

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

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

June 30, 2016

MT. PLEASANT MUNICIPAL UTILITIES

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

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

Board of Trustees and Officials
June 30, 2016

<u>Name</u>	<u>Title</u>	<u>Term Expiration</u>
Dan McCabe	Chairman of the Board	October, 2017
David George	Board Member	October, 2019
Michelle Rosell	Board Member	October, 2019
Harvey Ungerman	Board Member	October, 2021
Carol Nemitz	Board Member	October, 2021
Jack Hedgecock	General Manager	Indefinite
Randall Neff	Treasurer/Business Manager	Indefinite
David McCoid	Attorney	Indefinite

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinions

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

Qualified Opinions

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of June 30, 2016, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management’s Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utilities’ Proportionate Share of the Net Pension Liability, and the Schedule of Utilities Contributions on pages 4 through 8 and 30 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mt. Pleasant Utilities’ basic financial statements. The supplemental information included in pages 36 through 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. The information on pages 37 through 46 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements and has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the supplementary information of the qualified opinions on the basic financial statements as explained in the “Basis for Qualified Opinions” paragraph, the supplementary information on pages 37 through 46 is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information on page 36 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2016, on our consideration of Mt. Pleasant Municipal Utilities’, a component unit of the City of Mt. Pleasant, Iowa, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mt. Pleasant Municipal Utilities’ internal control over financial reporting and compliance.

TD&T CPAs and Advisors, P.C.

Mt. Pleasant, Iowa
October 18, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Mt. Pleasant Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 3.3%, or approximately \$340,000, from fiscal year 2015 to fiscal year 2016.
- Operating expenses increased 5.7%, or approximately \$495,000, from fiscal year 2015 to fiscal year 2016.
- Mt. Pleasant Municipal Utilities' net position increased 7.1%, or approximately \$1,345,000, from June 30, 2015 to June 30, 2016.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

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

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

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

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

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

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

FINANCIAL ANALYSIS

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

	Net Position June 30,	
	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 7,832,775	6,759,415
Capital assets	<u>17,595,228</u>	<u>17,807,497</u>
Total assets	<u>25,428,003</u>	<u>24,566,912</u>
Deferred outflows of resources	<u>256,656</u>	<u>262,118</u>
Total assets and deferred outflows of resources	\$ <u>25,684,659</u>	<u>24,829,030</u>
Long-term liabilities	\$ 2,386,453	2,854,416
Other liabilities	<u>2,821,199</u>	<u>2,553,270</u>
Total liabilities	<u>5,207,652</u>	<u>5,407,686</u>
Deferred inflows of resources	<u>134,171</u>	<u>423,481</u>
Net position:		
Net investment in capital assets	15,847,533	15,136,094
Restricted	306,933	360,256
Unrestricted	<u>4,188,370</u>	<u>3,501,513</u>
Total net position	<u>20,342,836</u>	<u>18,997,863</u>
Total liabilities, deferred outflows of resources and net position	\$ <u>25,684,659</u>	<u>24,829,030</u>

Net position of business type activities increased approximately \$1,345,000, or 7.1%, over fiscal year 2015. The largest portion of the Utilities' net assets is the invested in capital assets (e.g., buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements, is \$4,188,370 at the end of this year.

Changes in Net Position
Year Ended June 30,

	2016	2015
Revenues:		
Operating revenues:		
Charges for services and sales	\$ 10,748,150	10,408,650
Non-operating revenues:		
Investment earnings	4,657	4,675
Insurance proceeds	1,386	-
Other non-operating revenue	21,720	22,734
Total revenues	10,775,913	10,436,059
Operating expenses:		
Power, pumping and treatment plant	6,152,443	5,874,359
Transmission and distribution	1,717,351	1,578,255
General and administration	1,406,789	1,327,831
Non-operating expenses:		
Interest expense	53,357	77,903
Other non-operating expense	1,000	1,000
Total expenses	9,330,940	8,859,348
Increase in net position	1,444,973	1,576,711
Net position beginning of year	18,997,863	17,521,152
Permanent transfer to City of Mt. Pleasant	(100,000)	(100,000)
Net position end of year	\$ 20,342,836	18,997,863

The Utilities' net position increased approximately \$1,345,000 during the year. Revenues increased by approximately \$339,500 over the prior year while total expenses were approximately \$472,000 more than the prior fiscal year.

INDIVIDUAL MAJOR FUND ANALYSIS

- The Electric Fund, which accounts for the operation and maintenance of the Utilities' electric system, ended fiscal 2016 with a \$12,937,774 net position balance compared to the prior year ending net position balance of \$11,690,627.
- The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2016 with a \$7,405,062 net position balance compared to the prior year ending net position balance of \$7,307,236.

BUDGETARY HIGHLIGHTS

Over the course of the year, Mt. Pleasant Municipal Utilities amended its budget two times. The amendments occurred in October 2015 and May of 2016 to increase budgeted revenues and budgeted expenses.

The Utilities' receipts were \$63,314 more than budgeted, a variance of 0.6% and total disbursements were \$434,246 less than budgeted, a variance of 4.1%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utilities' capital assets include buildings, improvements, and equipment. Capital assets totaled \$17,595,228 (net of accumulated depreciation) at June 30, 2016. See Note 2 to the financial statements for more information about the Utilities' capital assets.

There was no construction in progress at June 30, 2016.

