

**LAKE PARK MUNICIPAL UTILITIES
(A COMPONENT UNIT OF
THE CITY OF LAKE PARK, IOWA)
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS**

JUNE 30, 2017

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LAKE PARK MUNICIPAL UTILITIES

OFFICIALS

(As of June 30, 2017)

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Brent Jacobsen	Chairman	December 2018
Tony Lemker	Vice-Chairman	December 2022
Doug Goodell	Trustee	December 2019
Marci Wittrock	Trustee	December 2020
Carol Johnson	Trustee	December 2021
Linda Treharne	Clerk/Secretary/Treasurer	Indefinite



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Lake Park Municipal Utilities
Lake Park, IA 51347

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Lake Park Municipal Utilities, a component unit of the City of Lake Park, as of and for the year ended June 30, 2017, and the related notes to the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Lake Park Municipal Utilities, a component unit of the City of Lake Park, as of June 30, 2017 and the respective changes in

financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 9 to the financial statements, there was a material adjustment related to accounts payable from prior years and has been corrected on the accompanying financial statements. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the Utilities' Proportionate Share of the Net Pension Liability, Schedule of Utilities' Contributions, and Notes to Required Supplementary Information – Pension Liability on pages 4 through 8 and pages 28 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2017, on our consideration of the Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control over financial reporting and compliance.

Williams + Company, P.C.
Certified Public Accountants

Spencer, Iowa
September 12, 2017

**LAKE PARK MUNICIPAL UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Lake Park Municipal Utilities (LPMU) provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of its financial activities is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

The financial statements of the Utilities report information utilizing the accrual method of accounting. The financial statements conform to accounting principles which are generally accepted in the United States of America.

2017 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased \$102,929, or 4.43%, from fiscal year 2016 to 2017.
- Operating expenses of the Utilities' activities increased \$129,296, or 7.08%, from fiscal year 2016 to 2017.
- The Utilities' change in net position decreased \$62,648, or 13.52%.

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 financial activities.
- The Statements of Net Position includes the Utilities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).
- The Statements of Revenues, Expenses, and Changes in Net Position report all revenues and expenses incurred during the fiscal year.
- The Statements of Cash Flows presents cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities, and investing activities.
- Notes to the Financial Statements provide the required disclosures and other information that is necessary to give the reader a complete understanding of the data provided in the statements. The notes present information about the Utilities' accounting policies, material risks, obligations, commitments, contingencies, and subsequent events.

- Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' proportionate share of the net pension liability and related contributions.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Fund Financial Statements

Lake Park Municipal Utilities utilizes one kind of fund:

Proprietary funds account for the Utilities' Enterprise Funds. Enterprise Funds are used to report business-type activities. LPMU maintains three Enterprise Funds to provide separate information for the Electric, Water, and Gas funds, all considered to be major funds of LPMU.

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in net position.

Net Position of Business-Type Activities			
	2017	2016	
	Actual	Actual	Change
Current and Other Assets	\$ 3,737,297	\$ 3,557,826	\$ 179,471
Noncurrent Assets	44,188	37,712	6,476
Capital Assets, Net of Accumulated Depreciation	3,625,746	3,500,337	125,409
Total Assets	<u>7,407,231</u>	<u>7,095,875</u>	<u>311,356</u>
Deferred Outflows of Resources	<u>81,528</u>	<u>53,463</u>	<u>28,065</u>
Current Liabilities	655,535	546,005	109,530
Long-Term Liabilities	1,044,879	1,179,560	(134,681)
Total Liabilities	<u>1,700,414</u>	<u>1,725,565</u>	<u>(25,151)</u>
Deferred Inflows of Resources	<u>37,383</u>	<u>45,245</u>	<u>(7,862)</u>
Net Position:			
Net Investment in Capital Assets	2,615,746	2,320,337	295,409
Restricted	42,612	35,775	6,837
Unrestricted	3,092,604	3,022,416	70,188
Total Net Position	<u>\$ 5,750,962</u>	<u>\$ 5,378,528</u>	<u>\$ 372,434</u>

The Utilities' total assets increased \$311,356. The increase was mainly due to fixed asset acquisitions exceeding depreciation and an increase in cash balances. The total liabilities decreased \$25,151, which was a result of a payment on the notes payable. Net Position increased approximately \$372,434, or 6.92% over fiscal year 2016.

