

SPENCER MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
DECEMBER 31, 2015 AND 2014

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SPENCER MUNICIPAL UTILITIES

OFFICIALS

<u>Board of Trustees</u>	<u>Title</u>	<u>Term Expires</u>
(Before July 2015)		
Dave Cronk	Chairman	6-30-2018
Alison Simpson	Vice-Chairman	6-30-2017
Sandi Schmidt	Secretary	6-30-2016
Murray Hart	Treasurer	6-30-2019
Duane Barber	Trustee	6-30-2020
<u>Management</u>		
Steven Pick	General Manager	
Trisha Bruning	Finance Manager	
(After July 2015)		
Dave Cronk	Chairman	6-30-2018
Alison Simpson	Vice-Chairman	6-30-2017
Sandi Schmidt	Secretary	6-30-2016
Murray Hart	Trustee	6-30-2019
Duane Barber	Treasurer	6-30-2020
<u>Management</u>		
Steven Pick	General Manager	
Travis Edwards	Finance Manager	

SPENCER MUNICIPAL UTILITIES

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA**



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Spencer Municipal Utilities – Municipal Electric Utility
Spencer, IA 51301

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Municipal Electric Utility of the City of Spencer, Iowa (the Utility), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Utility as of December 31, 2015 and 2014 and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the Utility adopted new accounting guidance related to 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Funding Progress for the Retiree Health Plan, Schedule of Utility's Proportionate Share of the Net Pension Liability, Schedule of the Utility's Contributions, and Notes to Required Supplementary Information – Pension Liability on pages 4 through 6 and pages 29 through 33 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, who 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The supplementary information on pages 34 through 36 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2016 on our consideration of the Utility's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
April 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of management's discussion and analysis (MD&A) is to provide the reader with an introduction to the financial statements. Our discussion and analysis of the Municipal Electric Utility (Utility) of the City of Spencer, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2015 and 2014.

The following information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

2015 Financial Highlights

The Utility delivered approximately 148,294,000 kilowatt hours (kWh) of electricity to its retail customers in 2015 compared to approximately 157,338,000 kWh in 2014.

The Utility's net position decreased by \$1,154,078 to \$45,807,553. The primary factors of this decrease were due to a prior period adjustment in the accounting and financial reporting requirements for pensions as well as slight decreases in residential sales, decreased ECA (Energy Cost Adjustment) revenue, a decrease in Sales to Other Utilities, and losses on plant retirements.

Overview of the Financial Statements

The statements of net position include the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The statements of revenues, expenses and changes in net position report all revenues and expenses incurred during the fiscal year.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities.

The notes to the financial statements provide the required disclosures and other information that is necessary to give the reader a complete understanding of the data provided in the statements. The notes present information about the Utility's accounting policies, material risks, obligations, commitments, contingencies and subsequent events.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Statement of Net Position

	<u>2015</u>	2014 (Not Restated)
Current assets	\$12,921,039	\$10,086,709
Noncurrent assets	3,611,683	6,074,381
Capital Assets, net of depreciation	<u>38,650,274</u>	<u>40,646,061</u>
Total Assets	<u>55,182,996</u>	<u>56,807,151</u>
 Deferred Outflows of Resources	 <u>216,370</u>	 <u>-</u>
Current Liabilities	2,487,933	2,808,713
Noncurrent Liabilities	875,405	60,516
Bonds Payable	<u>5,893,936</u>	<u>6,976,291</u>
Total Liabilities	<u>9,257,274</u>	<u>9,845,520</u>
 Deferred Inflows of Resources	 <u>334,539</u>	 <u>-</u>
Net Investment in Capital Assets	31,676,338	32,424,770
Restricted	2,101,581	2,444,353
Unrestricted	<u>12,029,634</u>	<u>12,092,508</u>
Total Net Position	<u>\$45,807,553</u>	<u>\$46,961,631</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Sales of Electricity	\$11,416,788	\$11,825,158
Other	<u>1,545,771</u>	<u>1,717,434</u>
Total Operating Revenue	<u>12,962,559</u>	<u>13,542,592</u>
 Power Supply Costs	 8,636,686	 8,896,084
Distribution System Maintenance	1,233,041	1,277,613
Depreciation & Amortization	2,891,794	2,615,662
Customer Service & Administration	<u>940,555</u>	<u>1,089,648</u>
Total Operating Expenses	<u>13,702,076</u>	<u>13,879,007</u>
 Operating (Loss)	 (739,517)	 (336,415)
Interest Income	78,493	81,588
Interest Expense	(179,759)	(201,393)
Other Income (Expense)	<u>682,266</u>	<u>1,369,173</u>
Total Non-Operating Revenues	<u>581,000</u>	<u>1,249,368</u>
 Change in Net Position	 (158,517)	 912,953
Net Position, Beginning of Year	46,961,631	46,048,678
Prior Period Adjustment-Change in Accounting	<u>(995,561)</u>	<u>-</u>
Net Position, Beginning of Year, as Restated	<u>45,966,070</u>	<u>46,048,678</u>
 Net Position, End of Year	 <u>\$45,807,553</u>	 <u>\$46,961,631</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The Utility's total assets decreased by approximately \$1,624,000. The decrease was mainly due to depreciation exceeding assets placed in service as well as retirement of plant assets. The increase of approximately \$2,834,000 in current assets and corresponding decrease of approximately \$2,463,000 in noncurrent assets was mainly due to investments nearing their maturity dates.

The Utility's total liabilities decreased by approximately \$588,000. There was a reduction of approximately \$1,247,000 in bonds payable for payments made in 2015 and an increase of approximately \$819,000 in net pension liability due to a prior period adjustment for a change in accounting and financial reporting requirements for pensions. The remaining increase in total liabilities was due to increased payables for 2015 over 2014 amounts.

The Utility's total net position decreased by \$1,154,078. This resulted from a net loss on the year of \$158,517 and reduction for a prior period adjustment in the amount of \$995,561 for a change in the accounting and financial reporting requirements for pensions.

The Utility's gross operating revenues decreased by approximately \$580,000 or 4%. Residential sales decreased by 5,000,000 kWh in 2015 compared to 2014 or approximately 7%. Commercial & Public Authority sales decreased by 1,759,000 kWh and Industrial sales decreased by 1,614,000 kWh in 2015 compared to 2014. This represents an approximate 2% decrease in each from 2015 to 2014. The Sales to Other Utilities decreased by approximately \$152,000 in 2015 compared to 2014 or 10%. This was mainly due to a reduction in revenue generated from selling Walter Scott, Jr. Energy Center Unit 4, Whelan 2, and Gas Turbine excess kWh to NIMECA. The Energy Cost Adjustment (ECA) revenue also decreased by approximately \$281,000 in 2015 compared to 2014. The Utility adopted an Energy Cost Adjustment (ECA) for all consumption beginning September 7, 2005. The ECA is calculated monthly and is designed to recoup the additional costs of power supply from the consumer.

Total net operating loss generated in 2015 was \$739,517 compared to a net operating loss of \$336,415 in 2014.

Utility non-operating income (expense) resulted in \$581,000 of income in 2015 compared to \$1,249,368 of income in 2014. One of the primary reasons for the decrease was due to losses on plant retirements in 2015 for the electric communications system. Another reduction in non-operating income in 2015 was due to a \$300,000 Rural Economic Development Loan Grant that was received in 2014. These funds were loaned to the City of Spencer for the new E911 Emergency Communications Center. Resource Conservation rebates were higher in 2015 compared to 2014 by approximately \$30,000. The lieu of tax payments in 2015 decreased by approximately \$123,000, mainly due to the funding for a residential housing land purchase in 2014.

The Utility had a net loss of \$158,517 for the year ended December 31, 2015 compared to a net profit of \$912,953 for the year ended December 31, 2014.

Economic Factors

During the year ended December 31, 2015, the Utility experienced a net loss of \$158,517. There was a rate adjustment effective with kWh charges and Meter Charges beginning October 1, 2015 for the Residential and the General Services Commercial rate codes. The rate changes were needed to allow the Utility sufficient coverage of operational and non-operational expenses. Management will continue to monitor the operations of the Utility in addition to projected capital expenditures and propose rate adjustments accordingly.

Contacting the Utility's Financial Management

This financial report is designed to present our citizens, customers, and creditors with a general overview of the Utility's finances and operating activities. If you have any questions or require additional information please contact the Finance Manager, 520 2nd Avenue East, Suite 1, Spencer, Iowa 51301.

FINANCIAL STATEMENTS

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014 (Not Restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and Cash Equivalents		
Unrestricted	\$ 2,760,194	\$ 2,197,507
Restricted	129,887	474,993
Board Designated	4,861,604	4,361,646
Consumer Deposits	76,762	81,376
Investments		
Board Designated	2,000,568	-
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$6,500 and \$6,500)	1,290,733	1,316,153
Unbilled Usage	287,571	278,972
Materials and Supplies Inventory	493,396	573,992
Fuel Inventory	609,926	446,203
Notes Receivable - City of Spencer	61,000	25,000
Prepayments	349,398	330,867
	12,921,039	10,086,709
Capital Assets:		
Land	148,872	150,704
Construction in Progress	20,297	190,134
Plant in Service	85,416,249	85,956,500
Accumulated Depreciation	(46,935,144)	(45,651,277)
	38,650,274	40,646,061
Noncurrent Assets		
Noncurrent Investments:		
Board Designated	1,037,828	3,538,354
Restricted	1,983,685	1,984,739
Notes Receivable - City of Spencer	425,500	551,288
Notes Receivable - Other	164,670	-
	3,611,683	6,074,381
Total Assets	55,182,996	56,807,151
Deferred Outflows of Resources		
Pension Related Deferred Outflows	\$ 216,370	\$ -

See Accompanying Notes to Financial Statements

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014 (Not Restated)
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities:		
Accounts Payable	\$ 1,007,758	\$ 1,158,060
Payroll and Sales Tax Payable	44,911	48,793
Accrued Payroll and Compensated Absences	262,161	255,905
Accrued Interest Payable	11,991	15,379
Consumer Deposits	76,762	81,376
Unearned Revenue	4,350	4,200
Current Maturities of Long-Term Debt	1,080,000	1,245,000
	2,487,933	2,808,713
Noncurrent Liabilities		
Bonds Payable	6,973,936	8,221,291
Less - Current Maturities	(1,080,000)	(1,245,000)
Net Pension Liability	819,144	-
Net OPEB Liability	56,261	60,516
	6,769,341	7,036,807
	9,257,274	9,845,520
Deferred Inflows of Resources		
Pension Related Deferred Inflows	334,539	-
	334,539	-
NET POSITION		
Net Position		
Net Investment in Capital Assets	31,676,338	32,424,770
Restricted	2,101,581	2,444,353
Unrestricted	12,029,634	12,092,508
	\$ 45,807,553	\$ 46,961,631

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014 (Not Restated)
Operating Revenues:		
Residential	\$ 4,071,263	\$ 4,151,493
Commercial	4,652,506	5,247,161
Public Authorities	1,152,530	604,725
Sales for Resale	1,444,699	1,596,384
Energy Cost Adjustment Revenue	1,540,489	1,821,779
Penalties	27,822	28,901
Miscellaneous	73,250	92,149
	12,962,559	13,542,592
Operating Expenses:		
Generation and Transmission		
Neal #4 Fuel and Generation	1,569,049	1,627,068
Walter Scott #4 Fuel and Generation	1,524,338	1,688,270
Purchased Power	5,417,154	5,447,859
Other	126,145	132,887
Distribution	1,233,041	1,277,613
Depreciation and Amortization	2,891,794	2,615,662
Customer Operations	300,200	371,182
General and Administrative	640,355	718,466
	13,702,076	13,879,007
Operating (Loss)	(739,517)	(336,415)
Non-Operating Income (Expense):		
Interest Income on Investments	78,493	81,588
Resource Conservation	(171,744)	(142,529)
Economic Development Payment	(87,154)	(110,252)
Leased Facilities	2,057,944	2,033,786
Interest Expense	(179,759)	(201,393)
(Loss) on Plant Retirements	(593,917)	(65,732)
Payment in Lieu of Property Taxes	(522,863)	(646,100)
Grant Revenue	-	300,000
	581,000	1,249,368
Change in Net Position	(158,517)	912,953
Net Position at Beginning of Year	46,961,631	46,048,678
Prior Period Adjustment - Change in Accounting	(995,561)	-
Net Position at Beginning of Year, as Restated	45,966,070	46,048,678
Net Position at End of Year	\$ 45,807,553	\$ 46,961,631

See Accompanying Notes to Financial Statements

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 12,974,916	\$ 13,690,703
Cash Payments to Suppliers for Goods and Services	(9,034,262)	(9,675,377)
Cash Payments to Employees for Services	(2,088,109)	(2,306,376)
Cash Payments for Resource Conservation	(171,744)	(142,529)
Cash Payments for Economic Development and In Lieu of Property Taxes	(610,017)	(756,352)
Payments Received From Leasing of Facilities	2,057,944	2,033,786
	3,128,728	2,843,855
Net Cash Provided By Operating Activities		
Cash Flows From Capital and Related Financing Activities:		
Acquisition & Construction of Property and Equipment	(1,526,913)	(438,122)
Revenue Bond Principal Repayment	(1,245,000)	(1,205,000)
Proceeds (Expenses) from Sale of Capital Assets	36,989	(2,836)
Interest Paid	(185,502)	(206,975)
	(2,920,426)	(1,852,933)
Net Cash (Used) By Capital and Related Financing Activities		
Cash Flows From Investing Activities:		
Payments Received on Note Receivable	366,358	19,642
Loan Advances for Note Receivable	(441,240)	-
Proceeds From Redemption of Investments	1,538,522	1,000,000
Purchase of Investments	(1,037,510)	(2,235,138)
Interest Received From Investments	78,493	81,588
Proceeds from Grant Revenue	-	300,000
	504,623	(833,908)
Net Cash Provided (Used) By Investing Activities		
Net Increase in Cash	712,925	157,014
Cash and Cash Equivalents at Beginning of Year	7,115,522	6,958,508
Cash and Cash Equivalents at End of Year	\$ 7,828,447	\$ 7,115,522
Reconciliation:		
Cash and Cash Equivalents		
Unrestricted	\$ 2,760,194	\$ 2,197,507
Restricted	129,887	474,993
Board Designated	4,861,604	4,361,646
Consumer Deposits	76,762	81,376
	\$ 7,828,447	\$ 7,115,522

See Accompanying Notes to Financial Statements

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities		
Operating (Loss)	\$ (739,517)	\$ (336,415)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided By Operating Activities		
Depreciation and Amortization	2,891,794	2,615,662
Leased Facilities Income	2,057,944	2,033,786
Contributions Paid for Economic Development	(87,154)	(110,252)
Payment in Lieu of Property Taxes	(522,863)	(646,100)
Payment for Resource Conservation	(171,744)	(142,529)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	25,420	131,185
Unbilled Usage	(8,599)	14,850
Materials and Supplies Inventory	80,596	(7,497)
Fuel Inventory	(163,723)	62,069
Prepayments	(18,531)	(71,501)
Deferred Outflows	(38,751)	-
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(150,302)	(691,848)
Accrued Payroll and Compensated Absences	2,374	(7,374)
Consumer Deposits	(4,614)	2,076
Deferred Revenue	150	-
Net OPEB Liability	(4,255)	(2,257)
Net Pension Liability	(354,036)	-
Deferred Inflows	334,539	-
Total Adjustments	3,868,245	3,180,270
Net Cash Provided By Operating Activities	\$ 3,128,728	\$ 2,843,855

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Basis of Accounting

The Municipal Electric Utility of the City of Spencer, Iowa (Electric Utility or Utility) operates as an independent unit of the City of Spencer and is managed, along with the Municipal Water Utility and the Municipal Communication Utility of the City of Spencer, Iowa, by a five member Board of Trustees.