Long-Term Debt

At June 30, 2016, long-term debt outstanding, including notes payable, was \$1,744,000. Debt decreased as a result of scheduled payments.

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

ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE

Several economic factors affected decisions made by the Utilities in setting its fiscal 2017 budget.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

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

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

Combining Statement of Net Position
June 30, 2016

Assets and Deferred Outflows of Resources

	Electric	Water	Total
Current assets:			
Cash	\$ 4,523,995	-	4,523,995
Receivables:			
Customer	501,312	111,783	613,095
Unbilled usage	663,978	142,780	806,758
Due from water fund	704,520	-	704,520
Material and supplies inventory	384,060	173,505	557,565
Prepaid expenses	54,390	24,858	79,248
Restricted assets:			
Cash	154,400	32,745	187,145
Certificates of deposit	360,000	-	360,000
Accrued interest receivable	449	-	449
Total current assets	7,347,104	485,671	7,832,775
Non-current assets:			
Property and equipment	25,846,794	20,214,134	46,060,928
Accumulated depreciation	(17,918,763)	(10,546,937)	(28,465,700)
Total non-current assets	7,928,031	9,667,197	17,595,228
Total assets	15,275,135	10,152,868	25,428,003
Deferred outflows of resources:			
Pension related deferred outflows	163,207	93,449	256,656
Total assets and deferred outflows of resources	\$ 15,438,342	10,246,317	25,684,659

See accompanying notes to financial statements.

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

Combining Statement of Net Position
June 30, 2016

Liabilities, Deferred Inflows of Resources and Net Position

	Electric	Water	Total
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,098,580	165,004	1,263,584
Due to electric fund	-	704,520	704,520
Customer deposits	154,400	-	154,400
Accrued interest	1,783	1,912	3,695
Notes payable	310,000	385,000	695,000
Total current liabilities	1,564,763	1,256,436	2,821,199
Long-term liabilities:			
Notes payable	-	1,049,000	1,049,000
Net pension liability	850,486	486,967	1,337,453
Total long-term liabilities	850,486	1,535,967	2,386,453
Total liabilities	2,415,249	2,792,403	5,207,652
Deferred inflows of resources:			
Pension related deferred inflows	85,319	48,852	134,171
Net position:			
Net investment in capital assets	7,616,248	8,231,285	15,847,533
Restricted for:			
Reserve account	306,933	-	306,933
Unrestricted	5,014,593	(826,223)	4,188,370
Total net position	12,937,774	7,405,062	20,342,836
Total liabilities, deferred inflows of resources and net position	\$ 15,438,342	10,246,317	25,684,659

See accompanying notes to financial statements.

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

**Combining Statement of Revenue, Expenses
and Changes in Net Position
Year Ended June 30, 2016**

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Operating revenue:			
Metered sales	\$ 8,467,092	1,987,321	10,454,413
Other sales	107,008	-	107,008
Other revenue	35,736	86,489	122,225
Cut-off notice fee	11,237	2,749	13,986
Sewer and solid waste service fee	14,462	3,538	18,000
Penalty charges and bad debt recoveries	26,127	6,391	32,518
Total operating revenue	<u>8,661,662</u>	<u>2,086,488</u>	<u>10,748,150</u>
Operating expenses:			
Power, pumping and treatment plant	5,266,395	886,048	6,152,443
Transmission and distribution	903,497	813,854	1,717,351
General and administration	1,130,313	276,476	1,406,789
Total operating expenses	<u>7,300,205</u>	<u>1,976,378</u>	<u>9,276,583</u>
Net operating income	<u>1,361,457</u>	<u>110,110</u>	<u>1,471,567</u>
Non-operating revenue:			
Interest income	1,680	(517)	1,163
Interest income - restricted	3,183	311	3,494
Gain on disposition of property and equipment	6,221	15,499	21,720
Insurance proceeds	1,386	-	1,386
Total non-operating revenue	<u>12,470</u>	<u>15,293</u>	<u>27,763</u>
Non-operating expenses:			
Interest expense	26,280	27,077	53,357
Banking fees	500	500	1,000
Total non-operating expenses	<u>26,780</u>	<u>27,577</u>	<u>54,357</u>
Change in net position	1,347,147	97,826	1,444,973
Net position, beginning of year	11,690,627	7,307,236	18,997,863
Permanent transfer to City of Mt. Pleasant	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Net position, end of year	<u>\$ 12,937,774</u>	<u>7,405,062</u>	<u>20,342,836</u>

See accompanying notes to financial statements.

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

Combining Statement of Cash Flows
Year Ended June 30, 2016

	Electric	Water	Total
Cash flows from operating activities:			
Cash received from customers and users	\$ 8,561,310	2,072,284	10,633,594
Cash paid to employees for services	(1,131,462)	(796,956)	(1,928,418)
Cash paid to suppliers	(5,925,581)	(307,885)	(6,233,466)
Net cash provided (used) by operating activities	1,504,267	967,443	2,471,710
Cash flows from non-capital financing activities:			
Permanent transfer to City of Mt. Pleasant	(100,000)	-	(100,000)
Cash flows from capital and related financing activities:			
Principal paid on notes payable	(500,000)	(380,000)	(880,000)
Interest paid on notes payable	(27,945)	(27,584)	(55,529)
Principal paid on capital lease	(40,326)	-	(40,326)
Interest paid on capital lease	(1,210)	-	(1,210)
Cash paid for banking fees on notes payable	(500)	(500)	(1,000)
Purchase of property and equipment	(361,319)	(604,941)	(966,260)
Proceeds from disposition of property and equipment	6,221	15,499	21,720
Insurance proceeds received	1,386	-	1,386
Net cash provided (used) by capital activities	(923,693)	(997,526)	(1,921,219)
Cash flows from investing activities:			
Interest on investments	4,670	(206)	4,464
Net change in cash and cash equivalents	485,244	(30,289)	454,955
Cash and cash equivalents at beginning of year	4,193,151	63,034	4,256,185
Cash and cash equivalents at end of year	\$ 4,678,395	32,745	4,711,140

See accompanying notes to financial statements.

