MARSHALLTOWN WATER WORKS

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

June 30, 2016 and 2015

MARSHALLTOWN WATER WORKS

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MARSHALLTOWN WATER WORKS

Officials

Name	Title	Term Expires
Kenneth Vinson	Trustee – Chairperson	May 1, 2017
Jerry Young	Trustee	May 1, 2019
Laura Eilers	Trustee	May 1, 2018
Steve Sincox	CEO/General Manager	Indefinite
Tim Wilson	Director of Water Products	Indefinite
Dana Pope	Director of Distribution	Indefinite
Pat Willey	Director of Finance	Indefinite

BOWMAN & MILLER, P.C.

CERTIFIED ♦ PUBLIC ♦ ACCOUNTANTS

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Independent Auditors' Report

To the Board of Trustees
Marshalltown Water Works
Marshalltown, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshalltown Water Works, a component unit of the City of Marshalltown, as of and for the years ended June 30, 2016 and 2015, and the related Notes to Financial Statements 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 U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 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 the Water Works' 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 Water Works' 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 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 Marshalltown Water Works, Marshalltown, Iowa, a component unit of the City of Marshalltown, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Water Works' Proportionate Share of the Net Pension Liability, the Schedule of the Water Works' Net Pension Liability, the Schedules of the Water Works' Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 4-6 and 28-37 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 U.S. generally accepted auditing standards, 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 audits 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in pages 38 through 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated, in all material respect, in relation to the basic 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 October 21, 2016, on our consideration of Marshalltown Water Works' 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 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 Marshalltown Water Works' internal control over financial reporting and compliance.

Bowman and Miller, P.C.

Marshalltown, Iowa
October 21, 2016

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Marshalltown Water Works' financial statements presents our discussion of the Water Works' financial performance during the fiscal year ending June 30, 2016.

Use this discussion in conjunction with the financial report to better understand the Water Works' financial condition, which follows this section.

2016 FINANCIAL HIGHLIGHTS AND NOTEWORTHY ISSUES

- Operating revenues of the Water Works decreased 1.00%, or $35,726, from fiscal year 2015 to fiscal year 2016. A onetime connection fee for the new Marshalltown Generating Station was received during fiscal year 2015. If this onetime connection fee is excluded from fiscal year 2015 revenue, operating revenue during fiscal year 2016 increased 4.57%, or approximately $154,000.

- Operating expenses of the Water Works increased 4.62%, or approximately $144,000, from fiscal year 2015 to fiscal year 2016. The increase was attributed to increased chemical costs. An increase in the purchase price of lime as well as chemical expenses related to lime residuals removal are the reason for increased costs.

- The Water Works' net position increased 2.25%, or approximately $263,000, due primarily to lower than budgeted expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements as well as other requirements as follows:

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

These financial statements consist of Statements of Net position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. These provide information about the activities of the Marshalltown Water Works and present an overall view of the Water Works' finances.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Water Works' budget for the year, the Water Works' proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary information provides detailed information about accounts in the Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position.

The financial statements report information about the Water Works using the accounting method similar to those used by private sector companies. The Statements of Net Position include all of the Water Works' assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting and the economic resources measurement focus. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position regardless of when cash is received or paid.

The Statements of Net Position presents the financial information on all of the Water Works' 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 Water Works' net position may serve as a useful indicator of whether the financial position of the Water Works is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present information showing how the Water Works' net position changed during the fiscal years. 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 these statements for some items that will not result in cash flows until future fiscal years.

The Water Works is considered a business type activity because it charges fees to customers to cover the costs of all services it provides.

FINANCIAL ANALYSIS OF THE WATER WORKS AS A WHOLE

- Operating revenues for the Water Works decreased $35,726 over fiscal year 2015 and operating expenses increased $144,259 leaving an operating income of $267,758. After all non-operating income and expenses were recorded; the Water Works reported a net increase of $263,380 for the year ending June 30, 2016.

- The Water Works' operating revenues were $3,531,874, which resulted in a decrease from the previous year and was approximately 99.5% of the budgeted revenues. Total expenses for fiscal year 2016 were $3,284,144 and were approximately 91.9% of the budgeted amount approved by the Board of Trustees in March 2015.

DEBT ADMINISTRATION

- During fiscal year 2016 the Marshalltown Water Works had no debt.

CONDITIONS OF THE WATER WORKS INFRASTRUCTURE

- The Marshalltown Water Works has spent and does spend a large portion of time maintaining and upgrading its existing infrastructure. The Marshalltown Water Works spent most of fiscal year 2016 doing those types of activities. We have an annual fire hydrant replacement program and an annual valve replacement program. We have developed a list of water mains with excessive breaks. This list will be used to concentrate on water main replacements. We also look at opportunistic water main replacements during city street renovations if the water main along that street warrants replacement.

- The Water Works, with the help of our planning agency, looks at proposed development sites within the City limits to be sure that we have developed our system to the capacity needed to serve those new areas.

- During fiscal year 2015 a leak detection survey was completed. This survey identified unknown leaks on the Water Works distribution system as well as leaks on privately owned water service lines. The identified leaks have been repaired. Due to these efforts, the amount of non-revenue water has decreased.

- A project to raise and rehabilitate well #5 was started during fiscal year 2016.

- In June of 2016 a water tower project began at the 18th Avenue water tower.

- A $6.7 million construction project involving a new ground storage reservoir, pumping station, backup generator and other treatment plant improvements began in April 2016.

- Other planned system upgrades for fiscal year 2017 include water meter replacement, water main replacement and office building repairs.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

- The treatment plant improvements are funded with a State Revolving Fund (SRF) loan. The Water Works approved the loan agreement during the first quarter of fiscal year 2017. The 1.75% loan was authorized for $8.344 million and will pay for the engineering and construction costs, some of which were previously paid from cash on hand.