The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

For financial reporting purposes, the Utility has included all funds. The Utility 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 Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Boards 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 Utility 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 Utility. It was determined that the Utility has no component units.

The Utility is not considered to be a component unit of the City of Spencer for financial statement purposes.

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

The Utility 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 Utility's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Capital Assets and Depreciation

Capital assets are stated at original cost when first devoted to public service. Currently, such costs include labor-related expenditures, such as payroll taxes, pensions, and other fringe benefits and administrative costs for labor related to the construction of new electric facilities. In addition, net interest costs on construction debt are capitalized. During 2015 and 2014, the Utility had \$0 and \$17,252, respectively, of interest expense that was capitalized from the scrubber construction on George Neal Generating Station Unit No. 4 from 2011 Revenue Bond financing. Construction was substantially complete on the scrubber as of May 2014.

Under a joint ownership agreement with other utilities, the Electric Utility has a 1.215% undivided interest in a 654 MW electric generation station known as George Neal Generating Station Unit No. 4. The Electric Utility's 1.215% ownership interest in this plant represents a

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

total investment of \$9,317,117 included in utility plant in service with \$4,769,413 included in accumulated depreciation. Operating costs associated with this plant and depreciation are reflected in the statement of income.

Under a joint ownership agreement with other utilities, the Electric Utility has a 1.14% undivided interest in a 790 MW electric generation station known as Walter Scott, Jr. Energy Center Unit 4, which was placed in service in 2007. The Electric Utility's 1.14% ownership interest in this plant represents a total investment of \$16,194,058 included in utility plant in service with \$3,539,834 included in accumulated depreciation. Operating costs associated with this plant and depreciation are reflected in the statement of income.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation is provided on a straight-line basis. Current depreciation expense is approximately 3.39% of the original cost of depreciable electric plant in service.

The estimated useful lives used to depreciate assets by class are as follows:

Infrastructure	20-40 years
Building and improvements	20 years
Equipment	5 years

C. Accounts Receivable

Accounts receivable are stated at the amount the Utility expects to collect from outstanding balances. The Utility provides for probable uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Utility has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

D. Inventories

Inventories are valued at the lower of cost or market. The average cost method is used for determining the cost of materials and supplies inventory. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

E. 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. Pension related 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.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Deferred Inflows of Resources

Deferred inflows of resources represents 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. Pension related deferred inflows of resources in the Statements of Net Position consist the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

G. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent debt when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

H. Income Taxes

The Electric Utility is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

I. Revenues and Unbilled Usage

Revenues are based on billing rates, which are applied to customers' consumption of electricity. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2015 and 2014, totaled \$287,571 and \$278,972, respectively.

J. Estimates

The preparation of the financial statements in conformity in U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 - CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS

The Utility's deposits in Banks at December 31, 2015 and 2014 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 Utility is authorized by statute and Board of Trustees' approval to invest public funds in obligations of the United States government, its agencies, and instrumentalities; certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions; and the Iowa Public Agency Investment Trust.

Interest Rate Risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested

**MUNICIPAL ELECTRIC UTILITY
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DECEMBER 31, 2015 AND 2014**

Note 2 - CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS (Continued)

in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

The Utility considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Investments are recorded at cost which approximates market. Adjustments are made to cost for any premium or discount, which is amortized over the maturity of the investment. Adjustments are also made to account for the change in accrued interest on respective investments.

Reconciliation of the Utility's cash and cash equivalents, current investments and noncurrent investments is as follows:

Cash and cash equivalents:	2015	2014
Board designated	\$ 4,861,604	\$ 4,361,646
Consumer Deposits	76,762	81,376
Restricted	129,887	474,993
Unrestricted	2,760,194	2,197,507
Total cash and cash equivalents	7,828,447	7,115,522
Current Investments:		
Board designated	2,000,568	-
Total current Investments	2,000,568	-
Noncurrent investments:		
Board designated	1,037,828	3,538,354
Restricted	1,983,685	1,984,739
Total noncurrent investments	3,021,513	5,523,093
Total cash and cash equivalents and investments	\$12,850,528	\$12,638,615

Note 3 - BOARD DESIGNATED FUNDS

The Board of Trustees of the Utility has designated certain funds to be placed in a contingency reserve account. These funds, which are from unrestricted net position, are being designated for contingencies such as a natural disaster, and cannot be expended without Board approval.

Assets of the funds as of December 31, 2015 and 2014 are summarized as follows:

	2015	2014
	Replacement and Construction Reserve	Replacement and Construction Reserve
Cash and cash equivalents	\$ 4,861,604	\$ 4,361,646
Current investments	2,000,568	-
Noncurrent investments	1,037,828	3,538,354
Total	\$ 7,900,000	\$ 7,900,000

**MUNICIPAL ELECTRIC UTILITY
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DECEMBER 31, 2015 AND 2014**

Note 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 150,704	\$ -	\$ (1,832)	\$ 148,872
Construction in progress	190,134	12,118	(181,955)	20,297
Total capital assets not being depreciated	340,838	12,118	(183,787)	169,169
Capital assets being depreciated:				
Infrastructure	77,424,180	1,419,806	(2,108,747)	76,735,239
Buildings and improvements	728,875	-	-	728,875
Equipment	7,803,445	246,609	(97,919)	7,952,135
Total capital assets being depreciated	85,956,500	1,666,415	(2,206,666)	85,416,249
Less accumulated depreciation	45,651,277	2,891,794	(1,607,927)	46,935,144
Total capital assets being depreciated - net	40,305,223	(1,225,379)	(598,739)	38,481,105
Net Investment in capital assets	\$40,646,061	\$(1,213,261)	\$(782,526)	\$38,650,274

Capital assets activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 150,704	\$ -	\$ -	\$ 150,704
Construction in progress	7,251,136	190,134	(7,251,136)	190,134
Total capital assets not being depreciated	7,401,840	190,134	(7,251,136)	340,838
Capital assets being depreciated:				
Infrastructure	70,251,827	7,281,387	(109,034)	77,424,180
Buildings and improvements	728,875	-	-	728,875
Equipment	7,659,388	202,143	(58,086)	7,803,445
Total capital assets being depreciated	78,640,090	7,483,530	(167,120)	85,956,500
Less accumulated depreciation	43,155,432	2,615,662	(119,817)	45,651,277
Total capital assets being depreciated - net	35,484,658	4,867,868	(47,302)	40,305,223
Net Investment in capital assets	\$42,886,498	\$5,058,002	\$(7,298,438)	\$40,646,061

**MUNICIPAL ELECTRIC UTILITY
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 4 - CAPITAL ASSETS (Continued)

Reconciliation of Net Investment in Capital Assets:

	<u>2015</u>	<u>2014</u>
Capital Assets (Net of Accumulated)	\$ 38,650,274	\$ 40,646,061
Less: Bonds Payable	<u>(6,973,936)</u>	<u>(8,221,291)</u>
	<u>\$ 31,676,338</u>	<u>\$ 32,424,770</u>

Construction in Progress

The Utility projects included in the 2015 Construction in Progress are \$20,297 for work begun on two 2015 projects and two 2014 projects.

The Utility projects included in the 2014 Construction in Progress are \$190,134 for work begun on eleven 2014 projects and one 2013 project.

Note 5 - TRANSFERS IN LIEU OF PROPERTY TAXES/NOTE RECEIVABLE

By resolution of the Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Spencer, Iowa. Currently, transfers approximate 5% of gross sales (excluding the energy cost adjustment), less actual property taxes paid (on the George Neal Generating Station Unit No. 4, on the Walter Scott Jr. Unit No. 4 and 121 E 7th St) and returned to the City of Spencer, Iowa. Additionally, funds declared to be surplus can be, and have been, transferred to the City.

During 2007, the Utility loaned the City of Spencer \$375,000 to fund the economic development loan to Shine Bros. Corp. The City reimburses the Utility in equal payments of \$2,083 without interest, payable monthly. The balance of this note at December 31, 2015 was \$162,500 and December 31, 2014 was \$187,500.

A loan agreement was effective on July 15, 2009 between Spencer Municipal Utilities and the City of Spencer/Spencer Industries Foundation Inc. The amount initially loaned by Spencer Municipal Utilities was \$383,430. The funds were used to construct an industrial building. The City of Spencer repaid \$300,000 in 2015. An additional \$81,240 was loaned in August of 2015. Spencer Industries Foundation Inc. is to repay the loan the earlier of the sale or lease of the building or by July 15, 2019. The loan is interest free. As of December 31, 2015 the principal balance of the loan was \$164,670.

During 2015, the Utility loaned the City of Spencer \$360,000 as part of a Rural Economic Development Loan Agreement. The purpose of the loan is to promote rural economic development through the acquisition of emergency communications equipment for use in the E-911 system. The Note is reimbursable in 10 annual installments of \$36,000 due each July 15 of the years 2015 to 2024. The balance of this note at December 31, 2015 was \$324,000.

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OF THE CITY OF SPENCER, IOWA
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Note 6 – BONDS PAYABLE

Bonds payable activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2008 revenue bonds	\$ 740,000	\$ -	\$ 740,000	\$ -	\$ -
Series 2011 revenue bonds	7,465,000	-	505,000	6,960,000	1,080,000
Total revenue bonds	<u>\$8,205,000</u>	<u>\$ -</u>	<u>\$1,245,000</u>	<u>\$ 6,960,000</u>	<u>\$1,080,000</u>

Bonds Payable listed on the Statement of Net Position include Unamortized Bond Premiums of \$13,936.

The Series 2011 revenue bonds require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds range between 1.5% and 2.5 %. The bonds are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

	Series 2011	
	Principal	Interest
2016	\$ 1,080,000	\$ 143,887
2017	1,105,000	127,688
2018	1,140,000	108,350
2019	1,170,000	85,550
2020	1,210,000	59,810
2021	1,255,000	31,375
Total	<u>\$ 6,960,000</u>	<u>\$ 556,660</u>

The bond resolutions provide certain covenants relating to the collection, segregation, and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

Restricted Funds

Outstanding Electric Revenue Bonds are collateralized by the revenue of the Utility and the various special funds established by bond covenants. The covenants provide that the revenue of the Utility is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the special funds. Remaining revenues may then be used for any lawful purpose. The covenants also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2015 the Utility is in compliance with all bond covenant requirements.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
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DECEMBER 31, 2015 AND 2014**

Note 6 – BONDS PAYABLE (Continued)

At December 31, 2015, the special funds consisted of the following:

	Cash and Cash Equivalents	Current Investments	Noncurrent Investments	Total
Bond Sinking Fund	\$ 90,628	\$ -	\$ -	\$ 90,628
Bond Reserve Fund	-	-	1,233,579	1,233,579
Bond Improvement Fund	-	-	750,106	750,106
Total Special Bond Funds	\$ 90,628	\$ -	\$ 1,983,685	\$ 2,074,313

At December 31, 2014, the special funds consisted of the following:

	Cash and Cash Equivalents	Current Investments	Noncurrent Investments	Total
Bond Sinking Fund	\$ 111,348	\$ -	\$ -	\$ 111,348
Bond Reserve Fund	17	-	1,233,579	1,233,596
Bond Improvement Fund	-	-	751,160	751,160
Total Special Bond Funds	\$ 111,365	\$ -	\$ 1,984,739	\$ 2,096,104

Monthly deposits into a bond sinking fund are required to establish the amount necessary to pay the next installments of principal and interest on the 2011 Electric Revenue Bonds. Bond reserve funds for the 2011 Electric Revenue Bonds equaled the required balance at December 31, 2015; therefore monthly deposits into the fund are not currently required. These funds may be used to pay principal and interest payments when insufficient funds are available in the sinking fund.

The bond improvement fund balance at December 31, 2015 equaled the minimum balance required; therefore monthly deposits into the fund are not currently required. These funds are to be used first for principal and interest payments when insufficient funds are available in the sinking and reserve funds and second for extraordinary unbudgeted maintenance expenses or system repairs, renewals and replacements.

Note 7 - RATE MATTERS

Rates of the Utility are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Note 8 - NUMBER OF METER CONNECTIONS

The number of meter connections totaled 6,226 and 6,179 at December 31, 2015 and 2014, respectively.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
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Note 9 - LEASES

The Utility leases electrical generation capacity of a jet turbine generator, its share of the Neal 4 plant, its share of the Wisdom 2 plant, and its share of the Walter Scott 4 plant under operating leases to other utilities or their associations. The revenues from such leases are classified as leased facilities. The Utility's investment in these facilities is included in capital assets in service and is set forth as follows:

	2015	2014
Jet turbine generator	\$ 3,269,202	\$ 3,269,202
Neal 4 plant	9,317,117	9,248,949
Wisdom 2 plant	2,315,377	2,315,377
Walter Scott 4 plant	16,194,058	16,183,609
Total	31,095,754	31,017,137
Less accumulated depreciation	(11,722,105)	(10,934,750)
Net investment	\$ 19,373,649	\$ 20,082,387

The lease of the Neal 4, Walter Scott 4, and Wisdom 2 plant are long-term commitments based on capacity. The amount is determined by formula based on usage and totaled \$3,905, \$1,082,260 and \$174,077, respectively, in 2015. The leases of the jet turbine generator are both by non-cancelable lease and a variable lease determined by capacity and totaled \$157,793 in 2015 and \$101,664 in 2014. The following is a schedule of future minimum rentals on the year to year operating lease (requiring a 5-year notice of termination) on the jet turbine generator as of December 31, 2015:

2016	\$ 120,000
2017	120,000
2018	120,000
2019	120,000
2020	120,000
Total minimum lease payment receivable	\$ 600,000

Beginning in 2016 going forward, the jet turbine operating lease amount will increase based upon the respective year's CPI.