(continued)

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

Combining Statement of Cash Flows (Continued)
Year Ended June 30, 2016

	Electric	Water	Total
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 1,361,457	110,110	1,471,567
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	648,496	530,033	1,178,529
Changes in assets, deferred outflows, liabilities and deferred inflows:			
(Increase) decrease in due from other fund	(592,946)	592,946	-
(Increase) decrease in customer receivables	(11,043)	(1,217)	(12,260)
(Increase) decrease in unbilled usage	(75,916)	(14,218)	(90,134)
(Increase) decrease in inventories	73,764	(19,323)	54,441
(Increase) decrease in prepaid expense	23,995	(1,308)	22,687
Increase (decrease) in customer deposits	(12,162)	-	(12,162)
Increase (decrease) in accounts payable and accrued expenses	133,014	(217,161)	(84,147)
Increase (decrease) in net pension liability	137,155	89,882	227,037
(Increase) decrease in deferred outflows	5,178	284	5,462
Increase (decrease) in deferred inflows	(186,725)	(102,585)	(289,310)
Net cash provided (used) by operating activities	\$ 1,504,267	967,443	2,471,710
Cash and cash equivalents at end of year consists of:			
Current assets:			
Cash	\$ 4,523,995	-	4,523,995
Restricted assets:			
Customer deposits	154,400	-	154,400
Notes payable retirement	-	32,745	32,745
Total cash and cash equivalents at end of year	\$ 4,678,395	32,745	4,711,140

See accompanying notes to financial statements.

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

Notes to Financial Statements
June 30, 2016

Note 1 – Significant Accounting Policies

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

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

Reporting Entity

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

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

Basis of Presentation

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

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

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

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 1 – Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

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

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

Cash and Cash Equivalents

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

Accounts Receivable and Unbilled Usage

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

Due From and Due to Other Funds

During the course of its operations, the Utilities has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2016, balances of interfund amounts receivable or payable have been recorded.

Inventories

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

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 1 – Significant Accounting Policies (Continued)

Restricted Assets

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

Deferred Outflows of Resources

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

Pensions

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

Deferred Inflows of Resources

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

General and Administrative

The allocation of general and administrative expenses and penalty income on the Combining Statement of Revenue, Expenses and Changes in Net Position are allocated 80.347% and 19.653% to the Electric and Water Funds, respectively.

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 1 – Significant Accounting Policies (Continued)

Estimates

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

Budgets and Budgetary Accounting

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

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

Note 2 – Property and Equipment Accounting Policies

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

Property and equipment is recorded at historical cost. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

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

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 2 – Property and Equipment Accounting Policies (Continued)

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

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

A summary of the Electric Fund's capital assets at June 30, 2016 follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Capital assets not being depreciated:				
Construction in progress	\$ 10,549	-	(10,549)	-
Land	33,982	366	-	34,348
Total capital assets not being depreciated	<u>44,531</u>	<u>366</u>	<u>(10,549)</u>	<u>34,348</u>
Capital assets being depreciated:				
Buildings and improvements	1,179,578	125,907	-	1,305,485
Generating equipment	12,064,501	7,076	-	12,071,577
Distribution equipment	10,375,663	167,131	-	10,542,794
Other equipment	1,844,443	71,388	(23,241)	1,892,590
Total capital assets being depreciated	<u>25,464,185</u>	<u>371,502</u>	<u>(23,241)</u>	<u>25,812,446</u>
Less accumulated depreciation for:				
Buildings and improvements	925,347	18,464	-	943,811
Generating equipment	7,012,873	333,397	-	7,346,270
Distribution equipment	7,802,516	226,644	-	8,029,160
Other equipment	1,552,772	69,991	(23,241)	1,599,522
Total accumulated depreciation	<u>17,293,508</u>	<u>648,496</u>	<u>(23,241)</u>	<u>17,918,763</u>
Total capital assets being depreciated, net	<u>8,170,677</u>	<u>(276,994)</u>	<u>-</u>	<u>7,893,683</u>
Total capital assets, net	\$ <u>8,215,208</u>	<u>(276,628)</u>	<u>(10,549)</u>	<u>7,928,031</u>

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 2 – Property and Equipment Accounting Policies (Continued)

A summary of the Water Fund's capital assets at June 30, 2016 follows:

	<u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>End</u> <u>of Year</u>
Capital assets not being depreciated:				
Construction in progress	\$ 23,331	-	(23,331)	-
Land	<u>131,975</u>	<u>-</u>	<u>-</u>	<u>131,975</u>
Total capital assets not being depreciated	<u>155,306</u>	<u>-</u>	<u>(23,331)</u>	<u>131,975</u>
Capital assets being depreciated:				
Buildings and improvements	1,443,087	8,008	-	1,451,095
Pumping and treatment equipment	8,487,999	415,457	-	8,903,456
Distribution equipment	6,747,288	90,297	-	6,837,585
Water tower	1,702,798	69,435	-	1,772,233
Other equipment	<u>1,072,715</u>	<u>45,075</u>	<u>-</u>	<u>1,117,790</u>
Total capital assets being depreciated	<u>19,453,887</u>	<u>628,272</u>	<u>-</u>	<u>20,082,159</u>
Less accumulated depreciation for:				
Buildings and improvements	1,097,346	31,805	-	1,129,151
Pumping and treatment equipment	3,394,544	252,405	-	3,646,949
Distribution equipment	3,849,583	130,763	-	3,980,346
Water tower	873,746	46,852	-	920,598
Other equipment	<u>801,685</u>	<u>68,208</u>	<u>-</u>	<u>869,893</u>
Total accumulated depreciation	<u>10,016,904</u>	<u>530,033</u>	<u>-</u>	<u>10,546,937</u>
Total capital assets being depreciated, net	<u>9,436,983</u>	<u>98,239</u>	<u>-</u>	<u>9,535,222</u>
Total capital assets, net	\$ <u>9,592,289</u>	<u>98,239</u>	<u>(23,331)</u>	<u>9,667,197</u>

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

Note 3 – Donated Electricity and Water

The municipal parks, city hall, and other municipally operated facilities in the City of Mt. Pleasant are not billed for electricity and water usage, service, and materials provided to them during the year. The meters from these facilities are read monthly and the resulting amount computed at normal rates is considered to be a donation to the City. During the year ended June 30, 2016, services donated to the City totaled \$278,507 and \$35,897 for the Electric and Water Funds, respectively. No revenue or expense has been recognized in the financial statements for these amounts.

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 4 – Cash and Pooled Investments

The Municipal Utilities' deposits at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Certificates of deposit are carried at historical cost.

Note 5 – Pension and Retirement Benefits

Plan Description

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

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

Pension Benefits

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

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 5 – Pension and Retirement Benefits (Continued)

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

Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State 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 2016, pursuant to the required rate, Regular members contributed 5.95 percent of covered payroll and the Utilities contributed 8.93 percent of covered payroll for a total rate of 14.88 percent. The Utilities' total contributions to IPERS for the year ended June 30, 2015 totaled \$173,253.

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 5 – Pension and Retirement Benefits (Continued)

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

At June 30, 2016, the Utilities reported a liability of \$1,337,453 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion of the net pension liability was based on the Utilities' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utilities collective proportion was .0270713 percent which was an increase of .0009277 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$114,919. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 20,207	-
Changes of assumptions	36,823	-
Net difference between projected and actual earnings on IPERS' investments	-	111,311
Changes in proportion and differences between Utilities' contributions and proportionate share of contributions	26,373	22,860
Utilities' contributions subsequent to the measurement date	<u>173,253</u>	<u>-</u>
Total	<u>\$ 256,656</u>	<u>134,171</u>

\$173,253, reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 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:

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 5 – Pension and Retirement Benefits (Continued)

Year ending June 30,		
2017	\$	(34,499)
2018		(34,499)
2019		(34,499)
2020		53,445
2021		<u>(716)</u>
Total	\$	<u>(50,768)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.0 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00 percent per annum based on 3.00 percent inflation and 1.00 percent real wage inflation.

The actuarial assumptions used in the June 30, 2015 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 IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 5 – Pension and Retirement Benefits (Continued)

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	<u>1</u>	(0.71)
 Total	 <u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' 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 IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	<u>1% Decrease 6.5%</u>	<u>Discount Rate 7.5%</u>	<u>1% Increase 8.5%</u>
Utilities' proportionate share of the net pension liability:	\$ <u>2,341,640</u>	<u>1,337,453</u>	<u>489,848</u>

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 5 – Pension and Retirement Benefits (Continued)

IPERS' Fiduciary Net Position

Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2016, the Utilities reported a payable to IPERS of \$16,764 for legally required employer contributions and legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 6 – Major Suppliers

All of the Utilities' purchased power is from one supplier. The total amount purchased was \$4,275,106 which represents 99.9% of total kilowatt hours generated and purchased.

Note 7 – Compensated Absences

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. A liability is recorded when incurred and has been computed based on rates of pay in effect at June 30, 2016.

Vacation pay has been accrued in the financial records as a liability for time earned but not used at June 30, 2016. This amount based on June 30, 2016 wages and salaries was \$143,004.

Employee sick leave accumulates up to a maximum of 120 days, which does not vest. However, upon retirement or death, whichever occurs first, the employee will be paid 100% of their accumulated sick leave to a maximum of 90 days. To receive this benefit, the employee must have applied for and been approved for IPERS retirement benefits or reached age 62 and retired. An employee who quits or is fired is not eligible for payment of accumulated sick leave. The liability for employee sick leave is reported in the Combining Statement of Net Position only for employees who have retired. As of June 30, 2016, there was no liability for sick leave accrued.

The maximum contingent liability for employee sick leave accruals at June 30, 2016 is approximately \$225,000.