- In February 2016 HDR Engineering Inc., completed a Comprehensive Water Rate Study. The rate study reviewed the current and projected operation and maintenance costs of the utility as well as the projected loan financing and fully funding our 5 year capital improvement plan. The recommended rate increase of 6% was implemented in July 2016.

CONTACTING THE WATER WORKS' FINANCIAL MANAGEMENT

This financial report is designed to provide customers, investors, and creditors of the Marshalltown Water Works with a general overview of its financial situation and to demonstrate the accountability of the Water Works for the money it receives. If you have any questions about this report, you may contact either Steve Sincox or Pat Willey at 205 East State Street, P.O. Box 1420, Marshalltown, IA 50158 or at (641) 753-7913.

MARSHALLTOWN WATER WORKS

Statements of Net Position
June 30, 2016 and 2015

		2016	2015	Increase (Decrease)
ASSETS:				
Current assets:				
Cash and cash equivalents	$	1,099,703	1,749,441	(649,738)
Receivables:				
Customer		276,013	270,260	5,753
Unbilled water usage		114,857	77,885	36,972
Other receivables		22,284	22,605	(321)
Prepaid expenses		38,337	40,399	(2,062)
Restricted cash and cash equivalents		649,483	587,224	62,259
Total current assets		2,200,677	2,747,814	(547,137)
Investments:				
Certificates of deposit		300,000	300,000	-
Capital reserve		400,267	400,757	(490)
Total investments		700,267	700,757	(490)
Capital assets:				
Capital assets		26,620,923	25,167,989	1,452,934
Accumulated depreciation		(14,766,955)	(14,225,070)	(541,885)
Net capital assets		11,853,968	10,942,919	911,049
Total assets		14,754,912	14,391,490	363,422
DEFERRED OUTFLOWS OF RESOURCES:				
Pension related deferred outflows		174,848	109,630	65,218
Total assets and deferred outflows of resources	$	14,929,760	14,501,120	428,640

See notes to financial statements.

		2016	2015	Increase (Decrease)
LIABILITIES:				
Current liabilities:				
Accounts payable	$	91,920	62,422	29,498
Payable from restricted assets:				
Landfill fees		13,223	13,690	(467)
Sewer fees		360,522	331,743	28,779
Storm sewer fees		83,948	71,588	12,360
Customer deposits - sewer		111,580	99,515	12,065
Customer deposits - water		81,225	74,480	6,745
Accrued liabilities		173,762	165,640	8,122
Total current liabilities		916,180	819,078	97,102
Long-term liabilities:				
Net pension liability		1,909,925	1,770,492	139,433
Net OPEB liability		96,549	87,421	9,128
Total long-term liabilities		2,006,474	1,857,913	148,561
Total liabilities		2,922,654	2,676,991	245,663
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenues:				
Pension related deferred inflows		36,617	117,020	(80,403)
Total liabilities and deferred inflows of resources		2,959,271	2,794,011	165,260
NET POSITION:				
Net investment in capital assets		11,853,968	10,942,919	911,049
Unrestricted		116,521	764,190	(647,669)
Total net position		11,970,489	11,707,109	263,380
Total liabilities, deferred inflows of resources and net position	$	14,929,760	14,501,120	428,640

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Operating revenues:			
Residential	$ 1,493,823	1,453,089	40,734
Multi-family	184,605	190,507	(5,902)
Commercial	466,722	449,465	17,257
Irrigation	37,103	23,560	13,543
Industrial	514,524	461,704	52,820
Wholesale	684,069	667,814	16,255
Non-metered	949	3,095	(2,146)
City contract services	79,746	62,094	17,652
Penalties	42,156	38,877	3,279
Customer service	24,693	212,903	(188,210)
Testing laboratory	3,484	4,492	(1,008)
Total operating revenues	3,531,874	3,567,600	(35,726)
Operating expenses:			
Salaries and wages	1,012,390	1,008,638	3,752
Payroll taxes and benefits	407,004	369,173	37,831
Utilities	274,053	271,569	2,484
Fuels	9,732	17,014	(7,282)
Supplies	80,592	116,559	(35,967)
Maintenance	79,624	99,567	(19,943)
Chemicals	721,174	578,646	142,528
Contract services	3,781	3,850	(69)
Insurance	55,424	55,845	(421)
Professional fees	18,760	16,995	1,765
Other operating expense	38,328	34,696	3,632
Depreciation	563,254	547,305	15,949
Total operating expenses	3,264,116	3,119,857	144,259
Operating income	267,758	447,743	(179,985)

See notes to financial statements.

MARSHALLTOWN WATER WORKS

Statements of Revenues, Expenses and Changes in Net Position (Continued) For the Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Non-operating revenues (expenses):			
Interest income	6,234	5,503	731
Rentals	7,884	1,800	6,084
Miscellaneous income	1,532	14,461	(12,929)
Loss on sale of equipment	-	(148,323)	148,323
Miscellaneous expense	(20,028)	(18,849)	(1,179)
Total non-operating revenues (expenses)	(4,378)	(145,408)	141,030
Changes in net position	263,380	302,335	(38,955)
Net position beginning of year	11,707,109	11,404,774	302,335
Net position end of year	$ 11,970,489	11,707,109	263,380

MARSHALLTOWN WATER WORKS

Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	$ 3,489,470	3,558,666
Cash payments to suppliers for goods and services	(1,192,842)	(1,232,800)
Cash payments to employees and professional contractors for services	(1,405,916)	(1,374,922)
Net cash provided by operating activities	890,712	950,944
Cash flows from investing activities:		
Proceeds from the sale of investments	701,269	702,103
Purchase of investments	(700,779)	(702,058)
Investment income	6,234	5,503
Receipt of rental income	7,884	1,800
Other non-operating expenses	(18,497)	(4,387)
Net cash provided (used) in investing activities	(3,889)	2,961
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(1,474,302)	(348,697)
Disposal of capital assets	-	11,388
Net cash used by financing activities	(1,474,302)	(337,309)
Net change in cash and cash equivalents	(587,479)	616,596
Cash and cash equivalents at beginning of year	2,336,665	1,720,069
Cash and cash equivalents at end of year	$ 1,749,186	2,336,665
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 267,758	447,743
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	563,254	547,305

See notes to financial statements.