The Utility leases bandwidth, property, and building space to the Water Utility and Communications Utility. The revenues are classified as leased facilities and totaled \$412,399 and 446,691 in 2015 and 2014, respectively. The leases are 20-year variable leases based on bandwidth and space utilized. The payable at December 31, 2015 and 2014 was \$0.

Note 10 – PENSION AND RETIREMENT BENEFITS

Plan Description. IPERS membership is mandatory for employees of the Utility. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS

**MUNICIPAL ELECTRIC UTILITY
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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.

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

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 10 – PENSION AND RETIREMENT BENEFITS (Continued)

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

The Utility's total contributions to IPERS for the year ended December 31, 2015 were \$114,391.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2015, the Utility reported a liability of \$819,144 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 Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Utility's collective proportion was .02024 percent which was a decrease of .00048 percent from their proportion measured as of June 30, 2013.

For the year ended December 31, 2015, the Utility recognized pension expense of \$56,143. At December 31, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,903	\$ -
Changes of assumptions	36,150	-
Net difference between projected and actual earnings on pension plan investments	-	312,398
Changes in proportion and differences between Utility contributions and proportionate share of contributions	-	22,141
Utility contributions subsequent to the measurement date	171,317	-
Total	\$ 216,370	\$ 334,539

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 10 – PENSION AND RETIREMENT BENEFITS (Continued)

\$114,607 reported as deferred outflows of resources related to pensions resulting from the Utility's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016, with the remainder of \$56,710 being recognized in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	Total
June 30,	
2016	\$ (73,108)
2017	(73,108)
2018	(73,108)
2019	(73,108)
2020	2,946
Total	\$ (289,486)

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 10 – PENSION AND RETIREMENT BENEFITS (Continued)

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15%	6.76
Private Equity	13%	11.34
Real Estate	8%	3.52
Core Plus Fixed Income	28%	2.06
Credit Opportunities	5%	3.67
TIPS	5%	1.92
Other Real Assets	2%	6.27
Cash	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 Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility'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 (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utility's proportionate share of the net pension liability	\$ 1,547,748	\$ 819,144	\$ 204,125

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 December 31, 2015, the Utility reported \$0 of payables related to the defined benefit pension plan.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
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DECEMBER 31, 2015 AND 2014**

Note 10 – PENSION AND RETIREMENT BENEFITS (Continued)

Employees Pension Plan

All full-time employees of the Electric Utility who have completed six months of continuous employment and are 18 years of age are eligible to participate in a 457b Pension Plan administered by Security National Bank. The Utility contributes 8% of the employees' compensation for all employees contributing at least 2% of their salary.

The Electric Utility's contribution to the 457b Pension Plan for 2015 and 2014 totaled \$96,287 and \$112,924, respectively.

Note 11 – OTHER POST EMPLOYMENT BENEFITS

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their family.

The medical/prescription drug coverage is provided through a fully-insured plan. The premiums charged by the health insurance carrier are the same for the Retirees under age 65 for medical/prescription drug benefits as active employees, which results in an implicit subsidy and an Other Post Employment Benefit ("OPEB") liability.

Funding Policy. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utility's annual other OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Utility's annual OPEB for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation to the plan:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 19,941	\$ 19,941
Interest on net OPEB obligation	2,421	2,511
Adjustment to annual required contribution	<u>(2,404)</u>	<u>(2,511)</u>
Annual OPEB cost (Expense)	19,958	19,941
Contributions (estimated)	<u>(24,213)</u>	<u>(22,198)</u>
Increase in net OPEB obligation	(4,255)	(2,257)
Net OPEB obligation – beginning of year	<u>60,516</u>	<u>62,773</u>
Net OPEB obligation – end of year	<u>\$ 56,261</u>	<u>\$ 60,516</u>

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 19,941	121%	\$ 56,261
2014	\$ 19,941	111%	\$ 60,516

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 11 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2015 was as follows:

	2015	2014
Actuarial accrued liability (AAL)	\$245,830	\$245,830
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$245,830	\$245,830
Covered payroll (active members)	\$1,388,985	\$1,485,356
UAAL as a percentage of covered payroll	17.7%	16.6%

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effect of legal or contractual funding limitation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions included a 4% interest discount rate. The projected annual medical trend rate is 9.0%. The ultimate medical trend rate is 5.0%. The medical trend rate is reduced 0.5% each year until reaching the 5.0% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using Scale AA to SOA RP-2014. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

Note 12 - RISK MANAGEMENT

The Electric Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductible and claims in excess of coverage limits. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility, as is in the electric power industry, does not insure its transmission or distribution lines due to the high cost of such coverage.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 13 - RELATED PARTIES

The Electric Utility, Water Utility and Communications Utility of the City of Spencer, Iowa exchange services in the normal course of business.

Additional related party items are included in Notes 5, 9 and III-C-15.

Note 14 - COMMITMENTS

Beginning in 2011, the Electric Utility signed an advertising and signage agreement with the Clay County Regional Event Center. The agreement is effective September 1, 2011 and terminates on August 31, 2016. The annual amount due is \$5,950. A portion of the annual cost is split between the Water and Communications Utility. The Electric Utility is responsible for \$2,678 of the annual amount due.

Beginning in 2013, the Electric Utility pledged support to the Iowa Lakes Corridor Development Corporation for four years at a level of \$37,500 per year for 2013 and 2014 and \$25,000 for 2015 and 2016. This commitment is subject to annual review by the Utility Board.

Beginning in 2013, the Electric Utility pledged support to Startup City Spencer which is a regional incubator providing access to startup services. The support pledged is for five years at a level of \$5,000 per year.

In February 2014 the Utility Board approved the Utility to receive a \$300,000 grant from USDA Rural Development with the intention of the Utility providing \$60,000 of matching funds to be used for the renovation of a building to be used as a therapy and counseling center by Seasons Center for Behavioral Health. As of December 31, 2015 \$0 had been funded.

Note 15 – 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 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 and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 15 – ACCOUNTING CHANGE / RESTATEMENT (Continued)

	<u>Electric Utility</u>
Net Position December 31, 2014, as previously reported	\$ 46,961,631
Net Pension Liability at June 30, 2014	(1,173,180)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	<u>177,619</u>
Net Position December 31, 2014, as restated	<u><u>\$ 45,966,070</u></u>

REQUIRED SUPPLEMENTAL INFORMATION

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2015**

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2008	12/31/2008	\$ -	\$ 133,585	\$ 133,585	0%	\$ 1,648,850	8.1%
2009	12/31/2009	-	142,863	142,863	0%	1,698,315	8.4%
2010	12/31/2010	-	160,019	160,019	0%	1,749,265	9.1%
2011	12/31/2011	-	320,816	320,816	0%	1,558,355	20.6%
2012	12/31/2012	-	319,016	319,016	0%	1,605,106	19.9%
2013	12/31/2012	-	319,016	319,016	0%	1,677,547	19.0%
2014	12/31/2014	-	245,830	245,830	0%	1,485,356	16.6%
2015	12/31/2015	\$ -	\$ 245,830	\$ 245,830	0%	\$ 1,388,985	17.7%

See Note 11 to the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, and the funded status and funding progress.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE LAST FISCAL YEAR**

	2015
Utility's collective proportion of the net pension liability	0.02024%
Utility's collective proportionate share of the net pension liability	\$ 819,144
Utility's covered employee payroll	\$ 1,398,600
Utility's collective proportionate share of the net pension liability as a percentage of its covered employee payroll	58.57%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

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 Utility will present information for those years for which information is available.

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
SCHEDULE OF THE UTILITY'S CONTRIBUTIONS
IOWA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
LAST 10 FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 114,391	\$ 124,895	\$ 148,039	\$ 125,338
Contributions in relation to the statutorily required contribution	<u>\$ (114,391)</u>	<u>\$ (124,895)</u>	<u>\$ (148,039)</u>	<u>\$ (125,338)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility's covered-employee payroll	\$ 1,280,974	\$ 1,398,600	\$ 1,682,261	\$ 1,497,467
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.80%	8.37%

See Accompanying Independent Auditors' Report

2011	2010	2009	2008	2007	2006
\$ 93,685	\$ 83,822	\$ 82,311	\$ 86,955	\$ 74,493	\$ 75,321
\$ (93,685)	\$ (83,822)	\$ (82,311)	\$ (86,955)	\$ (74,493)	\$ (75,321)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 1,247,470	\$ 1,232,676	\$ 1,266,323	\$ 1,402,500	\$ 1,262,593	\$ 1,309,930
7.51%	6.80%	6.50%	6.20%	5.90%	5.75%

See Accompanying Independent Auditors' Report

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 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.

See Accompanying Independent Auditors' Report

SUPPLEMENTAL INFORMATION

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, EXPENDITURES
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (CASH BASIS)
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u> Original	<u>Actual</u>	<u>Amended to</u> <u>Actual Variance</u>
Receipts:			
Municipal Electric Utility		\$ 17,053,222	
Municipal Water Utility		5,310,669	
Municipal Communications Utility		12,757,536	
Total Receipts	<u>\$ 47,786,939</u>	<u>35,121,427</u>	<u>\$ (12,665,512)</u>
Expenditures:			
Municipal Electric Utility		16,340,297	
Municipal Water Utility		8,338,351	
Municipal Communications Utility		8,780,236	
Total Expenditures	<u>46,168,017</u>	<u>33,458,884</u>	<u>(12,709,133)</u>
Change in Net Position	1,618,922	1,662,543	43,621
Net Position at Beginning of Year	<u>17,589,438</u>	<u>19,232,951</u>	<u>-</u>
Net Position at End of Year	<u>\$ 19,208,360</u>	<u>\$ 20,895,494</u>	<u>\$ 43,621</u>

See Accompanying Independent Auditors' Report

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGET TO GAAP RECONCILIATION
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2015**

	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts:			
Municipal Electric Utility	\$ 17,053,222	\$ (1,954,226)	\$ 15,098,996
Municipal Water Utility	5,310,669	(2,277,446)	3,033,223
Municipal Communications Utility	12,757,536	(5,342,029)	7,415,507
Total Receipts	<u>35,121,427</u>	<u>(9,573,701)</u>	<u>25,547,726</u>
Expenditures:			
Municipal Electric Utility	16,340,297	(1,082,784)	15,257,513
Municipal Water Utility	8,338,351	(6,174,822)	2,163,529
Municipal Communications Utility	8,780,236	(2,732,413)	6,047,823
Total Expenditures	<u>33,458,884</u>	<u>(9,990,019)</u>	<u>23,468,865</u>
Change in Net Position	1,662,543	416,318	2,078,861
Net Position at Beginning of Year	19,232,951	49,806,842	69,039,793
Prior Period Adjustment - Change in Accounting	-	(2,281,303)	(2,281,303)
Net Position at Beginning of Year, as Restated	<u>19,232,951</u>	<u>47,525,539</u>	<u>66,758,490</u>
Net Position at End of Year	<u>\$ 20,895,494</u>	<u>\$ 47,941,857</u>	<u>\$ 68,837,351</u>

**MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF SPENCER, IOWA
OTHER SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2015**

In accordance with the Code of Iowa, Spencer Municipal Utilities annually adopts a combined budget on the cash basis for the Municipal Electric Utility, Municipal Water Utility, and Municipal Communications Utility of the City of Spencer, Iowa following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized and appropriations lapse at year-end.

Formal and legal budgetary control is based upon nine major classes of expenditures, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. All Utility expenditures are included in business type activities function and are required to be budgeted.

**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***

Board of Trustees
Spencer Municipal Utilities – Municipal Electric Utility
Spencer, Iowa 51301

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 statements of the business-type activities of Municipal Electric Utility of the City of Spencer, Iowa (Spencer Municipal Utility), Spencer, Iowa as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 1, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of the 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 Utility'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

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 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 Spencer Municipal Utilities 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.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
April 1, 2016

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2015**

Part I: Summary of the Independent Auditors' Results:

- (a) An unmodified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance, which is material to the financial statements.

Part II: Findings Related to the General Purpose Financial Statements

SIGNIFICANT DEFICIENCIES:

No matters were reported.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-15 Certified Budget – Disbursements during the year ended December 31, 2015 did not exceed the amounts budgeted in the business type activities function.

III-B-15 Questionable Expenditures – No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-15 Business Transactions – Business transactions between Utility and Utility officials and employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dan Shuck, SMU Employee Owner of Accurate Appliance	Supplies	\$ 100 (2)
Duane Barber, Board Member Part Owner, Don Pierson Ford	Vehicle Maintenance & Repairs	\$ 14,261 (1) \$ 2,407 (3)
Jason Remillard, SMU Employee Owner, Remillard Grafx	Maintenance and Repairs	\$ 934 (2)

- (1) In accordance with Chapter 362.5(3)(d) of the Code of Iowa, this transaction with the Board Member does not represent a conflict of interest since Spencer Municipal Utilities followed a bid process for the transaction.

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2015**

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

III-C-15 Business Transactions (Continued)

- (2) These transactions do not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the year, per Chapter 362.5(10) of the Code of Iowa.
- (3) This transactions may represent a conflict of interest since the transaction was more than \$1,500. The Utility should contact legal counsel for determination.

III-D-15 Travel Expenses – No expenditures of the Utility’s money for travel expenses of spouses of Utility’s officials or employees were noted.

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

III-F-15 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-15 Revenue Bonds – As of December 31, 2015 the Utility is in compliance with all bond covenant requirements.

III-H-15 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12(B) and 12(c) of the Code of Iowa and the Utility’s investment policy were noted.

SPENCER MUNICIPAL UTILITIES

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Spencer Municipal Utilities – Municipal Water Utility
Spencer, IA 51301

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Municipal Water Utility of the City of Spencer, Iowa (the Utility), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Utility as of December 31, 2015 and 2014 and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the Utility adopted new accounting guidance related to 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Funding Progress for the Retiree Health Plan, Schedule of Utility's Proportionate Share of the Net Pension Liability, Schedule of the Utility's Contributions, and Notes to Required Supplementary Information – Pension Liability on pages 43 through 46 and pages 66 through 70 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, who 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The supplementary information on pages 71 through 73 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2016 on our consideration of the Utility's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
April 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of management's discussion and analysis (MD&A) is to provide the reader with an introduction to the financial statements. Our discussion and analysis of the Municipal Water Utility (Utility) of the City of Spencer, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2015 and 2014.