Changes in Net Position of All Business-Type Activities

	2017	2016		
	Actual	Actual	Change	Percent
Operating Revenues	\$ 2,428,494	\$2,325,565	\$ 102,929	4.43%
Operating Expenses	1,954,752	1,825,456	129,296	7.08%
Operating Income	473,742	500,109	(26,367)	-5.27%
Non-Operating (Expenses)	(72,998)	(36,717)	(36,281)	98.81%
Increase in Net Position	400,744	463,392	(62,648)	-13.52%
Net Position, Beginning of Year	5,378,528	4,927,674	450,854	9.15%
Prior Period Adjustment	(28,310)	(12,538)	(15,772)	125.79%
Net Position, Beginning of Year, as Restated	5,350,218	4,915,136	435,082	8.85%
Net Position End of Year	<u>\$ 5,750,962</u>	<u>\$5,378,528</u>	<u>\$ 372,434</u>	<u>6.92%</u>

- Operating Revenues increased 4.43% as a result of more usage.
- Operating Expenses increased 7.08% as a result of higher purchased energy costs, needing to purchase more due to more usage and increased depreciation expense.
- The Utilities had an increase in net position of \$400,744 for fiscal year 2017, compared to an increase in net position of \$463,392 in 2016, a decrease of 13.52 percent.

INDIVIDUAL MAJOR FUND ANALYSIS

Changes in Net Position of Electric

	2017	2016		
	Actual	Actual	Change	Percent
Operating Revenues	\$ 1,539,520	\$1,510,557	\$ 28,963	1.92%
Operating Expenses	1,145,143	1,106,679	38,464	3.48%
Operating Income	394,377	403,878	(9,501)	-2.35%
Non-Operating (Expenses)	(45,612)	(36,871)	(8,741)	23.71%
Increase in Net Position	348,765	367,007	(18,242)	-4.97%
Net Position, Beginning of Year	3,565,206	3,198,199	367,007	11.48%
Prior Period Adjustment	(28,310)	-	(28,310)	0.00%
Net Position, Beginning of Year, as Restated	3,536,896	3,198,199	338,697	10.59%
Net Position End of Year	<u>\$ 3,885,661</u>	<u>\$3,565,206</u>	<u>\$ 320,455</u>	<u>8.99%</u>

- Electric Fund revenues showed an increase of \$28,963 due to increased sales to customers due to increased usage. The Electric Fund operating expenses increased \$38,464 due to an increase in depreciation expense from new assets placed in service and other expenses in various areas, including purchased energy. The ending fund balance was \$3,885,661, an increase of \$320,455 from last year.

Changes in Net Position of Water

	2017	2016	Change	Percent
	<u>Actual</u>	<u>Actual</u>		
Operating Revenues	\$ 259,166	\$ 252,506	\$ 6,660	2.64%
Operating Expenses	213,429	199,353	14,076	7.06%
Operating Income	<u>45,737</u>	<u>53,153</u>	<u>(7,416)</u>	<u>-13.95%</u>
Non-Operating (Expenses)	<u>(15,350)</u>	<u>(4,709)</u>	<u>(10,641)</u>	<u>225.97%</u>
Increase in Net Position	30,387	48,444	(18,057)	-37.27%
Net Position, Beginning of Year	601,720	558,128	43,592	7.81%
Prior Period Adjustment	-	(4,852)	4,852	-100.00%
Net Position, Beginning of Year, as Restated	<u>601,720</u>	<u>553,276</u>	<u>48,444</u>	<u>8.76%</u>
Net Position End of Year	<u>\$ 632,107</u>	<u>\$ 601,720</u>	<u>\$ 30,387</u>	<u>5.05%</u>

- Water Fund revenues remained comparable to the prior year, only changing by \$6,660. Water Fund operating expenses increased \$14,076 due to increased purchased water expense, wages due to water tower maintenance and an increase in insurance. The ending fund balance was \$632,107, an increase of \$30,387 from last year.

Changes in Net Position of Gas

	2017	2016	Change	Percent
	<u>Actual</u>	<u>Actual</u>		
Operating Revenues	\$ 629,808	\$ 562,502	\$ 67,306	11.97%
Operating Expenses	596,180	519,424	76,756	14.78%
Operating Income	<u>33,628</u>	<u>43,078</u>	<u>(9,450)</u>	<u>-21.94%</u>
Non-Operating Revenues (Expenses)	<u>(12,036)</u>	<u>4,863</u>	<u>(16,899)</u>	<u>-347.50%</u>
Increase in Net Position	21,592	47,941	(26,349)	-54.96%
Net Position, Beginning of Year	1,211,602	1,171,347	40,255	3.44%
Prior Period Adjustment	-	(7,686)	7,686	-100.00%
Net Position, Beginning of Year, as Restated	<u>1,211,602</u>	<u>1,163,661</u>	<u>47,941</u>	<u>4.12%</u>
Net Position End of Year	<u>\$ 1,233,194</u>	<u>\$1,211,602</u>	<u>\$ 21,592</u>	<u>1.78%</u>

- Gas Fund revenues increased \$67,306 from the prior year due to an increase in sales to customers. Gas Fund operating expenses increased \$76,756 due to an increase in purchased gas costs. The ending fund balance was \$1,233,194, an increase of \$21,592 from last year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utilities' capital assets include land, buildings and improvements, equipment, and distribution systems. As of June 30, 2017, LPMU had approximately \$3.6 million (net of accumulated depreciation) invested in capital assets. This is a net increase of approximately \$125,000, or 3.6%, as compared to last year. Depreciation charges totaled \$250,723 and accumulated depreciation totaled \$5,302,041 for the fiscal year 2017. See Note 3 to the financial statements for further detail of the capital assets.