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 8 – Unrestricted Net Position Designated by the Board

The Utilities by resolution of the board set aside funds on a monthly basis for specific purposes. These funds are only available upon board authorization. As of June 30, 2016 the amounts that are board designated are as follows:

<u>Fund</u>	<u>Purpose</u>	<u>Designated Net Position</u>
Electric Fund	Light Improvement	\$ 1,009,803
Water Fund	Water Improvement	411,173
Electric Fund	Light Contingency	<u>754,839</u>
Total board designated net position		\$ <u><u>2,175,815</u></u>

Note 9 – Allowance for Doubtful Accounts

As of June 30, 2016, accounts receivable was shown net of their allowance for doubtful accounts for electric and water of \$4,178 and \$1,022, respectively.

Note 10 – Risk Management

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

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

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

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

Unpaid claims and IBNR, beginning of year	\$ 1,877
Current year costs including IBNR	42,221
Claims paid	<u>(43,299)</u>
Unpaid claims and IBNR, end of year	\$ <u><u>799</u></u>

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 11 – Notes Payable

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

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

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

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

During the year ended June 30, 2016, the Utilities was in compliance with the revenue note provisions.

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

(continued)

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 11 – Notes Payable (Continued)

Year Ending June 30,	<u>Electric Revenue Notes</u>			<u>Water Revenue Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 310,000	10,695	320,695	385,000	21,464	406,464
2018	-	-	-	390,000	15,264	405,264
2019	-	-	-	400,000	8,944	408,944
2020	-	-	-	259,000	2,072	261,072
2021	-	-	-	-	-	-
	<u>\$ 310,000</u>	<u>10,695</u>	<u>320,695</u>	<u>1,434,000</u>	<u>47,744</u>	<u>1,481,744</u>

Note 12 – Capital Lease

The Utilities leases certain equipment under a capital lease. The economic substance of the lease is that the Utilities is financing the acquisition of the equipment through the lease, and accordingly it has been recorded in the Utilities' assets and liabilities. Amortization of equipment held under the capital lease is included with depreciation expense. The gross value of the leased equipment is \$157,487 and at June 30, 2016 accumulated depreciation on the equipment was \$68,901. The lease was paid off as of June 30, 2016.

Note 13 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	<u>Electric Revenue Notes</u>	<u>Water Revenue Notes</u>	<u>Capital Lease</u>	<u>Net Pension Liability</u>	<u>Total</u>
Balance, 6/30/2015	\$ 810,000	1,814,000	40,326	1,110,416	3,774,742
Increases	-	-	-	227,037	227,037
Decreases	<u>500,000</u>	<u>380,000</u>	<u>40,326</u>	<u>-</u>	<u>920,326</u>
Balance, 6/30/2016	<u>\$ 310,000</u>	<u>1,434,000</u>	<u>-</u>	<u>1,337,453</u>	<u>3,081,453</u>
Due within one year	<u>\$ 310,000</u>	<u>385,000</u>	<u>-</u>	<u>-</u>	<u>695,000</u>

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

Notes to Financial Statements (Continued)
June 30, 2016

Note 14 – Related Party Transactions

The Utilities had business transactions between the Utilities and employees and relatives of Utilities' employees, totaling \$19,134 during the year ended June 30, 2016.

Note 15 – Transfer of Funds to City

Beginning in 2003, the Utilities was required to transfer funds to the general fund of the City of Mt. Pleasant. The amount transferred for the year ended June 30, 2016 was \$100,000.

Note 16 – Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Water	\$ <u>112,805</u>

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

Required Supplementary Information

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

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended June 30, 2016

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts	\$ 10,661,164	10,614,200	10,597,850	63,314
Disbursements	10,106,209	10,513,936	10,540,455	(434,246)
Net	554,955	100,264	57,395	497,560
Other financing sources, net	(100,000)	(100,000)	(100,000)	-
Beginning balances	4,256,185	4,616,248	4,616,248	(360,063)
Ending balances	\$ 4,711,140	4,616,512	4,573,643	137,497

See accompanying independent auditors' report.

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

Budget to GAAP Reconciliation
Required Supplementary Information
Year Ended June 30, 2016

	Proprietary Funds		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 10,661,164	114,749	10,775,913
Expenditures / expenses	10,106,209	(775,269)	9,330,940
Net	554,955	890,018	1,444,973
Other financing sources, net	(100,000)	-	(100,000)
Beginning net position	4,256,185	14,741,678	18,997,863
Ending net position	\$ 4,711,140	15,631,696	20,342,836

See accompanying independent auditors' report.

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

Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2016

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. One of the nine functions includes the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments decreased budgeted revenues by \$16,350 and increased budgeted disbursements by \$26,519. These budget amendments are reflected in the final budgeted amounts.

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

Schedule of the Utilities' Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Required Supplementary Information

	2016	2015
Utilities' proportion of the net pension liability (asset)	0.0270713%	0.0279990%
Utilities' proportionate share of the net pension liability	1,337	\$ 1,110
Utilities' covered-employee payroll	1,866	\$ 1,842
Utilities proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.65%	60.26%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

* - In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditors' report.

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

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

Required Supplementary Information

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	173	167	164	150
Contributions in relation to the statutorily required contribution	<u>(173)</u>	<u>(167)</u>	<u>(164)</u>	<u>(150)</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Utilities' covered-employee payroll	1,940	1,866	1,842	1,731
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
142	123	112	104	97	89
<u>(142)</u>	<u>(123)</u>	<u>(112)</u>	<u>(104)</u>	<u>(97)</u>	<u>(89)</u>
<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
1,761	1,769	1,690	1,641	1,603	1,554
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

See accompanying independent auditors' report.