The following information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

2015 Financial Highlights

The Utility delivered approximately 375,444,000 gallons of water to its retail customers in 2015 compared to approximately 370,513,000 gallons in 2014.

The Utility's net position increased by \$517,917 to \$9,810,466 for the year ended December 31, 2015. This increase was the results of operations for the year offset by a prior period adjustment in the accounting and financial reporting requirements for pensions.

Overview of the Financial Statements

The statements of net position include the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The statements of revenues, expenses and changes in net position report all revenues and expenses incurred during the fiscal year.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities.

The notes to the financial statements provide the required disclosures and other information that is necessary to give the reader a complete understanding of the data provided in the statements. The notes present information about the Utility's accounting policies, material risks, obligations, commitments, contingencies and subsequent events.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Statement of Net Position

	<u>2015</u>	2014 (Not Restated)
Current Assets	\$ 2,613,312	\$ 5,545,593
Capital Assets, Net of Depreciation	<u>18,139,447</u>	<u>11,605,675</u>
Total Assets	<u>20,752,759</u>	<u>17,151,268</u>
Deferred Outflows of Resources	<u>76,454</u>	<u>-</u>
Current Liabilities	3,407,342	1,520,767
Noncurrent Liabilities	309,889	17,287
Long-Term Debt	<u>7,183,308</u>	<u>6,320,665</u>
Total Liabilities	<u>10,900,539</u>	<u>7,858,719</u>
Deferred Inflows of Resources	<u>118,208</u>	<u>-</u>
Net Investment in Capital Assets	10,551,139	7,383,437
Restricted	883,832	702,134
Unrestricted	<u>(1,624,505)</u>	<u>1,206,978</u>
Total Net Position	<u>\$9,810,466</u>	<u>\$9,292,549</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Sales of Water	\$2,758,059	\$2,714,739
Other	<u>22,282</u>	<u>15,225</u>
Total Operating Revenue	<u>2,780,341</u>	<u>2,729,964</u>
System Operation & Maintenance	886,075	975,791
Depreciation & Amortization	626,361	535,754
Customer Service & Administration	<u>279,755</u>	<u>235,047</u>
Total Operating Expenses	<u>1,792,191</u>	<u>1,746,592</u>
Operating Income	988,150	983,372
Interest Income	8,571	3,509
Interest Expense	(149,485)	(42,875)
Other Income	<u>22,458</u>	<u>132,320</u>
Total Non-Operating Revenues (Expenses)	<u>(118,456)</u>	<u>92,954</u>
Change in Net Position	869,694	1,076,326
Net Position, Beginning of Year	9,292,549	8,216,223
Prior Period Adjustment-Change in Accounting	<u>(351,777)</u>	<u>-</u>
Net Position, Beginning of Year, as Restated	<u>8,940,772</u>	<u>8,216,223</u>
Net Position at End of Year	<u>\$9,810,466</u>	<u>\$9,292,549</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The Utility's total assets increased by approximately \$3,601,000. The increase was mainly due to the addition of capital assets offset by reductions in cash and cash equivalents.

The Utility's total liabilities increased by approximately \$3,042,000. There was an increase of approximately \$1,863,000 in accounts payable and \$868,000 in bonds payable for 2015 due to the purchase/construction of capital assets and an increase of approximately \$289,000 in net pension liability due to a prior period adjustment for a change in accounting and financial reporting requirements for pensions.

The Utility's total net position increased by \$517,917. This resulted from net income of \$869,694 less a prior period adjustment in the amount of \$351,777 for a change in the accounting and financial reporting requirements for pensions.

The Utility's gross operating revenues increased by approximately \$50,000 or 2%. Water sales were lower in 2015 by approximately 7 million gallons or 2%, while outside water sales increased in 2015 by approximately 12 million gallons or 35%. Water sales rates remained unchanged in 2015.

Operating expenses increased by approximately \$46,000 in 2015 compared to 2014.

System operation & maintenance expense decreased by approximately \$90,000 in 2015 compared to 2014. Maintenance of motor vehicles decreased by approximately \$20,000 compared to 2014. This decrease was partially due to repairs on a backhoe and fleet vehicles made in 2014. Water main break maintenance decreased by approximately \$19,000 due to less materials and labor. Maintenance of water meters decreased by approximately \$51,000 in 2015 compared to 2014 due to the purchase of water meters for a meter replacement program in 2014.

Depreciation & Amortization expense increased by approximately \$91,000 over 2014 expense.

Customer Service & Administration expenses increased by approximately \$45,000 in 2015 compared to 2014. In 2015, outside services expense increased by approximately \$17,000 over 2014. This was due to services required to secure financing for phase II of the water plant upgrade. Insurance expense increased by approximately \$10,000 over 2014 expense. The remaining increases in 2015 compared to 2014 were due to increases in labor and supplies cost related to customer accounting and collection.

Total net operating income generated in 2015 was \$988,150 compared to a \$983,372 in 2014.

Non-operating income (expense) decreased by approximately \$211,000 in 2015 as compared to 2014. Interest expense increased by approximately \$107,000 in 2015 over 2014. This was due to added debt related to the water plant upgrade. Contributions in Aid of Construction totaled \$134,909 for the year ended December 31, 2015 compared to \$194,741 for the year ended December 31, 2014. Bond Costs expense increased by approximately \$34,000 in 2015 due to the financing of the water plant upgrade. Payment in lieu of property taxes totaled \$135,739 for the year ended December 31, 2015 compared to \$110,035 for the year ended December 31, 2014.

The Utility had a net profit of \$869,694 for the year ended December 31, 2015 compared to a net profit of \$1,076,326 for the year ended December 31, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Net capital assets increased by approximately \$6,534,000 in 2015 compared to 2014. Approximately \$1,783,000 of the increase was due to the completion of phase I of the water plant upgrade. Approximately \$3,289,000 of the increase was due to Phase II improvements to the water plant. Approximately \$940,000 of the increase was for the purchase of 130.22 acres of real estate in Riverton Township. The land was purchased to protect water supplied from adjacent wells and will provide a source for future well sites. Approximately \$857,000 of the increase was for various water main projects. The remaining amount is due to the cost of completion of a chlorine leak monitor and chlorine gas feed system, the cost of construction in progress relating to wells 12 and 13, and equipment for operations, netted with approximately \$626,000 in depreciation expense.

The Phase I water plant construction was completed in July 2015. The Phase II water plant construction is underway and anticipated to be completed in May 2017. Wells 12 and 13 are also currently under construction with an estimated completion date of July 2016. Upon completion of Phase II and Well 12 and Well 13, the system will be rated at approximately 3.3 million gallons per day "Firm Capacity". "Firm Capacity" is the engineering standard by which a treatment plant capacity is valued based upon operation of the system with the largest unit out of service and provides a more realistic and responsible way for measuring the true capacity of a system to operate and meet demands. Current Firm Capacity of the Utility's system is 1.51 million gallons per day.

Economic Factors

During the year ended December 31, 2015, the Utility experienced a net profit of \$869,694. There were no rate adjustments made in 2015. A rate adjustment effective with consumption beginning January 1, 2016 in addition to an increase in customer charge effective January 1, 2016 will allow the Utility sufficient coverage of operational and non-operational expenses. Management will continue to monitor the operations of the Utility in addition to projected capital expenditures and propose rate adjustments accordingly.

Contacting the Utility's Financial Management

This financial report is designed to present our citizens, customers, and creditors with a general overview of the Utility's finances and operating activities. If you have any questions or require additional information please contact the Finance Manager, 520 2nd Avenue East, Suite 1, Spencer, Iowa 51301.

FINANCIAL STATEMENTS

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014 (Not Restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and Cash Equivalents		
Unrestricted	\$ 839,290	\$ 49,369
Board Designated	-	1,519,106
Restricted	909,505	3,208,002
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$2,500 and \$2,500)	639,764	584,691
Unbilled Usage	54,841	50,224
Materials and Supplies Inventory	137,584	107,859
Prepayments and Other	32,328	26,342
	2,613,312	5,545,593
Capital Assets:		
Land	1,389,988	449,581
Construction in Progress	4,333,091	2,050,829
Plant in Service	21,969,863	18,037,315
Accumulated Depreciation	(9,553,495)	(8,932,050)
	18,139,447	11,605,675
Total Assets	20,752,759	17,151,268
Deferred Outflows of Resources		
Pension Related Deferred Outflows	76,454	-
	76,454	-
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities:		
Accounts Payable	2,913,994	1,050,539
Payroll and Sales Tax Payable	17,639	17,536
Accrued Payroll and Compensated Absences	39,636	39,851
Accrued Interest Payable	25,673	7,441
Unearned Revenue	5,400	5,400
Current Maturities of Long-Term Debt	405,000	400,000
	3,407,342	1,520,767
Noncurrent Liabilities:		
Bonds Payable	7,588,308	6,720,665
Less - Current Maturities	(405,000)	(400,000)
Net Pension Liability	289,441	-
Net OPEB Liability	20,448	17,287
	7,493,197	6,337,952
Total Liabilities	10,900,539	7,858,719
Deferred Inflows of Resources		
Pension Related Deferred Inflows	118,208	-
	118,208	-
NET POSITION		
Net Position		
Net Investment in Capital Assets	10,551,139	7,383,437
Restricted	883,832	702,134
Unrestricted (Deficit)	(1,624,505)	1,206,978
	\$ 9,810,466	\$ 9,292,549

See Accompanying Notes to Financial Statements

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014 (Not Restated)
Operating Revenues:		
Residential	\$ 1,970,898	\$ 1,931,193
Commercial	787,161	783,546
Service Permits	13,775	10,500
Inventory Sales	10	2,075
Miscellaneous	8,497	2,650
	<hr/>	<hr/>
Total Operating Revenues	2,780,341	2,729,964
Operating Expenses:		
Treatment	481,910	437,397
Distribution	404,165	538,394
Depreciation and Amortization	626,361	535,754
Customer Operations	63,632	55,741
General and Administrative	216,123	179,306
	<hr/>	<hr/>
Total Operating Expenses	1,792,191	1,746,592
Operating Income	988,150	983,372
Non-Operating Income (Expense):		
Interest Income on Investments	8,571	3,509
Contributions From Developers	134,909	194,741
Resource Conservation	(52)	(60)
Leased Facilities	104,002	96,582
Interest Expense	(149,485)	(42,875)
Bond Costs Expense	(86,062)	(51,908)
Gain on Plant Retirements	5,400	3,000
Payment in Lieu of Property Taxes	(135,739)	(110,035)
	<hr/>	<hr/>
Total Non-Operating Income (Expense)	(118,456)	92,954
Change in Net Position	869,694	1,076,326
Net Position at Beginning of Year	9,292,549	8,216,223
Prior Period Adjustment - Change in Accounting	(351,777)	-
Net Position at Beginning of Year, as Restated	<hr/>	<hr/>
	8,940,772	8,216,223
Net Position at End of Year	<hr/>	<hr/>
	\$ 9,810,466	\$ 9,292,549

See Accompanying Notes to Financial Statements

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 2,720,651	\$ 2,717,913
Cash Payments to Suppliers for Goods and Services	1,285,494	(549,669)
Cash Payments to Employees for Services	(641,113)	(553,681)
Cash Payments In Lieu of Property Taxes	(135,739)	(110,035)
Cash Payments for Resource Conservation	(52)	(60)
Payments Received From Leasing of Facilities	104,002	96,582
	3,333,243	1,601,050
Cash Flows From Capital and Related Financing Activities:		
Acquisition & Construction of Property and Equipment	(7,025,222)	(3,126,631)
Proceeds from Revenue Bond	-	4,462,238
Proceeds from State Revolving Loan Fund Loan	1,186,551	-
Proceeds from Sale of Capital Assets	5,400	3,000
Revenue Bond Principal Repayment	(400,000)	(160,000)
Interest Paid	(136,225)	(42,874)
	(6,369,496)	1,135,733
Cash Flows From Investing Activities:		
Interest Received From Investments	8,571	3,509
	(3,027,682)	2,740,292
Net Increase (Decrease) in Cash		
	4,776,477	2,036,185
Cash and Cash Equivalents at Beginning of Year		
	\$ 1,748,795	\$ 4,776,477
	\$ 1,748,795	\$ 4,776,477
Reconciliation:		
Cash and Cash Equivalents		
Unrestricted	\$ 839,290	\$ 49,369
Restricted	909,505	3,208,002
Board Designated	-	1,519,106
	\$ 1,748,795	\$ 4,776,477
	\$ 1,748,795	\$ 4,776,477

See Accompanying Notes to Financial Statements

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 988,150	\$ 983,372
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities		
Depreciation and Amortization	626,361	535,754
Leased Facilities Income	104,002	96,582
Payment in Lieu of Property Taxes	(135,739)	(110,035)
Payment for Resource Conservation	(52)	(60)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(55,073)	(4,020)
Unbilled Usage	(4,617)	(8,032)
Materials and Supplies Inventory	(29,725)	(7,439)
Prepayments	(5,986)	(13,169)
Deferred Outflows	(13,693)	-
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	1,863,455	101,627
Accrued Payroll and Compensated Absences	(112)	23,308
Net OPEB Liability	3,161	3,162
Net Pension Liability	(125,097)	-
Deferred Inflows	118,208	-
Total Adjustments	2,345,093	617,678
Net Cash Provided By Operating Activities	\$ 3,333,243	\$ 1,601,050

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Basis of Accounting

The Municipal Water Utility of the City of Spencer, Iowa (Water Utility or Utility) operates as an independent unit of the City of Spencer and is managed, along with the Municipal Electric Utility and the Municipal Communication Utility of the City of Spencer, Iowa by a five member Board of Trustees.

The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

For financial reporting purposes, the Utility has included all funds. The Utility 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 Utility are such that exclusion would cause the Utility'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 Utility 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 Utility. It was determined that the Utility has no component units.

The Utility is not considered to be a component unit of the City of Spencer for financial statement purposes.

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

The Utility 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 Utility's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Capital Assets and Depreciation

Capital assets are stated at original cost when first devoted to public service. Currently, such costs include labor-related expenditures, such as payroll taxes, pensions, and other fringe benefits and administrative costs for labor related to the construction of new water facilities. In addition, net interest costs on construction debt are capitalized.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation is provided on a straight-line basis. Depreciation expense is approximately 2.85% of the original cost of depreciable water plant in service.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The estimated useful lives used to depreciate assets by class are as follows:

Infrastructure	40 years
Buildings and Equipment	5-20 years
Vehicles	5 years

C. Accounts Receivable

Accounts receivable are stated at the amount the Utility expects to collect from outstanding balances. The Utility provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Utility has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

D. Inventories

Inventories are valued at the lower of cost or market. The average cost method is used for determining the cost of materials and supplies inventory. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

E. 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. Pension related 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.