MARSHALLTOWN WATER WORKS

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2016 and 2015

	2016	2015
(Increase) decrease in assets:		
Accounts receivable	(5,753)	1,380
Unbilled water usage	(36,972)	(19,597)
Other receivables	321	9,283
Prepaid expenses	2,062	(3,881)
Deferred outflows of resources	(65,218)	(65,612)
Increase (decrease) in liabilities:		
Accounts payable	29,498	(143,617)
Payable to sewer fund	28,779	70,046
Payable to landfill fund	(467)	2,481
Payable to storm sewer fund	12,360	23,175
Customer deposits-sewer	12,065	7,310
Customer deposits-water	6,745	6,540
Accrued liabilities	8,122	4,365
Net pension liability	139,433	(62,946)
Net OPEB liability	9,128	9,949
Deferred inflows of resources	(80,403)	117,020
Net cash provided by operating activities	$ 890,712	950,944
Reconciliation of cash and cash equivalents at year end to specific assets included in the Statements of Net Position:		
Current assets:		
Cash and cash equivalents	$ 1,099,703	1,749,441
Restricted assets:		
Cash and cash equivalents:		
Water deposits	81,225	74,480
Sewer deposits	111,580	99,515
Sewer cash	360,354	330,692
Storm sewer cash	83,101	68,847
Landfill cash	13,223	13,690
Cash and cash equivalents at year end	$ 1,749,186	2,336,665

See notes to financial statements.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements
June 30, 2016 and 2015

Note 1. Summary of Significant Accounting Policies

The Marshalltown Water Works (the Water Works) is a component unit of the City of Marshalltown, as determined by criteria specified by the Governmental Accounting Standards Board. The Marshalltown Water Works is governed by a three-member board of trustees appointed by the Mayor and confirmed by the City Council, which exercises oversight responsibility under this criteria.

The financial statements of the Water Works are prepared in accordance with accounting principles generally accepted in the United States of America. The Water Works reporting entity applies all relevant GASB pronouncements. The Water Works has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

The accounts of the Water Works are primarily organized as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

The Water Works distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Water Works' principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

A. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Water Works considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

B. Customer Accounts and Unbilled Usage

Accounts receivable represent uncollected amounts billed for water usage at June 30, 2016 and 2015. Because of the Water Works' policy to deny continued service to customers with past due bills, management believes uncollectible accounts are negligible. Therefore, no allowance for uncollectible accounts has been recorded. Unbilled usage for service consumed between periodic schedule billing dates is estimated as revenue in the period in which the service is provided.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note 1. Summary of Significant Accounting Policies (Continued)

C. Budgets

In accordance with the Code of Iowa, the Water Works annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

D. Estimates

The Water Works uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

E. Capital Assets

Additions to the plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. Reportable capital assets are defined by the Water Works as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Plants, wells, storage and distribution	$5,000
Meters	5,000
Equipment and vehicles	1,000

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Asset Class	Estimated Useful Lives (In Years)
Plants, wells and storage	10-40 years
Distribution property	50-99 years
Meters	10-20 years
Vehicles	5 years
Equipment	7-10 years

Note 1. Summary of Significant Accounting Policies (Continued)

F. Restricted Assets

Restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers and amounts due to the City of Marshalltown for collection of sewer, landfill and storm sewer fees.

G. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which 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 Water Works after the measurement date but before the end of the Water Works' reporting period.

H. 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.

I. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which 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 in the Statements of Net Position represent the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note 1. Summary of Significant Accounting Policies (Continued)

J. Net Position

Net Position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

K. Budgets and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

The Water Works' deposits at June 30, 2016 and 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Water Works 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 on improvement certificates of a drainage district.

The Water Works' investments consist entirely of certificates of deposits at June 30, 2016 and 2015.

Interest rate risk – The Water Works' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to 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 Water Works.

Note 3. Compensated Absences

Water Works employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The liability is recorded in the Statements of Net Position based on current rates of pay.

Note 4. Pension Plan – IPERS

Plan Description – IPERS membership is mandatory for employees of the Water Works, except for those covered by the Marshalltown Water Works Supplemental Retirement and Pension Plan. Employees of the Water Works 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, except for members with service before June 30, 2012 will use the highest three-year average salary as of that date 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% 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% 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.

Note 4. Pension Plan – IPERS (Continued)

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% of covered payroll and the Water Works contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Water Works' contributions to IPERS for the year ended June 30, 2016 totaled $47,060.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the Water Works reported a liability of $362,120 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 Water Works' proportion of the net pension liability was based on the Water Works' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Water Works' collective proportion was .0073296%, which was a decrease of .000203% from its proportion measured as of June 30, 2014.