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

Notes to Required Supplementary Information – Pension Liability
June 30, 2016

Changes of Benefit Terms

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

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

Changes of Assumptions

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

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

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

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

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

Supplementary Information

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

Unaudited Comparative Operating Statistics

	Year Ended June 30,		
	2016	2015	2014
Number of customers served:			
Electricity:			
Residential	3,417	3,206	3,222
Commercial	623	826	797
Electric heat	38	42	49
Security lights	118	126	113
Commercial demand	36	34	34
Steam	-	-	-
Water	3,734	3,716	3,715
Kilowatt hours:			
Number of kilowatt hours purchased	79,023,921	76,608,783	82,414,763
Number of kilowatt hours produced	167,672	63,877	1,222,941
	<u>79,191,593</u>	<u>76,672,660</u>	<u>83,637,704</u>
Number of kilowatt hours sold	68,813,550	68,537,122	72,845,356
% of kilowatt hours sold to total produced and purchased	86.90%	89.39%	87.10%
Number of kilowatt hours for export	81,139	42,407	454,247
Number of kilowatt hours for internal use	4,212,787	4,021,144	4,300,759
Number of kilowatt hours donated to city	2,297,919	2,336,012	2,367,746
	<u>6,591,845</u>	<u>6,399,563</u>	<u>7,122,752</u>
Gallons:			
Number of gallons pumped	612,793,000	599,563,000	613,543,000
Number of gallons billed	398,073,721	395,921,692	413,038,483
% of gallons billed to total pumped	64.96%	66.04%	67.32%
Number of gallons for internal use	107,989,508	105,650,963	108,089,768
Number of gallons donated to city	3,825,175	11,502,827	2,523,090
	<u>111,814,683</u>	<u>117,153,790</u>	<u>110,612,858</u>

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

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

Unaudited Comparative Operating Statistics

Year Ended June 30,			
2013	2012	2011	2010
3,232	3,226	3,224	3,192
785	789	794	817
54	64	70	74
117	116	113	116
34	34	30	30
-	-	-	1
3,702	3,677	3,677	3,667
79,482,402	78,321,147	78,364,471	77,027,608
1,066,472	1,014,317	982,739	379,933
80,548,874	79,335,464	79,347,210	77,407,541
71,589,039	69,432,802	70,533,023	67,546,011
88.88%	87.52%	88.89%	87.26%
531,865	561,717	305,603	161,778
4,291,653	4,230,644	4,724,157	4,280,387
2,331,454	2,319,775	2,841,483	2,955,426
7,154,972	7,112,136	7,871,243	7,397,591
635,711,000	613,883,000	585,919,000	598,517,000
436,112,864	427,489,140	410,598,689	403,845,395
68.60%	69.64%	70.08%	67.47%
112,033,081	108,173,908	104,887,644	107,979,667
2,175,046	2,928,561	2,055,455	2,376,125
114,208,127	111,102,469	106,943,099	110,355,792

See accompanying independent auditors' report.

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

Schedule of Net Position Detail
June 30, 2016

	Electric	Water	Total
Accounts payable and accrued expenses, payable from current assets:			
Trade accounts payable	\$ 797,645	103,377	901,022
Salaries and wages	126,101	61,627	187,728
Payroll and withholding taxes	63,181	-	63,181
Sewer and trash payable	111,653	-	111,653
 Total	 \$ 1,098,580	 165,004	 1,263,584

See accompanying independent auditors' report.

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

Schedule of Net Position Detail (Continued)
June 30, 2016

		Assets				
		Balance		Trades	Balance	Estimated
		June 30,	Acquisitions	and	June 30,	Life
		2015	(Eliminations)	(Adjustments)	2016	In Years
Property and equipment:						
Electric Fund:						
Land improvement	\$	41,003	-	-	41,003	15
Buildings		1,115,872	125,907	-	1,241,779	30
Generating equipment		12,064,501	7,076	-	12,071,577	10-30
Distribution equipment		9,221,378	167,131	-	9,388,509	30
Construction in progress		10,549	(10,549)	-	-	
Machinery and equipment		1,106,153	41,826	(23,241)	1,124,738	8-10
Transportation equipment		150,727	-	-	150,727	5
Office furniture and fixtures		209,403	-	-	209,403	5-10
Consultant services		1,154,285	-	-	1,154,285	5
Steam supply line		42,667	-	-	42,667	10-30
Computer		335,493	29,562	-	365,055	3-8
Leasehold improvements		22,703	-	-	22,703	5
Land		33,982	366	-	34,348	
Total	\$	<u>25,508,716</u>	<u>361,319</u>	<u>(23,241)</u>	<u>25,846,794</u>	

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

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

Schedule of Net Position Detail (Continued)
June 30, 2016

		Assets				
		Balance	Trades		Balance	Estimated
		June 30,	Acquisitions	and	June 30,	Life
		2015	(Eliminations)	(Adjustments)	2016	In Years
Property and equipment:						
Water Fund:						
Buildings	\$	1,443,087	8,008	-	1,451,095	10-30
EDR treatment plant		6,929,407	336,223	-	7,265,630	40
Pumping and filtering equipment		1,558,592	79,234	-	1,637,826	25-40
Distribution system		5,845,441	78,297	-	5,923,738	40
Construction in progress		23,331	(23,331)	-	-	
Water tower		1,702,798	69,435	-	1,772,233	21-40
Machinery and equipment		807,204	41,125	-	848,329	5-10
Land		131,975	-	-	131,975	
Consultant services		901,847	12,000	-	913,847	5
Furniture and fixtures		265,511	3,950	-	269,461	10
Total	\$	<u>19,609,193</u>	<u>604,941</u>	<u>-</u>	<u>20,214,134</u>	