F. Deferred Inflows of Resources

Deferred inflows of resources represents 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. Pension related deferred inflows of resources in the Statements of Net Position consist the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

G. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent debt when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

H. Income Taxes

The Water Utility is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Revenues and Unbilled Usage

Revenues are based on billing rates, which are applied to customers' consumption of water and number of connections to the water main. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2015 and 2014 totaled \$54,841 and \$50,224, respectively.

J. Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 - CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS

The Utility's deposits in banks at December 31, 2015 and 2014 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 Utility is authorized by statute and Board of Trustees' approval to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions; and the Iowa Public Agency Investment Trust.

Interest Rate Risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

The Utility considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Investments are recorded at cost which approximates market. Adjustments are made to cost for any premium or discount, which is amortized over the maturity of the investment. Adjustments are also made to account for the change in accrued interest on respective investments.

Reconciliation of the Utility's cash and cash equivalents and noncurrent investments is as follows:

Cash and cash equivalents:	2015	2014
Board designated	\$ -	\$ 1,519,106
Restricted	909,505	3,208,002
Unrestricted	839,290	49,369
Total cash and cash equivalents	\$ 1,748,795	\$ 4,776,477

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 3 - BOARD DESIGNATED FUNDS

The Board of trustees of the Utility has designated certain funds to be placed in a contingency reserve account. These funds, which are from unrestricted net position, are being designated for contingencies such as a natural disaster and cannot be expended without Board approval.

The Board of Trustees of the Utility has designated certain funds to be placed in a replacement and construction reserve account. These funds, which are from unrestricted net position, are being designated for replacement of property, plant, and equipment and for new construction. These funds cannot be expended without Board approval.

Assets of the funds as of December 31, 2015 are \$0.

Assets of the funds as of December 31, 2014 are summarized as follows:

	Contingency Reserve	Replacement and Construction Reserve	Total
Cash and cash equivalents	\$ 469,106	\$ 1,050,000	\$ 1,519,106
Total	\$ 469,106	\$ 1,050,000	\$ 1,519,106

Note 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 449,581	\$ 940,407	\$ -	\$ 1,389,988
Construction in progress	2,050,829	3,999,563	(1,717,301)	4,333,091
Total capital assets not being depreciated	2,500,410	4,939,970	(1,717,301)	5,723,079
Capital assets being depreciated:				
Infrastructure	11,404,630	545,066	-	11,949,696
Buildings and equipment	6,345,132	3,392,398	-	9,737,530
Vehicles	287,553	-	(4,916)	282,637
Total capital assets being depreciated	18,037,315	3,937,463	(4,916)	21,969,863
Less accumulated depreciation	8,932,050	626,361	(4,916)	9,553,495
Total capital assets being depreciated - net	9,105,265	3,311,103	-	12,416,368
Net capital assets	\$ 11,605,675	\$8,251,073	\$(1,717,301)	\$ 18,139,447

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 4 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 449,581	\$ -	\$ -	\$ 449,581
Construction in progress	1,169,767	1,389,185	(508,123)	2,050,829
Total capital assets not being depreciated	1,619,348	1,389,185	(508,123)	2,500,410
Capital assets being depreciated:				
Infrastructure	10,198,575	1,206,055	-	11,404,630
Buildings and equipment	5,128,453	1,216,679	-	6,345,132
Vehicles	276,009	17,576	(6,032)	287,553
Total capital assets being depreciated	15,603,037	2,440,310	(6,032)	18,037,315
Less accumulated depreciation	8,402,328	535,754	(6,032)	8,932,050
Total capital assets being depreciated - net	7,200,709	1,904,556	-	9,105,265
Net capital assets	\$ 8,820,057	\$3,293,741	\$(508,123)	\$ 11,605,675

Reconciliation of Net Investment in Capital Assets:

	<u>2015</u>	<u>2014</u>
Capital Assets (Net of Accumulated)	\$ 18,139,447	\$ 11,605,675
Unspent Bond Proceeds	-	2,498,427
Less: Bonds Payable	(7,588,308)	(6,720,665)
	<u>\$ 10,551,139</u>	<u>\$ 7,383,437</u>

Note 5 - SEWER, STORM WATER, AND SOLID WASTE

The Electric Utility bills and collects sewer, storm water, and solid waste revenues for the City of Spencer. The resulting receivable and corresponding payable are recorded under the Water Utility. The City of Spencer reimburses the Utility for these billing services.

Note 6 - TRANSFERS IN LIEU OF PROPERTY TAXES

By resolution of the Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Spencer, Iowa. Currently, transfers approximate 5% of gross sales. Additionally, funds declared to be surplus can be, and have been, transferred to the City.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 7 – BONDS PAYABLE

Bonds payable activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2014 Revenue Bonds	\$4,440,000	\$ -	\$ 235,000	4,205,000	\$240,000
Series 2012 Revenue Bonds	2,205,000	-	165,000	2,040,000	165,000
State Revolving Fund	-	1,272,613	-	1,272,613	-
Total	\$6,645,000	\$ 1,272,613	\$ 400,000	\$7,517,613	\$405,000

The Bonds Payable on the Statement of Net Position include \$70,695 of unamortized premiums.

The Series 2014 revenue bonds require annual principal payments, due May 1, and semiannual interest payments, due May 1 and November 1. The Series 2012 revenue bonds require annual principal payments, due November 1, and semiannual interest payments, due May 1 and November 1. Interest rates throughout the term of the bonds range between 1% and 3%. The State Revolving Fund awarded \$14,125,000 to Spencer Municipal Utilities in 2015. No payments will be required until the Water Plant construction is completed. The expected completion date is February of 2017.

The bonds are secured by the future net revenues of the Utility. Long-term debt of the Series 2012 & 2014 bonds matures and bears interest as follows:

	Series 2012		Series 2014	
	Principal	Interest	Principal	Interest
2016	\$ 165,000	\$ 39,476	\$ 240,000	\$ 109,300
2017	170,000	37,422	245,000	104,450
2018	170,000	35,085	245,000	98,325
2019	175,000	32,409	250,000	90,900
2020	180,000	29,300	255,000	83,325
2021-2025	970,000	86,208	1,370,000	314,600
2026-2030	210,000	2,730	1,600,000	121,275
Total	\$ 2,040,000	\$ 262,630	\$ 4,205,000	\$ 922,175

The bond resolutions provide certain covenants relating to the collection, segregation, and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 7 – BONDS PAYABLE (Continued)

Restricted Funds

Outstanding Water Revenue Bonds are collateralized by the revenue of the Utility and the various special funds established by bond covenants. The covenants provide that the revenue of the Utility is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the special funds. Remaining revenues may then be used for any lawful purpose. The covenants also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2015 and 2014 the Utility is in compliance with all bond covenant requirements.

The special funds consisted of the following:

	2015	2014
Bond Sinking Fund	\$ 275,582	\$ 152,703
Bond Reserve Fund	633,923	556,872
Bond Proceeds Fund	-	2,498,427
Total	\$ 909,505	\$ 3,208,002

Monthly deposits into the bond sinking fund are required to establish the amount necessary to pay the next installments of principal and interest. The bond reserve fund at December 31, 2015 and 2014 equaled the required balance; therefore monthly deposits into the fund are not currently required. These funds may be used to pay principal and interest payments when insufficient funds are available in the sinking fund.

Note 8 - RATE MATTERS

Rates of the Utility are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Note 9 - NUMBER OF METER CONNECTIONS

The number of meter connections totaled 6,027 and 5,984 at December 31, 2015 and 2014, respectively.

Note 10 - LEASES

Effective November 2013 the Utility entered into a 24-month lease for property located on 11th Avenue East in Spencer. The lease includes an option for month to month renewals for 1 year thereafter. A 22-month lease was entered into December 2013, effective January 2014 for a building on this site. The leases are monthly leases and totaled \$58,320 and \$57,700 in 2015 and 2014, respectively.

Effective September 2006 the Utility entered into a 9-year lease with 5-year term option thereafter. The lease was amended effective July 2012 for additional equipment. The lease is a monthly lease and totaled \$18,000 in 2015 and 2014, respectively.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 10 – LEASES (Continued)

Effective March 2009 the Utility entered into a 7 year extended lease term. This lease was amended in April 2013 and again in May 2015. The lease expires on February 28, 2016 with two 5-year term options thereafter. The lease is a monthly lease and totaled \$27,682 and \$20,882 in 2015 and 2014, respectively.

The Utility leases bandwidth and building space from the Electric and Communications Utilities. The expense from such leases is classified as operating expense. The lease is a 20-year variable lease based on bandwidth and space utilized and totaled \$21,120 and \$21,840 in 2015 and 2014, respectively. The payable at December 31, 2015 and 2014 was \$0.

Note 11 – PENSION AND RETIREMENT BENEFITS

Plan Description. IPERS membership is mandatory for employees of the Utility. Employees of the Utility 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.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 11 – PENSION AND RETIREMENT BENEFITS (Continued)

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

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

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

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's total contributions to IPERS for the year ended December 31, 2015 were \$40,420.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2015, the Utility reported a liability of \$289,441 for their 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 Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Utility's collective proportion was .00715 percent which was a decrease of .00017 percent from their proportion measured as of June 30, 2013.

For the year ended December 31, 2015, the Utility recognized pension expense of \$19,838. At December 31, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 11 – PENSION AND RETIREMENT BENEFITS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,146	\$ -
Changes of assumptions	12,774	-
Net difference between projected and actual earnings on pension plan investments	-	110,384
Changes in proportion and differences between Utility contributions and proportionate share of contributions	-	7,824
Utility contributions subsequent to the measurement date	60,534	-
Total	\$ 76,454	\$ 118,208

\$40,284 reported as deferred outflows of resources related to pensions resulting from the Utility's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016, with the remainder of \$20,250 being recognized in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
June 30,	Total
2016	\$ (25,832)
2017	(25,832)
2018	(25,832)
2019	(25,832)
2020	1,040
Total	\$ (102,288)

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:

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 11 – PENSION AND RETIREMENT BENEFITS (Continued)

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

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 Utility 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.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 11 – PENSION AND RETIREMENT BENEFITS (Continued)

Sensitivity of the Utility’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utility’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility’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 (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utility's proportionate share of the net pension liability	\$ 546,890	\$ 289,441	\$ 72,127

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 December 31, 2015, the Utilities reported \$0 of payables related to the defined benefit pension plan.

EMPLOYEES PENSION PLAN

All full-time employees of the Water Utility who have completed six months of continuous employment and are 18 years of age are eligible to participate in a 457b Pension Plan administered by Security National Bank. The Utility contributes 8% of the employees’ compensation for all employees contributing at least 2% of their salary.

The Water Utility’s contribution to the 457b Pension Plan for 2015 and 2014 totaled \$36,874 and \$33,669, respectively.

Note 12 – OTHER POST EMPLOYMENT BENEFITS

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their family.

The medical/prescription drug coverage is provided through a fully-insured plan. The premiums charged by the health insurance carrier are the same for the Retirees under age 65 for medical/prescription drug benefits as active employees, which results in an implicit subsidy and an Other Post Employment Benefit (“OPEB”) liability.

Funding Policy. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utility’s annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 12 – OTHER POST EMPLOYMENT BENEFITS (Continued)

The following table shows the components of the Utility’s annual OPEB for the year, the amount actually contributed to the plan, and changes in the Utility’s net OPEB obligation to the plan:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 3,157	\$ 3,157
Interest on net OPEB obligation	691	565
Adjustment to annual required contribution	<u>(687)</u>	<u>(560)</u>
Annual OPEB cost (Expense)	3,161	3,162
Contributions made	<u>-</u>	<u>-</u>
Increase in net OPEB obligation	3,161	3,162
Net OPEB obligation – beginning of year	<u>17,287</u>	<u>14,125</u>
Net OPEB obligation – end of year	<u>\$ 20,448</u>	<u>\$ 17,287</u>

The Utility’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 3,161	0%	\$ 20,448
2014	\$ 3,162	0%	\$ 17,287

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2015 was as follows:

	<u>2015</u>	<u>2014</u>
Actuarial accrued liability (AAL)	\$ 17,875	\$ 17,875
Actuarial value of plan assets	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 17,875</u>	<u>\$ 17,875</u>
Covered payroll (active members)	\$490,749	\$396,946
UAAL as a percentage of covered payroll	3.6%	4.5%

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

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 12 – OTHER POST EMPLOYMENT BENEFITS

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effect of legal or contractual funding limitation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions included a 4% interest discount rate. The projected annual medical trend rate is 9.0%. The ultimate medical trend rate is 5.0%. The medical trend rate is reduced 0.5% each year until reaching the 5.0% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using Scale AA to SOA RP-2014. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

Note 13 - RISK MANAGEMENT

The Water Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductible and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 14 - RELATED PARTIES

The Electric Utility, Water Utility, and Communications Utility of the City of Spencer, Iowa exchange services in the normal course of business.

Related party items are included in Note 10 and III-D-15.

Note 15 – COMMITMENTS

Beginning in 2011, the Water Utility signed an advertising and signage agreement with the Clay County Regional Event Center. The agreement is effective September 1, 2011 and terminates on August 31, 2016. The annual amount due is \$5,950. A portion of the annual cost is split between the Electric and Communications Utility. The Water Utility is responsible for \$595 of the annual amount due.

Spencer Municipal Utilities entered into an agreement with Eriksen Construction Company in August 2015. The contract is in the amount of 15,270,000 for Phase II of improvements to the water plant. As of December 31, 2015 the remaining balance was \$12,599,546. The project is expected to be completed in 2017.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 15 – COMMITMENTS (Continued)

Spencer Municipal Utilities has committed to the cost of replacing water mains in conjunction with two sewer projects currently in process with the City of Spencer. The first is the HMGP West Central Sewer Retrofit project. The estimate for the Utility's portion of this project is \$316,890 with \$271,414 paid or payable at December 31, 2015, leaving a balance committed of \$45,476. The second project is the PCC Paving project for 3rd & 4th Avenue East. The estimate for the Utility's portion of this project is \$201,847 with \$118,221 paid or payable at December 31, 2015, leaving a balance committed of \$83,626. Both projects are expected to be completed in 2016.