Note 4. Pension Plan – IPERS (Continued)

For the year ended June 30, 2016, the Water Works recognized pension expense of $30,272. At June 30, 2016, the Water Works 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
Difference between expected and actual experience	$	5,471	-
Changes of assumptions		9,970	-
Net difference between projected and actual earnings on IPERS' investments		-	30,138
Changes in proportion and differences between Water Works contributions and Water Works' proportionate share of contributions		2,286	4,164
Water Works contributions subsequent to the measurement date		47,060	-
Total	$	64,787	34,302

$47,060 reported as deferred outflows of resources related to pensions resulting from the Water Works contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending 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:

Year Ended June 30,		Total
2017	$	(10,345)
2018		(10,345)
2019		(10,345)
2020		14,532
2021		(72)
	$	(16,575)

Note 4. Pension Plan – IPERS (Continued)

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, as follows:

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
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	1	(0.71)
Total	100 %	

Note 4. Pension Plan – IPERS (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Water Works 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 Water Works' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Water Works' proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Water Works' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

		1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Water Works' proportionate share of the net pension liability	$	634,007	362,120	132,628

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 IPERS – At June 30, 2016, the Water Works did not report any payables to the defined benefit pension plan as all employer contributions and employee contributions that had been withheld from employee wages had been remitted to IPERS before year end.

Note 5. Pension Plan – Marshalltown Water Works Supplemental Retirement and Pension Plan

Plan Description – The Water Works maintains the Marshalltown Water Works Supplemental Retirement and Pension Plan, which is a single employer defined benefit plan administered by United Bank and Trust.

The Plan was established by the Marshalltown Water Works' Board of Trustees on September 30, 1953. The Plan was restated and amended on January 1, 2014. The Board of Trustees has the authority to amend the Plan at any time.

Note 5. Pension Plan – Marshalltown Water Works Supplemental Retirement and Pension Plan (Continued)

Pension Benefits – Employees who retire at or after age 65, or age 62 with 25 years of credited service, are entitled to retirement benefits payable monthly for life. Monthly benefits are equal to 2.12% of the employee's five-year final average salary multiplied by the number of years of consecutive service for the year ended June 30, 2016. Service prior to January 1, 1986 shall be limited to 25 years. Benefits are fully vested on reaching 10 or more years of credited service.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability benefits is eligible to claim Water Works pension benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement and has participated in the plan for 10 or more years prior to death, and is totally vested, the surviving spouse may request a return of the participant's accrued contributions with interest to the date of the participant's death, or may leave the balance in the pension plan and be entitled to a joint and 100% survivor annuity at the time the participant would have become eligible for pension benefits.

Contributions – The Water Works' funding policy provides for employer and employee contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. The frozen entry age actuarial cost method is used to determine annual plan costs. The employer contribution rate for the year ended June 30, 2016 was 8.93% plus an additional $3,000 per bi-weekly payroll. The employee contribution rate for the year ended June 30, 2016 was 4.95%. Contributions paid by the Water Works for the year ended June 30, 2016 totaled $119,344, and the contributions paid by employees totaled $22,917.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the Water Works reported a net pension liability of $1,547,805. The net pension liability was measured as of April 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015.

For the year ended June 30, 2016, the Water Works recognized pension expense of $150,472. At June 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Note 5. Pension Plan – Marshalltown Water Works Supplemental Retirement and Pension Plan (Continued)

		Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$	32,770	-
Net difference between projected and actual earnings on pension plan investments		77,291	(2,315)
Total	$	110,061	(2,315)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,		Total
2017	$	31,154
2018		31,154
2019		26,116
2020		19,322
2021		-
	$	107,746

Actuarial Assumptions – The total pension liability in the April 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rates of salary increase (Effective June 30, 2013)	3.00% per annum
Long-term investment rate of return (effective June 30, 2013)	7.00%, compounded annually

The actuarial assumptions used in the April 1, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Note 5. Pension Plan – Marshalltown Water Works Supplemental Retirement and Pension Plan (Continued)

Mortality rates were based on the 1983 Group Annuity Mortality Table.

The long-term expected rate of return on pension plan investments was determined using best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation). These ranges are combined to produce the long-term expected rate of return. The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.46% based on the target allocation of assets summarized in the following table:

Asset Class	Asset Allocation
Large cap equity	30 %
Samll cap equity	10
International equity	10
High dividend equity	10
Fixed income	40
Total	100 %

Sensitivity of the Water Works' Net Pension Liability to Changes in the Discount Rate – The following presents the Water Works' net pension liability calculated using the discount rate of 7.00%, as well as what the Water Works' net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Water Works' net pension liability	$ 1,796,863	1,547,805	1,335,800

Note 6. Other Postemployment Benefits (OPEB)

Plan Description – The Water Works operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 19 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with United Healthcare. Retirees under age 65 pay 102% of the premium for the medical/prescription drug benefit of active employees, which results in an implicit rate subsidy and an OPEB liability.

Note 6. Other Postemployment Benefits (OPEB) (continued)

Funding Policy – The contribution requirements of plan members are established and may be amended by the Water Works. The Water Works currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The Water Works' annual OPEB cost is calculated based on the annual required contribution (ARC) of the Water Works, and amount actuarially determined in accordance with GASB statement No. 45. The Water Works has elected to calculate ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding which, 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 30 years.

The following table shows the components of the Water Works' annual OPEB cost for the years ended June 30, 2016 and 2015, the amounts actually contributed to the plan and changes in the Water Work's net OPEB obligation:

		2016	2015
Annual required contribution	$	15,893	15,893
Interest on net OPEB obligation		3,497	3,099
Adjustments to annual required contributions		(5,056)	(4,480)
Annual OPEB cost		14,334	14,512
Contributions made		(5,206)	(4,563)
Increase in net OPEB obligation		9,128	9,949
Net OPEB obligation beginning of year		87,421	77,472
Net OPEB obligation end of year	$	96,549	87,421

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

For the year ended June 30, 2016, the Water Works contributed $129,842 to the medical plan. Plan members eligible for benefits contributed $40,351 or 24% of the premium costs.