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

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

Schedule of Net Position Detail (Continued)
June 30, 2016

<u>Accumulated Depreciation/Amortization</u>				
Balance June 30, 2015	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2016	Depreciated Cost June 30, 2016
\$ 1,097,346	31,805	-	1,129,151	321,944
2,551,597	216,926	-	2,768,523	4,497,107
842,947	35,479	-	878,426	759,400
2,972,658	125,067	-	3,097,725	2,826,013
-		-	-	-
873,746	46,852	-	920,598	851,635
710,215	47,201	-	757,416	90,913
-		-	-	131,975
876,925	5,696	-	882,621	31,226
91,470	21,007	-	112,477	156,984
<u>\$ 10,016,904</u>	<u>530,033</u>	<u>-</u>	<u>10,546,937</u>	<u>9,667,197</u>

See accompanying independent auditors' report.

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

Expense Detail
June 30, 2016

	Actual	Operating Budget
Operating expenses:		
Electric Fund:		
Power, pumping and treatment plant:		
Supervision salaries	\$ 40,640	39,499
Power plant:		
Fuel, coal and oil	65,398	114,036
Purchased power	4,275,106	4,421,394
Production:		
Labor	288,691	256,133
Chemicals	1,166	2,500
Maintenance:		
Labor	20,879	33,085
Supplies	13,591	15,000
Other:		
Meal allowance	-	50
Heat and light expense	22,010	30,000
Miscellaneous	2,441	3,335
Depreciation	349,424	351,420
Freight	120	50
Miscellaneous contracted service	132,289	147,500
Permits	21	1,200
Repairs	2,146	15,000
Insurance	52,473	50,800
Education and training	-	200
	\$ 5,266,395	5,481,202
Total power, pumping and treatment plant	\$ 5,266,395	5,481,202

See accompanying independent auditors' report.

(continued)

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

Expense Detail (Continued)
June 30, 2016

	Actual	Operating Budget
Operating expenses:		
Electric Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 40,640	39,499
Maintenance of line:		
Labor	250,968	300,514
Supplies	63,952	36,000
Maintenance of park and street:		
Lighting:		
Labor	23,307	45,000
Supplies	10,310	9,000
Maintenance of meters:		
Labor	32,410	27,258
Supplies	23,209	17,500
Removing and resetting meters	40,921	45,430
Other:		
Depreciation	293,870	282,000
Vehicle supplies	5,960	3,500
Vehicle repair	22,384	15,000
Mileage	-	150
Lodging	527	1,000
Meals allowance	133	150
Freight	12	100
Miscellaneous contracted services	33,795	32,500
Repairs	-	2,000
Insurance	52,599	50,800
Tools	5,633	5,000
Miscellaneous	2,488	3,536
Books and instructional materials	-	500
Education and training	379	2,000
	\$ 903,497	918,437
Total transmission and distribution		

See accompanying independent auditors' report.

(continued)

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

Expense Detail (Continued)
June 30, 2016

	Actual	Operating Budget
Operating expenses:		
Water Fund:		
Pumping and treatment plant:		
Supervision salaries	\$ 39,922	39,495
Maintenance of pumping equipment:		
Labor	287,923	317,915
Supplies	82,773	54,000
Outside analytical services	2,993	2,200
Pumping station expense	1,455	3,000
Insurance	49,659	45,000
Chemicals	107,770	100,000
Depreciation	293,469	279,000
Other pumping and treatment expenses:		
Permits	100	1,000
Education and training	1,120	1,700
Freight	-	100
Miscellaneous	233	2,024
Mileage	276	250
Lodging	439	500
Meal allowance	126	200
Miscellaneous contracted services	13,921	12,500
Repairs	21	5,000
Small Tools	2,771	3,000
Vehicle repairs and supplies	1,077	3,500
Total pumping and treatment plant	\$ 886,048	870,384

See accompanying independent auditors' report.

(continued)

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

Expense Detail (Continued)
June 30, 2016

	Actual	Operating Budget
Operating expenses:		
Water Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 39,922	39,495
Maintenance of mains:		
Labor	238,893	210,025
Supplies	72,907	51,000
Maintenance of meters:		
Labor	4,554	10,107
Supplies	39,789	25,000
Removing and resetting meters	83,882	81,785
Maintenance of hydrants:		
Labor	5,730	7,891
Supplies	4,054	10,500
Other transmission and distribution:		
Vehicle expense	12,915	7,000
Depreciation	236,564	217,500
Permits	654	500
Education and training	2,795	1,000
Miscellaneous	1,189	3,515
Mileage	-	250
Lodging	1,001	500
Meal allowance	216	500
Freight	979	500
Miscellaneous contracted services	15,587	25,000
Repairs	110	1,800
Vehicle repairs	1,931	4,000
Tools	8,037	7,000
Analytical service	-	300
Insurance	42,145	45,000
	\$ 813,854	750,168
Total transmission and distribution	\$ 813,854	750,168

See accompanying independent auditors' report.