Note 16 – 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 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 and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Water Utility
Net Position December 31, 2014, as previously reported	\$ 9,292,549
Net Pension Liability at June 30, 2014	(414,538)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	62,761
Net Position December 31, 2014, as restated	\$ 8,940,772

REQUIRED SUPPLEMENTAL INFORMATION

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2015**

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2008	12/31/2008	\$ -	\$ 11,713	\$ 11,713	0%	\$ 360,103	3.3%
2009	12/31/2009	-	13,726	13,726	0%	370,906	3.7%
2010	12/31/2010	-	16,680	16,680	0%	382,033	4.4%
2011	12/31/2011	-	14,137	14,137	0%	258,674	5.5%
2012	12/31/2012	-	15,921	15,921	0%	266,434	6.0%
2013	12/31/2012	-	15,921	15,921	0%	270,662	6.0%
2014	12/31/2014	-	17,875	17,875	0%	396,946	4.5%
2015	12/31/2015	\$ -	\$ 17,875	\$ 17,875	0%	\$ 490,749	3.6%

See Note 12 to the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, and the funded status and funding progress.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE LAST FISCAL YEAR**

	2015
Utility's collective proportion of the net pension liability	0.07150%
Utility's collective proportionate share of the net pension liability	\$ 289,441
Utility's covered employee payroll	\$ 453,158
Utility's collective proportionate share of the net pension liability as a percentage of its covered employee payroll	63.87%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

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 Utility will present information for those years for which information is available.

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
SCHEDULE OF THE UTILITY'S CONTRIBUTIONS
IOWA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
LAST 10 FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 40,420	\$ 40,467	\$ 31,259	\$ 28,758
Contributions in relation to the statutorily required contribution	\$ (40,420)	\$ (40,467)	\$ (31,259)	\$ (28,758)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility's covered-employee payroll	\$ 452,632	\$ 453,158	\$ 355,216	\$ 343,584
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.80%	8.37%

See Accompanying Independent Auditors' Report

2011	2010	2009	2008	2007	2006
\$ 17,145	\$ 20,393	\$ 22,188	\$ 23,563	\$ 16,237	\$ 16,618
\$ (17,145)	\$ (20,393)	\$ (22,188)	\$ (23,563)	\$ (16,237)	\$ (16,618)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 228,296	\$ 299,897	\$ 341,354	\$ 380,048	\$ 275,203	\$ 289,009
7.51%	6.80%	6.50%	6.20%	5.90%	5.75%

See Accompanying Independent Auditors' Report

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 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.

See Accompanying Independent Auditors' Report

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, EXPENDITURES
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (CASH BASIS)
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u> Original	<u>Actual</u>	<u>Amended to</u> <u>Actual Variance</u>
Receipts:			
Municipal Electric Utility		\$ 17,053,222	
Municipal Water Utility		5,310,669	
Municipal Communications Utility		12,757,536	
Total Receipts	<u>\$ 47,786,939</u>	<u>35,121,427</u>	<u>\$ (12,665,512)</u>
Expenditures:			
Municipal Electric Utility		16,340,297	
Municipal Water Utility		8,338,351	
Municipal Communications Utility		8,780,236	
Total Expenditures	<u>46,168,017</u>	<u>33,458,884</u>	<u>(12,709,133)</u>
Change in Net Position	1,618,922	1,662,543	43,621
Net Position at Beginning of Year	<u>17,589,438</u>	<u>19,232,951</u>	<u>-</u>
Net Position at End of Year	<u>\$ 19,208,360</u>	<u>\$ 20,895,494</u>	<u>\$ 43,621</u>

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGET TO GAAP RECONCILIATION
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2015**

	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts:			
Municipal Electric Utility	\$ 17,053,222	\$ (1,954,226)	\$ 15,098,996
Municipal Water Utility	5,310,669	(2,277,446)	3,033,223
Municipal Communications Utility	12,757,536	(5,342,029)	7,415,507
Total Receipts	<u>35,121,427</u>	<u>(9,573,701)</u>	<u>25,547,726</u>
Expenditures:			
Municipal Electric Utility	16,340,297	(1,082,784)	15,257,513
Municipal Water Utility	8,338,351	(6,174,822)	2,163,529
Municipal Communications Utility	8,780,236	(2,732,413)	6,047,823
Total Expenditures	<u>33,458,884</u>	<u>(9,990,019)</u>	<u>23,468,865</u>
Change in Net Position	1,662,543	416,318	2,078,861
Net Position at Beginning of Year	19,232,951	49,806,842	69,039,793
Prior Period Adjustment - Change in Accounting	-	(2,281,303)	(2,281,303)
Net Position at Beginning of Year, as Restated	<u>19,232,951</u>	<u>47,525,539</u>	<u>66,758,490</u>
Net Position at End of Year	<u>\$ 20,895,494</u>	<u>\$ 47,941,857</u>	<u>\$ 68,837,351</u>

**MUNICIPAL WATER UTILITY
OF THE CITY OF SPENCER, IOWA
OTHER SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2015**

In accordance with the Code of Iowa, Spencer Municipal Utilities annually adopts a combined budget on the cash basis for the Municipal Electric Utility, Municipal Water Utility, and Municipal Communications Utility of the City of Spencer, Iowa following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized and appropriations lapse at year-end.

Formal and legal budgetary control is based upon nine major classes of expenditures, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. All Utility expenditures are included in business type activities function and are required to be budgeted.

SUPPLEMENTAL INFORMATION

**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***

Board of Trustees
Spencer Municipal Utilities – Municipal Water Utility
Spencer, Iowa 51301

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 statements of the business-type activities of Municipal Water Utility of the City of Spencer, Iowa (Spencer Municipal Utility), Spencer, Iowa as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 1, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of the 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 Utility'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

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 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 Spencer Municipal Utilities 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.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
April 1, 2016

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2015**

Part I: Summary of the Independent Auditors' Results:

- (a) An unmodified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance, which is material to the financial statements.

Part II: Findings Related to the General Purpose Financial Statements

SIGNIFICANT DEFICIENCIES:

No matters were reported.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-15 Certified Budget – Disbursements during the year ended December 31, 2015 did not exceed the amounts budgeted in the business type activities function.

III-B-15 Questionable Expenditures – No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-15 Travel Expenses – No expenditures of the Utility's money for travel expenses of spouses of Utility's officials or employees were noted.

III-D-15 Business Transactions – Business transactions between Utility and Utility officials and employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jason Remillard, SMU Employee Owner, Remillard Grafx	Maintenance and Repairs	\$ 1,161 (1)
Duane Barber, Board Member Part Owner, Don Pierson Ford	Maintenance & Repairs	\$ 231 (1)

- (1) These transactions do not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the year, per Chapter 362.5(10) of the Code of Iowa.

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2015**

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

- III-E-15 Bond Coverage – Surety bond coverage of Spencer Municipal Utilities’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-15 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-15 Revenue Bonds – As of December 31, 2015 the Utility is in compliance with all bond covenant requirements.
- III-H-15 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12(B) and 12(c) of the Code of Iowa and the Utility’s investment policy were noted.

SPENCER MUNICIPAL UTILITIES
MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Spencer Municipal Utilities – Municipal Communications Utility
Spencer, IA 51301

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Municipal Communications Utility of the City of Spencer, Iowa (the Utility), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Utility as of December 31, 2015 and 2014 and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the Utility adopted new accounting guidance related to 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Funding Progress for the Retiree Health Plan, Schedule of Utility's Proportionate Share of the Net Pension Liability, Schedule of the Utility's Contributions, and Notes to Required Supplementary Information – Pension Liability on pages 80 through 83 and pages 102 through 106 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, who 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The supplementary information on pages 107 through 109 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2016 on our consideration of the Utility's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

Williams & Company P.C.

Certified Public Accountants

Spencer, Iowa
April 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of management's discussion and analysis (MD&A) is to provide the reader with an introduction to the financial statements. Our discussion and analysis of the Municipal Communications Utility (Utility) of the City of Spencer, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2015 and 2014.

The following information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

2015 Financial Highlights

The Utility's operating revenue increased to \$6,975,294 in 2015 compared to \$6,699,311 in 2014 or about 4%

The Utility's net position increased by \$433,719 to \$13,219,332 for the year ended December 31, 2015. This increase was the results of operations for the year offset by a prior period adjustment in the accounting and financial reporting requirements for pensions.

Overview of the Financial Statements

The statements of net position include the Utility's assets, deferred inflows of resources, liabilities, and deferred outflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The statements of revenues, expenses and changes in net position report all revenues and expenses incurred during the fiscal year.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities.

The notes to the financial statements provide the required disclosures and other information that is necessary to give the reader a complete understanding of the data provided in the statements. The notes present information about the Utility's accounting policies, material risks, obligations, commitments, contingencies and subsequent events.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Statement of Net Position

	<u>2015</u>	<u>2014</u> <u>(Not Restated)</u>
Current Assets	\$ 7,746,494	\$ 4,063,175
Capital Assets, Net of Depreciation	13,193,524	8,826,921
Noncurrent assets	<u>684,237</u>	<u>689,413</u>
Total assets	<u>21,624,255</u>	<u>13,579,509</u>
Deferred Outflows of Resources	<u>202,983</u>	<u>-</u>
Current Liabilities	2,479,010	702,500
Noncurrent Liabilities	865,055	91,396
Bonds Payable	<u>4,950,000</u>	<u>-</u>
Total liabilities	<u>8,294,065</u>	<u>793,896</u>
Deferred Inflows of Resources	<u>313,841</u>	<u>-</u>
Net Investment in Capital Assets	9,119,379	8,826,921
Unrestricted	<u>4,099,953</u>	<u>3,958,692</u>
Total net position	<u>\$13,219,332</u>	<u>\$12,785,613</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Cable Television Revenue	\$2,887,538	\$2,800,509
Telephone Revenue	2,108,468	2,082,023
Data Revenue	1,960,374	1,799,406
Inventory Sales	470	1,877
Miscellaneous Revenue	<u>18,444</u>	<u>15,496</u>
Total Operating Revenue	<u>6,975,294</u>	<u>6,699,311</u>
Plant Specific and Programming	3,750,094	3,625,456
Depreciation & Amortization	1,004,623	783,292
Customer service & Administration	<u>1,146,630</u>	<u>1,103,620</u>
Total operating expenses	<u>5,901,347</u>	<u>5,512,368</u>
Operating Income	1,073,947	1,186,943
Interest Income	10,047	6,256
Interest Expense	(47,070)	-
Other Income	<u>330,760</u>	<u>1,146,184</u>
Total Non-Operating Revenues	<u>293,737</u>	<u>1,152,440</u>
Change in Net Position	1,367,684	2,339,383
Net Position, Beginning of Year	12,785,613	10,446,230
Prior Period Adjustment-Change in Accounting	<u>(933,965)</u>	<u>-</u>
Net Position, Beginning of Year, as Restated	<u>11,851,648</u>	<u>10,446,230</u>
Net Position, End of Year	<u>\$13,219,332</u>	<u>\$12,785,613</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The Utility's total assets increased by approximately \$8,045,000 in 2015. The increase was mainly due to the addition of capital assets and an increase in cash and cash equivalents as a result of operations and bond financing proceeds.

The Utility's total liabilities increased by approximately \$7,500,000 in 2015. There was an increase of approximately \$1,164,000 in accounts payable and \$5,500,000 in bonds payable for 2015 due to the purchase/construction of capital assets and an increase of approximately \$768,000 in net pension liability due to a prior period adjustment for a change in accounting and financial reporting requirements for pensions.

The Utility's total net position increased by \$433,719 in 2015. This resulted from net income of \$1,367,684 less a prior period adjustment in the amount of \$933,965 for a change in the accounting and financial reporting requirements for pensions

The Utility's gross operating revenue increased by approximately \$276,000 or 4%. Cable system revenue increased approximately \$87,000 in 2015 or about 3% over 2014 levels. The increase was attributable to an increase in the Basic Cable rate which became effective May 1, 2015 as well as an increase in advertising sales in 2015. The rate increase was implemented to cover increases in programming expense. Telephone system revenue increased approximately \$26,000 in 2015 or about 1% compared to 2014 revenue. The revenue increase was primarily due an increase in switched access revenue for the year 2015 above the 2014 revenue. In 2014, an allowance for uncollectible access revenue was booked in the amount of approximately \$490,000 which was 50% of outstanding long-distance carrier receivables. In 2015, the allowance for uncollectible access revenue booked was approximately \$236,000 which kept the balance at 50% of receivables from long distance carriers. Data services revenue increased approximately \$161,000 in 2015 or about 9% over the 2014 revenue. The revenue increase stems from adjustment to internet rates implemented on May 1 2015 and increased customer counts.

Total operating expenses increased by approximately \$389,000 in 2015 as compared to 2014. Plant specific and programming costs increased by approximately \$125,000 in 2015 or 3% as compared to 2014. This was due in part to Programming expenses increasing by approximately \$251,000 or 15% in 2015 compared to 2014. The increase was mainly due to the basic plus programming rate increases to the Utility. Other increases included approximately \$31,000 for Maintenance of Structures & Grounds and approximately \$34,000 for Network Operation expenses. These increases were offset by reductions of approximately \$58,000 in Telephone Switching Operation & Maintenance, approximately \$108,000 for Maintenance of Customer Premise and approximately \$34,000 for Cable & Wire Facilities expense. Depreciation and amortization expense increased in 2015 by approximately \$221,000 due to the purchase/construction of capital assets. Customer Service & Administration expenses increased by approximately \$43,000 in 2015 compared to 2014. In 2015, outside services expense increased by approximately \$21,000 over 2014. This was due to services required to secure financing for the Fiber to the Home project and legal fees incurred from long-distance carrier litigation. Insurance expense increased by approximately \$18,000 over 2014 expense. The remaining increases in 2015 compared to 2014 were due to increases in labor and supplies cost related to customer accounting and collection.

Total net operating income generated in 2015 was \$1,073,947 compared to \$1,186,943 in 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-operating income decreased by \$858,703 in 2015 as compared to 2014. The decrease in 2015 to Net Income from Joint Ventures was attributable to the 2014 receipt of the spectrum sale to AT&T Mobility Spectrum, LLC. by NICP. The Utility, as participating Member of NICP, received 10% of sale proceeds amounting to \$1,250,000. Net Income from Joint Ventures in 2015 included approximately \$181,000 from Northern Iowa Communications Partners and approximately \$123,000 from Clay County Communications LLC. Interest expense increased by approximately \$47,000 in 2015 over 2014. This was due to added debt related to the Fiber to the Home project. The lieu of tax payments in 2015 decreased by approximately \$138,000, mainly due to the funding for a residential housing land purchase in 2014.

The Utility had a net profit of \$1,367,684 for the year ended December 31, 2015 compared to a net profit of \$2,339,383 for the year ended December 31, 2014.