Note 6. Other Postemployment Benefits (OPEB) (continued)

The Water Works' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended June 30,	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)
2009	July 1, 2008	-	$ 95,737	$ 95,737	0.0%	$ 822,816	11.6%
2010	July 1, 2008	-	95,737	95,737	0.0%	754,252	12.7%
2011	July 1, 2008	-	95,737	95,737	0.0%	764,580	12.5%
2012	July 1, 2011	-	90,876	90,876	0.0%	867,121	10.5%
2013	July 1, 2011	-	90,876	90,876	0.0%	922,135	9.9%
2014	July 1, 2011	-	90,876	90,876	0.0%	862,042	10.5%
2015	July 1, 2014	-	105,915	105,915	0.0%	982,360	10.8%
2016	July 1, 2014	-	105,915	105,915	0.0%	875,777	12.1%

Funded Status and Funding Progress – As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was $105,915, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $105,915. The covered payroll (annual payroll of active employees covered by the plan) was approximately $875,777 and the ratio of the UAAL to covered payroll was 12.1%. As of June 30, 2016 and 2015 there were no trust fund assets.

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 assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts 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 for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present 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 plan as understood by the employer and the plan members 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. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 6. Other Postemployment Benefits (OPEB) (continued)

Mortality rates are from the 2010 United States Life Tables, applied on a gender-specific basis. Based on historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or the first subsequent year in which the member would qualify for benefits.

Projected claim costs of the medical plan are $439 per month for single retirees and $878 per month for retirees and spouse. These costs were determined from the estimated age-adjusted premium rates of the plan and the method provided by the alternative measurement method under GASB 45. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 7. Capital Assets

Capital assets are stated at cost as follows at June 30:

	2016	2015
Land	$ 1,112,721	1,112,721
Plant and source of supply	11,056,259	9,941,164
Booster station	165,996	165,996
Distribution system and pipe	11,233,827	10,978,946
Meters	1,321,043	1,279,285
Machinery and equipment	435,585	427,748
Vehicles	218,685	216,584
Capital improvements	113,916	82,654
Capital improvements - buildings	572,779	572,779
Office equipment and furnishings	390,112	390,112
	26,620,923	25,167,989
Less accumulated depreciation	(14,766,955)	(14,225,070)
	$ 11,853,968	10,942,919

Depreciation expense was $563,254 for the year ended June 30, 2016 and $547,305 for the year ended June 30, 2015.

Note 8. Concentrations of Credit Risk

Concentrations of credit risk with respect to accounts receivable is limited due to the large number of customers comprising the Water Works' customer base and the Water Works' policy of receiving a deposit amount or a credit reference from another utility before beginning service. However, some risk exists due to the small geographic location of the receivables.

MARSHALLTOWN WATER WORKS

Notes to Financial Statements (Continued)
June 30, 2016 and 2015

Note 9. Risk Management

The Water Works 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 Water Works assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for 2016 and 2015. There have been no reductions in insurance coverage from prior years.

Note 10. Long-Term Liabilities

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Net pension liability	$ 1,770,492	139,433	-	1,909,925	-
Net OPEB liability	87,421	9,128	-	96,549	-
Total	$ 1,857,913	148,561	-	2,006,474	-

Note 11. Commitment

The Water Works entered into a contract for improvements to the water plant. The total cost of the contract is $6,692,763 and the Water Works has a remaining balance due on the contract of $6,202,367 at June 30, 2016. The contract will be funded with an $8,344,000 State Revolving Fund loan. The Water Works had not drawn down funds from the State Revolving Fund at June 30, 2016.

Note 12. Date of Management Evaluation

Management has evaluated subsequent events through October 21, 2016, the date on which the financial statements were available to be issued.

Required Supplementary Information

MARSHALLTOWN WATER WORKS

Budgetary Comparison Schedule of Revenues, Expenses and Changes in Balances - Budget to Actual
Required Supplementary Information
For the Year Ended June 30, 2016

	Actual	Budgeted Amounts Original/Final	Variance Favorable (Unfavorable)
Revenues:			
Charges for services	$ 3,531,874	3,548,998	(17,124)
Miscellaneous	15,650	25,403	(9,753)
Total revenues	3,547,524	3,574,401	(26,877)
Expenses:			
Business type activities	3,284,144	3,573,931	289,787
Increase in net position	263,380	470	262,910
Net position beginning of year	11,707,109	2,596,221	9,110,888
Net position end of year	$ 11,970,489	2,596,691	9,373,798

MARSHALLTOWN WATER WORKS

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

In accordance with the Code of Iowa, the Water Works' Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

There were no budget amendments for the Water Works during fiscal year 2016.

During the year ended June 30, 2016, expenditures did not exceed the amounts budgeted.

MARSHALLTOWN WATER WORKS

Schedule of the Water Works' Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
For the Last Two Years*
Required Supplementary Information

	2016	2015
Water Works' proportion of the net pension liability	0.0073296 %	0.0075329 %
Water Works' proportionate share of the net pension liability	$ 362,120	298,746
Water Works' covered-employee payroll	$ 502,146	492,923
Water Works' proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11 %	60.61 %
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 from each fiscal year were determined as of June 30 of the preceding fiscal year.

