involving statutory and other legal matters about Central Water System's operations for the year ended December 31, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of Central Water System. 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.

### **Central Water System's Responses to Findings**

The System's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of Central Water System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Water System'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 Central Water System 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.

*Winters, Staveland Co., LLP*

May 26, 2016  
Spencer, Iowa

CENTRAL WATER SYSTEM  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2015

**Part I: Findings Related to the Financial Statements**

**Internal Control Deficiencies:**

I-A-15 Segregation of Duties - During our review of internal control, existing procedures were evaluated in order to determine whether incompatible duties, from a control standpoint, are performed by the same employee. We noted that one individual is primarily responsible for all recordkeeping and reconciling functions for the System.

Recommendation - We realize with a limited number of office employees, segregation of duties is difficult. However, the System should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances with continued administrative review by Directors.

Response - We continually review our operating procedures and strive to improve internal control and segregation of duties whenever possible. Administrative and Board review of transactions and financial information is an important part of the controls in place, and is relied upon to strengthen controls.

Conclusion - Response accepted.

**Instances of Noncompliance:**

No matters were noted.

CENTRAL WATER SYSTEM  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED DECEMBER 31, 2015

**Part II: Other Findings Related to Statutory Reporting**

- II-A-15 Questionable Expenses - We noted no expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
  
- II-B-15 Travel Expense - No expenditures of money for travel expenses of spouses of System officials or employees were noted.
  
- II-C-15 Board Minutes - No transactions were found that we believe should have been approved in the System's minutes but were not.
  
- II-D-15 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.