Capital Assets and Debt Administration

Net capital assets increased by approximately \$4,367,000 for year ending December 31, 2015 compared to an increase by approximately \$2,070,000 for year ending December 31, 2014. The increase in net capital assets both years was primary due to the Fiber to the Home projects as well as Utility's ownership in the 520 2nd Avenue East building and equipment for operations.

Economic Factors

The Utility has continued to experience a slight decrease in its Cable TV subscriber base and residential telephone line customers. The rate increase in 2015 to Cable TV was implemented to cover annual programming increases charged to the Utility for providing cable service. As customers continue to acquire more electronic devices and stream online videos, TV content, etc. in their home it is essential that the Utility continues to provide fast and reliable internet service. In order to do so the continuation of the Fiber to the Home construction will be a top priority for the Utility. The 2013 Fiber to the Home project began mid-2013 and was completed by the contractor in September 2014 and customer conversions have been completed. The 2014 Fiber to the Home project was approved by the Board in July 2014 and is anticipated to be completed by the contractor in early 2016 with customer conversions completed by mid to late 2016. When the 2016 Fiber to the Home project is completed, approximately 67% of homes passed will be converted to fiber.

Contacting the Utility's Financial Management

This financial report is designed to present our citizens, customers, and creditors with a general overview of the Utility's finances and operating activities. If you have any questions or require additional information please contact the Finance Manager, 520 2nd Avenue East, Suite 1, Spencer, Iowa 51301.

FINANCIAL STATEMENTS

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014 (Not Restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and Cash Equivalents		
Unrestricted	\$ 4,144,341	\$ 2,166,258
Restricted	1,999,217	-
Consumer Deposits	43,838	46,727
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$736,562 and \$500,042)	790,281	565,238
Unbilled Usage	67,449	82,071
Materials and Supplies Inventory	543,315	1,039,944
Prepayments and Other	158,053	162,937
	7,746,494	4,063,175
Capital Assets:		
Land	10,342	10,342
Property and Equipment	24,420,060	20,201,019
Accumulated Depreciation	(11,236,878)	(11,384,440)
	13,193,524	8,826,921
Noncurrent Assets:		
Long-term Receivables	684,237	689,413
	684,237	689,413
Total Assets	21,624,255	13,579,509
Deferred Outflows of Resources		
Pension Related Deferred Outflows	202,983	-
	202,983	-
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities:		
Accounts Payable	1,642,103	478,366
Payroll and Sales Tax Payable	28,704	29,631
Accrued Payroll and Compensated Absences	147,832	145,376
Accrued Interest Payable	11,720	-
Unearned Revenue	54,813	2,400
Consumer Deposits	43,838	46,727
Current Maturities of Long-Term Debt	550,000	-
	2,479,010	702,500
Noncurrent Liabilities		
Unearned Revenue	30,000	32,400
Note Payable	5,500,000	-
Less - Current Maturities	(550,000)	-
Net Pension Liability	768,462	-
Net OPEB Liability	66,593	58,996
	5,815,055	91,396
Total Liabilities	8,294,065	793,896
Deferred Inflows of Resources		
Pension Related Deferred Inflows	313,841	-
	313,841	-
NET POSITION		
Net Position		
Net Investment in Capital Assets	9,119,379	8,826,921
Unrestricted	4,099,953	3,958,692
	\$ 13,219,332	\$ 12,785,613

See Accompanying Notes to Financial Statements

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014 (Not Restated)
Operating Revenues:		
Cable System Revenue	\$ 2,887,538	\$ 2,800,509
Telephone System Revenue	2,108,468	2,082,023
Data Services Revenue	1,960,374	1,799,406
Inventory Sales	470	1,877
Miscellaneous Income	18,444	15,496
	6,975,294	6,699,311
Operating Expenses:		
Plant Specific and Programming	3,750,094	3,625,456
Depreciation and Amortization	1,004,623	783,292
Customer Services and Marketing	577,023	536,559
General and Administrative	569,607	567,061
	5,901,347	5,512,368
Operating Income	1,073,947	1,186,943
Non-Operating Income (Expense):		
Leased Facilities	126,185	135,190
Net Income from Joint Ventures	303,981	1,253,289
Economic Development Payment	(58,115)	(75,414)
Interest Income	10,047	6,256
Interest Expense	(47,070)	-
Gain on Plant Retirements	(11,291)	1,025
Payment in Lieu of Property Taxes	(30,000)	(167,906)
	293,737	1,152,440
Change in Net Position	1,367,684	2,339,383
Net Position at Beginning of Year	12,785,613	10,446,230
Prior Period Adjustment - Change in Accounting	(933,965)	-
Net Position at Beginning of Year, as Restated	11,851,648	10,446,230
Net Position at End of Year	\$ 13,219,332	\$ 12,785,613

See Accompanying Notes to Financial Statements

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 6,811,997	\$ 6,825,953
Cash Payments to Suppliers for Goods and Services	(1,553,811)	(4,538,339)
Cash Payments to Employees for Services	(1,723,182)	(1,484,271)
Cash Payments for Economic Development and In Lieu of Property Taxes	(88,115)	(243,320)
Payments Received From Leasing of Facilities	126,185	135,190
	3,573,074	695,213
Cash Flows From Capital and Related Financing Activities:		
Acquisition & Construction of Property and Equipment	(5,382,666)	(2,857,736)
Proceeds from Loan	5,500,000	-
Proceeds from the Sale of Assets	150	1,025
Interest Paid	(35,351)	-
	82,133	(2,856,711)
Cash Flows From Investing Activities:		
Other Investments	309,157	1,455,474
Interest Received From Investments	10,047	6,256
	319,204	1,461,730
Net Increase (Decrease) in Cash	3,974,411	(699,768)
Cash and Cash Equivalents at Beginning of Year	2,212,985	2,912,753
Cash and Cash Equivalents at End of Year	\$ 6,187,396	\$ 2,212,985
Reconciliation:		
Cash and Cash Equivalents		
Unrestricted	\$ 4,144,341	\$ 2,166,258
Restricted	1,999,217	-
Consumer Deposits	43,838	46,727
	\$ 6,187,396	\$ 2,212,985

See Accompanying Notes to Financial Statements

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities**

Operating Income	\$	1,073,947	\$	1,186,943
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities				
Depreciation and Amortization		1,004,623		783,292
Leased Facilities Income		126,185		135,190
Contributions Paid for Economic Development		(58,115)		(75,414)
Payment in Lieu of Property Taxes		(30,000)		(167,906)
(Increase) Decrease in Operating Assets:				
Accounts Receivable		(225,043)		122,188
Unbilled Usage		14,622		10,564
Materials and Supplies Inventory		496,629		(925,328)
Prepayments		4,884		(71,720)
Deferred Outflows		(36,353)		-
Increase (Decrease) in Operating Liabilities:				
Accounts Payable		1,163,737		(334,914)
Accrued Payroll and Compensated Absences		1,529		30,824
Consumer Deposits		(2,889)		(3,710)
Deferred Revenue		50,013		(2,400)
Net OPEB Liability		7,597		7,604
Net Pension Liability		(332,133)		-
Deferred Inflows		313,841		-
Total Adjustments		<u>2,499,127</u>		<u>(491,730)</u>
Net Cash Provided By Operating Activities	\$	3,573,074	\$	695,213

See Accompanying Notes to Financial Statements

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Basis of Accounting

The Municipal Communications Utility of the City of Spencer, Iowa (Communications Utility or Utility) operates as an independent unit of the City of Spencer and is managed, along with the Municipal Electric Utility and the Municipal Water Utility of the City of Spencer, Iowa, by a five member Board of Trustees. The Utility was formed to engage in the development and operation of a broadband communications system and the marketing of related services such as cable television, telephone, high-speed data communications and other communication products. The Utility's rates are set by its governing board.

For financial reporting purposes, the Utility has included all funds. The Utility 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 Utility are such that exclusion would cause the Utility'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 Utility 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 Utility. It was determined that the Utility has no component units.

The Utility is not considered to be a component unit of the City of Spencer for financial statement purposes.

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

The Utility 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 Utility's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Capital Assets and Depreciation

Capital assets are stated at original cost when first devoted to public service. Currently, such costs include labor-related expenditures, such as payroll taxes, pensions, and other fringe benefits and administrative costs for labor related to the construction of new communications facilities. In addition, net interest costs on construction debt are capitalized. Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. Depreciation is calculated on the straight-line basis. Current depreciation expense is approximately 4.15% of the original cost of depreciable communication plant in service.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The estimated useful lives used to depreciate assets by class are as follows:

Infrastructure	10-15 years
Buildings and improvements	20 years
Equipment	5-7 years

C. Accounts Receivable

Accounts receivable are stated at the amount the Utility expects to collect from outstanding balances. The Utility provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowed based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Utility has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

D. Inventories

Inventories are valued at the lower of cost or market. The average cost method is used for determining the cost of materials and supplies inventory. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

E. 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. Pension related 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.

F. Deferred Inflows of Resources

Deferred inflows of resources represents 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. Pension related deferred inflows of resources in the Statements of Net Position consist the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

G. Net Position

Net position represents the between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent debt when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

H. Income Taxes

The Communications Utility is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Revenues and Unbilled Usage

Revenues are based on billing rates, which are applied to customers' consumption of communications services. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2015 and 2014, totaled \$67,449 and \$82,071, respectively.

J. Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 - CASH AND CASH EQUIVALENTS

The Utility's deposits in banks at December 31, 2015 and 2014 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 Utility is authorized by statute and Board of Trustees' approval to invest public funds in obligations of the United States government, its agencies, and instrumentalities; certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions; and the Iowa Public Agency Investment Trust.

Interest Rate Risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

The Utility considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Reconciliation of the Utility's cash and cash equivalents and noncurrent investments is as follows:

Cash and cash equivalents:	2015	2014
Restricted	\$ 1,999,217	\$ -
Unrestricted	4,144,341	2,166,258
Consumer Deposits	43,838	46,727
Total cash and cash equivalents	\$ 6,187,396	\$ 2,212,985

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 10,342	\$ -	\$ -	\$ 10,342
Total capital assets not being depreciated	10,342	-	-	10,342
Capital assets being depreciated:				
Infrastructure	15,133,557	5,145,303	(1,131,147)	19,147,713
Buildings and improvements	1,812,213	182,828	(8,284)	1,986,757
Equipment	3,255,249	54,535	(24,194)	3,285,590
Total capital assets being depreciated	20,201,019	5,382,666	(1,163,625)	24,420,060
Less accumulated depreciation	11,384,440	1,004,623	(1,152,185)	11,236,878
Total capital assets being depreciated - net	8,816,579	4,378,043	(11,440)	13,183,182
Net Investment in capital assets	\$8,826,921	\$4,378,043	\$(11,440)	\$13,193,524

Capital assets activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 10,342	\$ -	\$ -	\$ 10,342
Total capital assets not being depreciated	10,342	-	-	10,342
Capital assets being depreciated:				
Infrastructure	13,252,272	1,883,214	(1,929)	15,133,557
Buildings and improvements	1,501,658	322,768	(12,213)	1,812,213
Equipment	2,617,148	663,966	(25,865)	3,255,249
Total capital assets being depreciated	17,371,078	2,869,948	(40,007)	20,201,019
Less accumulated depreciation	10,628,943	783,292	(27,795)	11,384,440
Total capital assets being depreciated - net	6,742,135	2,086,656	(12,212)	8,816,579
Net Investment in capital assets	\$6,752,477	\$2,086,656	\$(12,212)	\$ 8,826,921

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 3 - CAPITAL ASSETS (Continued)

Reconciliation of Net Investment in Capital Assets:

	2015	2014
Capital Assets (Net of Accumulated)	\$ 13,193,524	\$ 8,826,921
Less: Note Payable	(5,500,000)	-
Unspent Loan Proceeds	1,425,855	-
	\$ 9,119,379	\$ 8,826,921

Note 4 - TRANSFERS IN LIEU OF PROPERTY TAX

By resolution of the Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Spencer, Iowa. Funds totaling \$30,000 and \$167,906 were transferred to the City during 2015 and 2014, respectively. Transferred funds were for Storefront Interest and the Residential Housing Land Purchase.

Note 5 - LONG-TERM RECEIVABLES

During December 2003, the Utility entered into an agreement with Northern Iowa Communications Partners, LLC (NICP), an Iowa limited liability company, pursuant to the provisions of Chapter 28E of the Code of Iowa. Under this agreement, the Utility, along with other members of NICP, agrees to pay for the use of a shared switch for routing certain telecommunications traffic at rates adopted by NICP. The Utility will share in profits generated or shortfalls incurred through the 28E agreement due to the method used to determine an annual usage fee paid by NICP to the Utility. An NICP member will be responsible for maintaining the financial records related to the 28E agreement. The amount earned but not received by the Utility in 2015 and 2014 was \$190,386 and \$176,542, respectively. These amounts are recorded as a receivable.

During May 2006, the Utility entered into an agreement with Evertex, Inc., an Iowa Corporation, to create Clay County Communications, LLC as a separate legal entity. Clay County Communications shall function as if it were a limited liability company organized under Iowa Code Chapter 490A. The purpose of this agreement and Clay County Communications is to provide wired and/or wireless communications services in Clay County, Iowa. The Utility and Evertex, Inc. each initially contributed \$400,000. During 2007 the Utility and Evertex, Inc. each made an additional contribution of \$150,000. The Utility accounts for the joint venture on the equity method, and has recorded the balance of \$493,851 and \$512,871 as a receivable in 2015 and 2014, respectively.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 6 – NOTES PAYABLE

Notes payable activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Farmers Trust & Savings Bank	\$ -	\$ 5,500,000	\$ -	\$ 5,500,000	\$ 550,000
Total	\$ -	\$ 5,500,000	\$ -	\$ 5,500,000	\$ 550,000

The Farmers Trust & Savings Bank Note requires annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. The Interest rate throughout the term of the note is 2.55%.

The bonds are secured by the future net revenues of the Utility. Long-term debt of the Farmers Trust & Savings note matures and bears interest as follows:

	Farmers Trust & Savings	
	Principal	Interest
2016	\$ 550,000	\$ 140,634
2017	550,000	126,225
2018	550,000	112,200
2019	550,000	98,175
2020	550,000	84,381
2021-2025	2,750,000	210,452
Total	\$ 5,500,000	\$ 772,067

The note resolutions provide certain covenants relating to the collection, segregation, and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

Restricted Funds

Outstanding Communications Revenue Notes are collateralized by the revenue of the Utility and the various special funds established. As of December 31, 2015 and 2014 the Utility is in compliance with all note covenant requirements.