MARSHALLTOWN WATER WORKS

Schedule of the Water Works' Net Pension Liability
Supplemental Retirement and Pension Plan
For the Last Two Years
Required Supplementary Information

		2016*	2015*
Water Works' net pension liability	$	1,547,805	1,471,746
Water Works' covered-employee payroll	$	462,980	483,147
Water Works' net pension liability as a percentage of its covered-employee payroll		334 %	328 %
Plan fiduciary net position as a percentage of the total pension liability		44.16 %	46.85 %

* The amounts presented for each fiscal year were determined as of April 1.

MARSHALLTOWN WATER WORKS

Schedule of Water Works' Contributions
Iowa Public Employees' Retirement System
For the Last Ten Years
Required Supplementary Information

		2016	2015	2014	2013
Statutorily required contribution	$	47,060	44,842	44,018	41,028
Contributions in relation to the statutorily required contribution		(47,060)	(44,842)	(44,018)	(41,028)
Contribution deficiency (excess)	$	-	-	-	-
Water Works' covered-employee payroll	$	526,989	502,146	492,923	473,218
Contributions as a percentage of covered-employee payroll		8.93%	8.93%	8.93%	8.67%

See accompanying indpendent auditors' report.

2012	2011	2010	2009	2008	2007
36,382	30,686	28,064	25,865	23,482	22,694
(36,382)	(30,686)	(28,064)	(25,865)	(23,482)	(22,694)
-	-	-	-	-	-
450,830	441,525	422,015	407,323	388,132	394,678
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

MARSHALLTOWN WATER WORKS

Schedule of Water Works' Contributions
Supplemental Retirement and Pension Plan
For the Last Ten Years
Required Supplementary Information

		2016	2015	2014	2013
Actuarially required contribution	$	119,344	121,145	122,357	117,189
Contributions in relation to the actuarially required contribution		(119,344)	(121,145)	(122,357)	(117,189)
Contribution deficiency (excess)	$	-	-	-	-
Water Works' covered-employee payroll	$	462,980	483,147	500,366	478,884
Contributions as a percentage of covered-employee payroll		25.78%	25.07%	24.45%	24.47%

See accompanying independent auditors' report.

2012	2011	2010	2009	2008	2007
112,779	111,885	114,091	91,232	34,708	31,193
(112,779)	(111,885)	(114,091)	(91,232)	(34,708)	(31,193)
-	-	-	-	-	-
479,708	470,579	547,402	543,736	514,193	462,119
23.51%	23.78%	20.84%	16.78%	6.75%	6.75%

MARSHALLTOWN WATER WORKS
Notes to Required Supplementary Information – IPERS Pension Liability
Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for 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% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 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% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% 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.

MARSHALLTOWN WATER WORKS

Schedule of Funding Progress for the Retiree Health Plan Required Supplementary Information

Year Ended June 30,	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)
2009	July 1, 2008	-	$ 95,737	$ 95,737	0.0%	$ 822,816	11.6%
2010	July 1, 2008	-	95,737	95,737	0.0%	754,252	12.7%
2011	July 1, 2008	-	95,737	95,737	0.0%	764,580	12.5%
2012	July 1, 2011	-	90,876	90,876	0.0%	867,121	10.5%
2013	July 1, 2011	-	90,876	90,876	0.0%	922,135	9.9%
2014	July 1, 2011	-	90,876	90,876	0.0%	862,042	10.5%
2015	July 1, 2014	-	105,915	105,915	0.0%	982,360	10.8%
2016	July 1, 2014	-	105,915	105,915	0.0%	875,777	12.1%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost, net OPEB Obligation, funded status and funding progress.

Supplementary Information

MARSHALLTOWN WATER WORKS

Schedules of Net Position Detail
June 30, 2016 and 2015

		2016	2015	Increase (Decrease)
Cash:				
Cash on hand	$	330	330	-
Petty cash		300	300	-
Cash in bank		1,099,073	1,748,811	(649,738)
Water deposits		81,225	74,480	6,745
Total cash		1,180,928	1,823,921	(642,993)
Cash held for city:				
Sewer deposit fund		111,580	99,515	12,065
Sewer cash		360,354	330,692	29,662
Storm sewer cash		83,101	68,847	14,254
Landfill cash		13,223	13,690	(467)
Total cash held for city		568,258	512,744	55,514
Total cash and cash equivalents	$	1,749,186	2,336,665	(587,479)
Capital assets:				
Land	$	1,112,721	1,112,721	-
Plant and source of supply		11,056,259	9,941,164	1,115,095
Accumulated depreciation - plant		(8,696,816)	(8,362,268)	(334,548)
Distribution system and pipe		11,233,827	10,978,946	254,881
Accumulated depreciation - distribution		(3,577,288)	(3,451,413)	(125,875)
Booster station		165,996	165,996	-
Accumulated depreciation-booster station		(78,258)	(75,758)	(2,500)
Meters		1,321,043	1,279,285	41,758
Accumulated depreciation - meters		(1,069,357)	(1,038,502)	(30,855)
Machinery and equipment		435,585	427,748	7,837
Accumulated depreciation - machinery and equipment		(380,858)	(360,390)	(20,468)
Vehicles		218,685	216,583	2,102
Accumulated depreciation - vehicles		(168,138)	(165,031)	(3,107)
Capital improvements		113,916	82,655	31,261
Accumulated depreciation - capital improvements		(47,910)	(42,586)	(5,324)
Capital improvements - buildings		572,779	572,779	-
Accumulated depreciation - buildings		(374,006)	(360,542)	(13,464)
Office equipment and furnishings		390,112	390,112	-
Accumulated depreciation - office equipment and furnishings		(374,324)	(368,580)	(5,744)
Net capital assets	$	11,853,968	10,942,919	911,049

See accompanying independent auditors' report.