(continued)

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

Expense Detail (Continued)
June 30, 2016

	Actual	Operating Budget
Operating expenses:		
Electric and Water Funds:		
General and administrative:		
Education and training	\$ 2,084	1,400
Advertising	4,876	3,200
Repairs	30	1,000
Business meals	379	550
Administrative salaries	201,952	197,229
Administrative supplies	8,898	8,000
Trustee salaries	11,702	10,200
Accounting and collecting labor	221,601	257,423
Computer maintenance and supplies	31,190	31,500
Maintenance agreements	14,896	13,650
Bank charges	14,329	11,000
Courtesy	2,174	2,000
Insurance	24,251	24,150
Dues, assessments and subscriptions	33,506	34,250
Meter reading wages	65,583	60,991
Meter reading supplies	244	200
Provision for doubtful accounts	30,972	40,000
Printing	4,539	4,500
First aid supplies	240	-
Postage	27,007	27,600
Telephone	14,311	14,000
Contractual services	8,260	15,000
Professional fees	26,932	32,725
Payroll tax expense	143,741	154,451
Pension expense (IPERS)	116,442	180,294
Group insurance	283,882	280,510
Mileage	2,147	3,000
Transportation and vehicle expense	21,243	36,750
Eco@Home	37,654	36,500

See accompanying independent auditors' report.

(continued)

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

Expense Detail (Continued)
June 30, 2016

	Actual	Operating Budget
Operating expenses:		
Electric and Water Funds (continued):		
General and administrative (continued):		
Use tax expense	9,585	12,000
Safety program	9,707	6,000
Miscellaneous	1,297	3,477
Lodging	1,250	1,500
Tools	12,772	12,750
Drug testing	661	1,000
Economic development	11,250	11,250
Depreciation	5,202	5,220
 Total general and administrative	\$ 1,406,789	1,535,270
 Allocated as follows:		
Electric Fund	\$ 1,130,313	80.35%
Water Fund	276,476	19.65%
 Total as above	\$ 1,406,789	

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

See accompanying independent auditors' report.

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

Note Maturities
June 30, 2016

Year Ending June 30,	Electric Revenue Note Issued May 20, 2009		Water Revenue Note Issued April 2, 2012	
	Interest Rate	Amount	Interest Rate	Amount
2017	3.45 %	\$ 310,000	1.60 %	\$ 385,000
2018	-	-	1.60	390,000
2019	-	-	1.60	400,000
2020	-	-	1.60	259,000
2021	-	-	1.60	-
Total		\$ 310,000		\$ 1,434,000

See accompanying independent auditors' report.

Offices located in:
Burlington
(319) 753-9877
Cedar Rapids
(319) 393-2374
Centerville
(641) 437-4296
Fairfield
(641) 472-6171
Mt. Pleasant
(319) 385-3026



TD&T CPAs and Advisors, P.C.
Grow With Us

Offices located in:
Muscatine
(563) 264-2727
Oskaloosa
(641) 672-2523
Ottumwa
(641) 683-1823
Pella
(641) 628-9411
West Des Moines
(515) 657-5800

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Mt. Pleasant Municipal Utilities' basic financial statements, and have issued our report thereon dated October 18, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control that we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Mt. Pleasant Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-16 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-B-16 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Mt. Pleasant Municipal Utilities' Response to Findings

Mt. Pleasant Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. Mt. Pleasant Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mt. Pleasant Municipal Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

TDE&T CPAs and Advisors, P.C.

Mt. Pleasant, Iowa
October 18, 2016

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

Schedule of Findings
Year Ended June 30, 2016

Part I: Summary of the Independent Auditors' Results:

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

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

II-A-16 Accounting Records – Accounts receivable general ledger control accounts do not match the subsidiary ledger on a month to month basis.

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

Response – We will review accounts receivable.

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

II-B-16 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response – Additional controls have been implemented to prevent segregation of duties concerns.

Conclusion – Response acknowledged. Newly implemented controls will be reviewed during next year's audit.

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

Schedule of Findings (Continued)
Year Ended June 30, 2016

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

Instances of Non-Compliance:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-16 Certified Budget – Municipal Utilities' budget is filed as part of the City of Mt. Pleasant's budget. Disbursements during the year ended June 30, 2016 were within the budgeted amount.

III-B-16 Questionable Expenditures – We noted no expenditures that were questionable costs.

III-C-16 Travel Expense – We noted no expenditures of Municipal Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees.

III-D-16 Business Transactions – Business transactions between the Utilities and employees and relatives of Utilities' employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Codeworks Software Factory owner Matt Gingerich, stepson of employee	Computer programming and software maintenance	\$ 5,666
Double D Pest Control owner Darren Davisson, employee of the Utilities	Pest control supplies	\$ 118
Washington Electric Service owners Eugene and Deidre Zehr, father and mother-in-law of employee	Electrical supplies and services	\$ 1,631
Doyle Syfert father of employee	80 bales of hay	\$ 400
Randy Carver employee of Utilities	Utilities sold truck	\$ 8,255
Brian Payne brother of employee	Utilities sold scrap metal	\$ 3,064

(continued)

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

Schedule of Findings (Continued)
Year Ended June 30, 2016

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

III-D-16 Business Transactions (Continued)

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

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

Response – We will consider consulting legal counsel.

Conclusion – Response accepted.

III-E-16 Bond Coverage – Surety bond coverage of Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-16 Utility Board Minutes – We noted no transactions that we believe should have been approved in the Board minutes but were not.

III-G-16 Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.

III-H-16 Revenue Notes – We noted no instances of non-compliance with water or electric note provisions.

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

Staff

This audit was performed by:

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