The special funds consisted of the following:

	2015	2014
Note Sinking Fund	\$ 158,245	\$ -
Bond Proceeds Fund	1,840,972	-
Total	\$ 1,999,217	\$ -

Monthly deposits into the note sinking fund are made to establish the amount necessary to pay the next installments of principal and interest.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
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Note 7 - LEASES AND LONG TERM UNEARNED REVENUE

Spencer Municipal Utilities entered into a 20 year fiber lease agreement with the Iowa Rural Health Telecommunications Program on July 1, 2009. The contract amount for the lease is \$48,000 and is due in full upon construction completion. Construction was completed and \$48,000 was collected in 2009. Spencer Municipal Utilities recognized \$2,400 and \$2,400 in revenue during 2015 and 2014, respectively. In 2015, there was \$2,400 as short term unearned revenue and the remaining \$30,000 as long term revenue. Spencer Municipal Utilities is responsible for maintenance of the fiber.

The Utility leases bandwidth, property, and building space from the Electric Utility. The expense from the lease is classified as operating expense. The lease is a 20-year variable lease based on bandwidth and space utilized and totaled \$379,344 and \$413,678 in 2015 and 2014, respectively. The payable at December 31, 2015 and 2014 was \$0.

Note 8 – PENSION AND RETIREMENT BENEFITS

Plan Description. IPERS membership is mandatory for employees of the Utility. Employees of the Utility 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.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 8 – PENSION AND RETIREMENT BENEFITS (Continued)

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

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

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

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's total contributions to IPERS for the year ended December 31, 2015 were \$107,314.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2015, the Utility reported a liability of \$768,462 for their 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 Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Utility's collective proportion was .01899 percent which was a decrease of .000448 percent from their proportion measured as of June 30, 2013.

For the year ended December 31, 2015, the Utility's recognized pension expense of \$52,669. At December 31, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 8 – PENSION AND RETIREMENT BENEFITS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,351	\$ -
Changes of assumptions	33,914	-
Net difference between projected and actual earnings on pension plan investments	-	293,070
Changes in proportion and differences between Utility contributions and proportionate share of contributions	-	20,771
Utility contributions subsequent to the measurement date	160,718	-
Total	\$ 202,983	\$ 313,841

\$106,954 reported as deferred outflows of resources related to pensions resulting from the Utility's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016, with the remainder of \$53,764 being recognized in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Total
2016	\$ (68,585)
2017	(68,585)
2018	(68,585)
2019	(68,585)
2020	2,764
Total	\$ (271,576)

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:

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 8 – PENSION AND RETIREMENT BENEFITS (Continued)

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

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 Utility 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.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 8 – PENSION AND RETIREMENT BENEFITS (Continued)

Sensitivity of the Utility’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utility’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility’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 (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utility's proportionate share of the net pension liability	\$ 1,451,989	\$ 768,462	\$ 191,496

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 December 31, 2015, the Utility reported \$0 of payables related to the defined benefit pension plan.

Employees Pension Plan

All full-time employees of the Communications Utility who have completed six months of continuous employment and are 18 years of age are eligible to participate in a 457b Pension Plan administered by Security National Bank. The Utility contributes 8% of the employees’ compensation for all employees contributing at least 2% of their salary.

The Communications Utility’s contribution to the 457b Pension Plan for 2015 and 2014 totaled \$94,459 and \$87,028, respectively.

Note 9 – OTHER POST EMPLOYMENT BENEFITS

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their family.

The medical/prescription drug coverage is provided through a fully-insured plan. The premiums charged by the health insurance carrier are the same for the Retirees under age 65 for medical/prescription drug benefits as active employees, which results in an implicit subsidy and an Other Post Employment Benefit (“OPEB”) liability.

Funding Policy. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utility’s annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
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DECEMBER 31, 2015 AND 2014**

Note 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)

funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Utility's annual OPEB for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation to the plan:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 7,690	\$ 7,690
Interest on net OPEB obligation	2,360	2,056
Adjustment to annual required contribution	<u>(2,345)</u>	<u>(2,056)</u>
Annual OPEB cost (Expense)	7,705	7,690
Contributions (estimated)	<u>(108)</u>	<u>(86)</u>
Increase in net OPEB obligation	7,597	7,604
Net OPEB obligation – beginning of year	<u>58,996</u>	<u>51,392</u>
Net OPEB obligation – end of year	<u>\$ 66,593</u>	<u>\$ 58,996</u>

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 7,705	1%	\$ 66,593
2014	\$ 7,690	1%	\$ 58,996

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2015 was as follows:

	<u>2015</u>	<u>2014</u>
Actuarial accrued liability (AAL)	\$ 44,944	\$ 44,944
Actuarial value of plan assets	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 44,944</u>	<u>\$ 44,944</u>
Covered payroll (active members)	\$1,303,264	\$880,409
UAAL as a percentage of covered payroll	3.4%	5.1%

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

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point and do not explicitly reflect the potential effect of legal or contractual funding limitation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions included a 4% interest discount rate. The projected annual medical trend rate is 9.0%. The ultimate medical trend rate is 5.0%. The medical trend rate is reduced 0.5% each year until reaching the 5.0% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using Scale AA to SOA RP-2014. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

Note 10 - RISK MANAGEMENT

The Communications Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductible and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11 - RELATED PARTIES

The Electric Utility, Water Utility, and Communications Utility of the City of Spencer, Iowa exchange services in the normal course of business.

Additional related party items are included in Notes 5, 6 and III-D-15.

Note 12 – CONTINGENCIES

In September of 2014 the Utility was notified of a dispute regarding intra MTA traffic by MCI Communications Services, Inc. In November of 2014, the Utility along with several other communications companies were named in litigation filed by MCI Communications Services, Inc. The Utility is defending the litigation and denies any wrongdoing.

The allowance account for carrier receivables as of December 31, 2015 and December 31, 2014 was \$726,062 and \$489,542, respectively.

Note 13 - COMMITMENTS

Beginning in 2011, the Communications Utility signed an advertising and signage agreement with the Clay County Regional Event Center. The agreement is effective September 1, 2011 and terminates on August 31, 2016. The annual amount due is \$5,950. A portion of the annual cost is

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 13 – COMMITMENTS (Continued)

split between the Electric and Water Utility. The Communication Utility is responsible for \$2,678 of the annual amount due.

Beginning in 2013, the Communications Utility pledged support to the Iowa Lakes Corridor Development Corporation for four years at a level of \$37,500 per year for 2013 and 2014 and \$25,000 for 2015 and 2016. This commitment is subject to annual review by the Utility Board.

Beginning in 2013, the Communications Utility pledged support to Startup City Spencer which is a regional incubator providing access to startup services. The support pledged is for five years at a level of \$5,000 per year.

The Communications Utility entered into an agreement with North Central Service, Inc. in July 2014. The contract is in the amount of \$3,564,500 for conversion of Nodes 18-24 and Nodes 14 and 15 to Fiber to the Home. As of December 31, 2015 the remaining balance was \$714,373. Project is expected to be completed in 2016.

The Communications Utility entered into an agreement with Kidd Construction, Inc. in July 2015. The contract is in the amount of \$58,213 for installation of Fiber in the Clay County Fairgrounds. Project was completed in 2015 and \$2,911 remained unpaid as of December 31, 2015.

Note 14 – SUBSEQUENT EVENTS

In March of 2016, the Communications Utility awarded A & A Underground a contract to complete the third phase of the Fiber to the Home project. The contract is in the amount of \$2,165,876 for conversion of Nodes 25-31 and Node 36 to Fiber to the Home. The project is expected to be completed in 2016.

Note 15 – 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 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 and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 15 – ACCOUNTING CHANGE / RESTATEMENT (Continued)

	Communications Utility
Net Position December 31, 2014, as previously reported	\$ 12,785,613
Net Pension Liability at June 30, 2014	(1,100,595)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	166,630
Net Position December 31, 2014, as restated	\$ 11,851,648

REQUIRED SUPPLEMENTAL INFORMATION

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2015**

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2008	12/31/2008	\$ -	\$ 22,881	\$ 22,881	0%	\$ 958,187	2.4%
2009	12/31/2009	-	28,668	28,668	0%	986,933	2.9%
2010	12/31/2010	-	36,624	36,624	0%	1,016,541	3.6%
2011	12/31/2011	-	45,009	45,009	0%	1,009,606	4.5%
2012	12/31/2012	-	52,828	52,828	0%	1,039,894	5.0%
2013	12/31/2012	-	52,828	52,828	0%	1,042,869	5.0%
2014	12/31/2014	-	44,944	44,944	0%	880,409	5.1%
2015	12/31/2015	\$ -	\$ 44,944	\$ 44,944	0%	\$ 1,303,264	3.4%

See Note 8 to the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, and the funded status and funding progress.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE LAST FISCAL YEAR**

	<u>2015</u>
Utility's collective proportion of the net pension liability	0.01899%
Utility's collective proportionate share of the net pension liability	\$ 768,462
Utility's covered employee payroll	\$ 1,109,127
Utility's collective proportionate share of the net pension liability as a percentage of its covered employee payroll	69.29%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

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 Utility will present information for those years for which information is available.

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
SCHEDULE OF THE UTILITY'S CONTRIBUTIONS
IOWA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
LAST 10 FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 107,314	\$ 99,045	\$ 100,488	\$ 98,808
Contributions in relation to the statutorily required contribution	<u>\$ (107,314)</u>	<u>\$ (99,045)</u>	<u>\$ (100,488)</u>	<u>\$ (98,808)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility's covered-employee payroll	\$ 1,201,725	\$ 1,109,127	\$ 1,141,909	\$ 1,180,502
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.80%	8.37%

See Accompanying Independent Auditors' Report

2011	2010	2009	2008	2007	2006
\$ 63,453	\$ 59,282	\$ 54,365	\$ 64,989	\$ 54,373	\$ 36,879
\$ (63,453)	\$ (59,282)	\$ (54,365)	\$ (64,989)	\$ (54,373)	\$ (36,879)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 844,913	\$ 871,794	\$ 836,385	\$ 1,048,210	\$ 921,576	\$ 641,374
7.51%	6.80%	6.50%	6.20%	5.90%	5.75%

See Accompanying Independent Auditors' Report

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 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.

See Accompanying Independent Auditors' Report

SUPPLEMENTAL INFORMATION

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, EXPENDITURES
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (CASH BASIS)
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u> Original	<u>Actual</u>	<u>Amended to</u> <u>Actual Variance</u>
Receipts:			
Municipal Electric Utility		\$ 17,053,222	
Municipal Water Utility		5,310,669	
Municipal Communications Utility		12,757,536	
Total Receipts	<u>\$ 47,786,939</u>	<u>35,121,427</u>	<u>\$ (12,665,512)</u>
Expenditures:			
Municipal Electric Utility		16,340,297	
Municipal Water Utility		8,338,351	
Municipal Communications Utility		8,780,236	
Total Expenditures	<u>46,168,017</u>	<u>33,458,884</u>	<u>(12,709,133)</u>
Change in Net Position	1,618,922	1,662,543	43,621
Net Position at Beginning of Year	<u>17,589,438</u>	<u>19,232,951</u>	<u>-</u>
Net Position at End of Year	<u>\$ 19,208,360</u>	<u>\$ 20,895,494</u>	<u>\$ 43,621</u>

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
BUDGET TO GAAP RECONCILIATION
FOR ELECTRIC, WATER, AND COMMUNICATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED DECEMBER 31, 2015**

	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts:			
Municipal Electric Utility	\$ 17,053,222	\$ (1,954,226)	\$ 15,098,996
Municipal Water Utility	5,310,669	(2,277,446)	3,033,223
Municipal Communications Utility	12,757,536	(5,342,029)	7,415,507
Total Receipts	<u>35,121,427</u>	<u>(9,573,701)</u>	<u>25,547,726</u>
Expenditures:			
Municipal Electric Utility	16,340,297	(1,082,784)	15,257,513
Municipal Water Utility	8,338,351	(6,174,822)	2,163,529
Municipal Communications Utility	8,780,236	(2,732,413)	6,047,823
Total Expenditures	<u>33,458,884</u>	<u>(9,990,019)</u>	<u>23,468,865</u>
Change in Net Position	1,662,543	416,318	2,078,861
Net Position at Beginning of Year	19,232,951	49,806,842	69,039,793
Prior Period Adjustment - Change in Accounting	-	(2,281,303)	(2,281,303)
Net Position at Beginning of Year, as Restated	<u>19,232,951</u>	<u>47,525,539</u>	<u>66,758,490</u>
Net Postion at End of Year	<u>\$ 20,895,494</u>	<u>\$ 47,941,857</u>	<u>\$ 68,837,351</u>

**MUNICIPAL COMMUNICATIONS UTILITY
OF THE CITY OF SPENCER, IOWA
OTHER SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2015**

In accordance with the Code of Iowa, Spencer Municipal Utilities annually adopts a combined budget on the cash basis for the Municipal Electric Utility, Municipal Water Utility, and Municipal Communications Utility of the City of Spencer, Iowa following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized and appropriations lapse at year-end.

Formal and legal budgetary control is based upon nine major classes of expenditures known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. All Utility expenditures are included in business type activities function and are required to be budgeted.



**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***

Board of Trustees
Spencer Municipal Utilities – Municipal Communications Utility
Spencer, Iowa 51301

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 statements of the business-type activities of Municipal Communications Utility of the City of Spencer, Iowa (Spencer Municipal Utility), Spencer, Iowa as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 1, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of the 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 Utility'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

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 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 Spencer Municipal Utilities 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.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
April 1, 2016

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL COMMUNICATIONS UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2015**

Part I: Summary of the Independent Auditors' Results:

- (a) An unmodified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance, which is material to the financial statements.

Part II: Findings Related to the General Purpose Financial Statements

SIGNIFICANT DEFICIENCIES:

No matters were reported.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-15 Certified Budget – Disbursements during the year ended December 31, 2015 did not exceed the amounts budgeted in the business type activities function.

III-B-15 Questionable Expenditures – No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-15 Travel Expenses – No expenditures of the Utility's money for travel expenses of spouses of Utility's officials or employees were noted.

III-D-15 Business Transactions – Business transactions between Utility and Utility officials and employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Duane Barber, Board Member Part Owner, Don Pierson Ford	Maintenance & Repairs	\$ 69 (1)

These transactions do not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the year, per Chapter 362.5(10) of the Code of Iowa.

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

**SPENCER MUNICIPAL UTILITIES
MUNICIPAL COMMUNICATIONS UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2015**

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

III-F-15 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-15 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12(B) and 12(c) of the Code of Iowa and the Utility's investment policy were noted.