MARSHALLTOWN WATER WORKS

Schedules of Net Position Detail (Continued)
June 30, 2016 and 2015

		2016	2015	Increase (Decrease)
Prepaid expenses:				
Prepaid insurance	$	14,772	14,736	36
Prepaid computer maintenance		19,941	18,991	950
Prepaid billing supplies		3,624	6,672	(3,048)
Total prepaid expenses	$	38,337	40,399	(2,062)
Other receivables:				
Miscellaneous accounts receivable billings	$	20,990	21,374	(384)
Interest receivable		1,025	895	130
Contract receivables		269	336	(67)
Total other receivables	$	22,284	22,605	(321)
Accrued liabilities:				
Accrued sales tax	$	10,412	15,768	(5,356)
Accrued F.I.C.A.		3,919	3,516	403
Accrued payroll		53,296	47,983	5,313
Accrued pension		2,120	2,010	110
Accrued vacation		101,225	94,774	6,451
Accrued retirement expense		2,567	2,219	348
Insurance deductible		223	(630)	853
Total accrued liabilities	$	173,762	165,640	8,122

MARSHALLTOWN WATER WORKS

Schedules of Treatment Plant Expenses
For the Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Salaries:			
Operational	$ 356,743	379,024	(22,281)
Employee benefits:			
Health insurance	45,403	48,939	(3,536)
Pension	63,104	48,780	14,324
Social security	26,161	27,574	(1,413)
Life insurance	833	853	(20)
Mileage	427	387	40
Registration	1,090	1,367	(277)
Lodging	294	588	(294)
Safety clothing	1,676	790	886
Dues	490	490	-
Food	546	601	(55)
Travel	1,142	-	1,142
	141,166	130,369	10,797
Utilities:			
Electric	245,587	239,164	6,423
Gas	9,516	12,337	(2,821)
Internet	323	322	1
Telephone	1,510	1,501	9
	256,936	253,324	3,612
Depreciation:			
Plant depreciation	334,549	322,405	12,144
Vehicle depreciation	5,240	5,538	(298)
	339,789	327,943	11,846
Fuels:			
Gas	1,144	1,507	(363)
Oil	-	750	(750)
Diesel	19	1,959	(1,940)
	1,163	4,216	(3,053)
Supplies:			
Lab supplies	23,083	21,362	1,721
Plant supplies	2,612	302	2,310

See accompanying independent auditors' report.

MARSHALLTOWN WATER WORKS

Schedules of Treatment Plant Expenses (Continued)
For the Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Supplies (continued):			
Building supplies	225	-	225
Well supplies	220	146	74
Cleaning supplies	243	178	65
General supplies	1,467	1,645	(178)
Health and first aid	483	381	102
Operational fees and permits	802	2	800
CIWA meter pit supplies	-	918	(918)
	29,135	24,934	4,201
Maintenance:			
Building maintenance	8,084	2,029	6,055
Machinery maintenance	8,924	16,942	(8,018)
Heating and air conditioner maintenance	784	2,811	(2,027)
Computer maintenance	847	254	593
Grounds maintenance	6,920	1,022	5,898
Well field maintenance	3,127	16,554	(13,427)
Safety equipment maintenance	-	168	(168)
CIWA meter pit maintenance	248	-	248
Vehicle maintenance	999	217	782
	29,933	39,997	(10,064)
Chemicals:			
Pebble-lime	273,335	244,178	29,157
CO2	18,721	16,243	2,478
CL2	31,924	30,601	1,323
Fluoride	13,781	17,215	(3,434)
Poly-phosphate	12,558	10,752	1,806
Lime sludge removal	354,972	243,300	111,672
Sodium chlorite	15,883	16,357	(474)
	721,174	578,646	142,528
Contract services:			
Lab services	1,811	2,498	(687)
	1,811	2,498	(687)
Total treatment plant	$ 1,877,850	1,740,951	136,899

MARSHALLTOWN WATER WORKS

Schedules of Construction and Maintenance Expenses
For the Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Salaries:			
General salaries	$ 235,661	226,837	8,824
Employee benefits:			
Health insurance	40,283	33,064	7,219
Pension	40,823	32,652	8,171
Social security	17,522	17,133	389
Life insurance	585	551	34
Registration	480	715	(235)
Annual dues	300	374	(74)
Food	-	94	(94)
Lodging	371	-	371
Health and first aid	(32)	32	(64)
Safety clothing	665	1,596	(931)
	100,997	86,211	14,786
Depreciation:			
Distribution depreciation	125,875	120,471	5,404
Vehicle depreciation	13,090	14,799	(1,709)
Booster station depreciation	2,500	2,500	-
Equipment depreciation	20,468	20,218	250
	161,933	157,988	3,945
Fuels:			
Gas	2,928	3,768	(840)
Oil	565	806	(241)
Grease	94	185	(91)
Diesel fuel	2,144	3,666	(1,522)
	5,731	8,425	(2,694)

See accompanying independent auditors' report.

MARSHALLTOWN WATER WORKS

Schedules of Construction and Maintenance Expenses (Continued)
For the Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Supplies:			
Distribution supplies	4,288	6,427	(2,139)
Shop supplies	1,582	1,730	(148)
Leak repair supplies	22,321	54,243	(31,922)
Hydrant and valve supplies	3,835	8,704	(4,869)
Booster station supplies	42	14	28
	32,068	71,118	(39,050)
Maintenance:			
Vehicle maintenance	989	2,551	(1,562)
Equipment maintenance	8,776	11,431	(2,655)
Computer maintenance	877	975	(98)
Safety equipment maintenance	107	709	(602)
Tower maintenance	289	6,840	(6,551)
Well field maintenance	133	1,254	(1,121)
Booster station maintenance	619	1,057	(438)
	11,790	24,817	(13,027)
Total construction and maintenance	$ 548,180	575,396	(27,216)

MARSHALLTOWN WATER WORKS

Schedules of Customer Service and Meter Expenses
For the Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Salaries:			
Salaries	$ 131,342	130,774	568
Employee benefits:			
Health insurance	20,102	23,690	(3,588)
Pension	20,825	16,513	4,312
Social security	9,538	9,376	162
Life insurance	299	309	(10)
Tuition	450	-	450
Safety clothing	432	350	82
	51,646	50,238	1,408
Depreciation:			
Vehicle depreciation	6,145	2,817	3,328
Meter depreciation	30,855	33,978	(3,123)
	37,000	36,795	205
Fuels:			
Gas	2,740	4,215	(1,475)
Oil	82	104	(22)
LP	16	54	(38)
	2,838	4,373	(1,535)
Maintenance:			
Vehicle maintenance	367	1,153	(786)
Equipment maintenance	363	58	305
Safety equipment maintenance	183	-	183
	913	1,211	(298)
Supplies:			
General supplies	2,483	2,266	217
Meter repair supplies	710	423	287
Shop supplies	106	125	(19)
Service repair supplies	1,138	743	395
Safety equipment	-	8	(8)
	4,437	3,565	872
Total customer service and meter	$ 228,176	226,956	1,220

See accompanying independent auditors' report.

MARSHALLTOWN WATER WORKS

Schedules of Administrative and Non-Operating Expenses
For the Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Salaries:			
Administrative salaries	$ 288,644	272,003	16,641
Employee benefits:			
Health insurance	23,695	18,791	4,904
Pension	57,828	54,129	3,699
Social security	21,119	19,887	1,232
Life insurance	776	765	11
Mileage	3,031	2,686	345
Registration fees	714	470	244
Dues and subscriptions	5,697	5,589	108
Lodging	242	-	242
Food	93	38	55
	113,195	102,355	10,840
Utilities:			
Electricity	8,058	7,136	922
Gas	2,359	3,572	(1,213)
Internet expense	297	252	45
Telephone	6,403	7,285	(882)
	17,117	18,245	(1,128)
Depreciation:			
Building depreciation	13,465	13,914	(449)
Capital improvement depreciation	5,323	4,281	1,042
Equipment depreciation	5,744	6,384	(640)
	24,532	24,579	(47)
General supplies:			
Administration supplies	65	-	65
Building supplies	33	679	(646)
Office supplies	4,588	3,875	713
Data processing supplies	1,051	798	253
General supplies	4,556	3,741	815
Operational fees and permits	4,022	7,111	(3,089)
Health and first aid	637	738	(101)
	14,952	16,942	(1,990)

See accompanying independent auditors' report.

MARSHALLTOWN WATER WORKS

Schedules of Administrative and Non-Operating Expenses (Continued)
For the Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Maintenance:			
Computer maintenance	29,941	28,627	1,314
Office machine maintenance	2,859	2,925	(66)
Grounds maintenance	13	32	(19)
Heating and air conditioner maintenance	251	-	251
Storm sewer	1,316	1,093	223
Building maintenance	2,608	865	1,743
	36,988	33,542	3,446
Administrative expenses:			
Insurance	55,424	55,845	(421)
Banking services	8,861	6,854	2,007
Legal services	6,360	7,895	(1,535)
Cleaning services	6,403	6,030	373
Accounting services	12,400	9,100	3,300
Postage	19,005	19,220	(215)
Public notices	4,059	2,592	1,467
Contract services	1,970	1,352	618
	114,482	108,888	5,594
Total administrative expenses	$ 609,910	576,554	33,356
Non-operating expenses:			
Loss on sale of equipment	$ -	148,323	(148,323)
Board compensation	900	900	-
Miscellaneous	9,128	9,949	(821)
Economic development	10,000	8,000	2,000
Total non-operating expenses	$ 20,028	167,172	(147,144)

BOWMAN & MILLER, P.C.

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

To the Board of Trustees of the
Marshalltown Water Works
Marshalltown, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States the financial statements of Marshalltown Water Works, as of and for the years ended June 30, 2016 and 2015, and the related Notes to Financial Statements, and have issued our report thereon dated October 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Marshalltown Water Works' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marshalltown Water Works internal control. Accordingly, we do not express an opinion on the effectiveness of Marshalltown Water Works' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Water Works' 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marshalltown Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Water Works' operations for the years ended June 30, 2016 and 2015 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Water Works. Since our audits were 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.

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 Water Works' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Water Works' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Bowman and Miller, P.C.

Marshalltown, Iowa
October 21, 2016

MARSHALLTOWN WATER WORKS

Schedule of Findings
Years Ended June 30, 2016 and 2015

Part I: Summary of the Independent Auditors' Results

(a) An unmodified opinion was issued on the financial statements.

(b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.

(c) The audits did not disclose any non-compliance which is material to the financial statements.

Part II: Other Findings Related to Required Statutory Reporting:

16-II-A Certified Budget - Expenditures during the years ended June 30, 2016 and 2015, did not exceed the amounts budgeted.

16-II-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

16-II-C Travel Expense - No expenditures of Marshalltown Water Works' money for travel expenses of spouses of Marshalltown Water Works officials or employees were noted.

16-II-D Business Transactions - No business transactions between the Water Works and Water Works officials or employees were noted.

16-II-E Bond Coverage - Surety bond coverage of Water Works 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.

16-II-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

16-II-G Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Works' investment policy were noted.

MARSHALLTOWN WATER WORKS

Audit Staff

This report was prepared by:

BOWMAN AND MILLER, P.C.
Certified Public Accountants
Marshalltown, Iowa

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