Long-Term Debt

At June 30, 2017, the Utilities had \$1,010,000 in revenue notes outstanding compared to \$1,180,000 at June 30, 2016. Additional information about the Utilities' long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS

For the fiscal year 2018, Lake Park Municipal Utilities' Water department has hired DGR Engineering services to plan a 10" tie between east and west system following the bike trails west, then west through the wetland area over to Country Club Drive, and then adjacent to Country Club Drive up to where the OCRWS meter vault is located. An 8" looped line on the west system routed on the south side of the golf course and adjacent to 120th Ave. An 8" looped line on the south end of the east system from the dead end main behind the Methodist church to Beachcomber Drive. Extensive maintenance to the existing water tower is also needed.

Lake Park Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery for the utmost in reliable products and services.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

If you have questions about this report or need additional financial information, contact Linda Treharne, Utilities Clerk, Lake Park Municipal Utilities, 217 Market Street, Lake Park, Iowa, 51347.

BASIC FINANCIAL STATEMENTS

LAKE PARK MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF LAKE PARK, IOWA)
STATEMENTS OF NET POSITION
JUNE 30, 2017

	Electric Fund	Water Fund	Gas Fund	Total
Assets				
Current Assets:				
Cash	\$ 1,964,246	\$ 34,151	\$ 1,054,543	\$ 3,052,940
Accounts Receivable (net)	140,967	30,983	30,145	202,095
Inventories	202,714	57,725	26,605	287,044
Prepaid Expenses	7,541	2,494	3,680	13,715
Due From Other Funds	181,503	-	-	181,503
Total Current Assets	<u>2,496,971</u>	<u>125,353</u>	<u>1,114,973</u>	<u>3,737,297</u>
Capital Assets:				
Land	11,500	22,003	2,061	35,564
Construction in Progress	215,934	-	-	215,934
Utility Plant, Facilities and Equipment	5,283,949	2,515,365	876,976	8,676,290
Accumulated Depreciation	<u>(2,860,817)</u>	<u>(1,793,101)</u>	<u>(648,124)</u>	<u>(5,302,042)</u>
Total Capital Assets	<u>2,650,566</u>	<u>744,267</u>	<u>230,913</u>	<u>3,625,746</u>
Noncurrent Assets:				
Restricted Assets				
Revenue Bond Sinking Fund	<u>44,188</u>	<u>-</u>	<u>-</u>	<u>44,188</u>
Total Noncurrent Assets	<u>44,188</u>	<u>-</u>	<u>-</u>	<u>44,188</u>
Total Assets	<u>5,191,725</u>	<u>869,620</u>	<u>1,345,886</u>	<u>7,407,231</u>
Deferred Outflows of Resources				
Pension Related Deferred Outflows	<u>38,415</u>	<u>13,894</u>	<u>29,219</u>	<u>81,528</u>
Liabilities				
Current Liabilities:				
Due to Other Funds	-	181,503	-	181,503
Accounts Payable	206,919	22,088	40,109	269,116
Accrued Interest	1,576	-	-	1,576
Salaries and Benefits Payable	3,632	2,483	3,330	9,445
Customer Meter Deposits	8,199	4,050	11,646	23,895
Current Portion Long-Term Debt	<u>170,000</u>	<u>-</u>	<u>-</u>	<u>170,000</u>
Total Current Liabilities	<u>390,326</u>	<u>210,124</u>	<u>55,085</u>	<u>655,535</u>
Long-term Liabilities:				
Revenue Capital Loan Notes Payable	1,010,000	-	-	1,010,000
Less Current Portion	(170,000)	-	-	(170,000)
Net Pension Liability	<u>96,538</u>	<u>34,913</u>	<u>73,428</u>	<u>204,879</u>
Total Long-term Liabilities	<u>936,538</u>	<u>34,913</u>	<u>73,428</u>	<u>1,044,879</u>
Total Liabilities	<u>1,326,864</u>	<u>245,037</u>	<u>128,513</u>	<u>1,700,414</u>
Deferred Inflows of Resources				
Pension Related Deferred Inflows	<u>17,615</u>	<u>6,370</u>	<u>13,398</u>	<u>37,383</u>
Net Position				
Net Investment in Capital Assets	1,640,566	744,267	230,913	2,615,746
Restricted for:				
Debt Service	42,612	-	-	42,612
Unrestricted	<u>2,202,483</u>	<u>(112,160)</u>	<u>1,002,281</u>	<u>3,092,604</u>
Total Net Position	<u>\$ 3,885,661</u>	<u>\$ 632,107</u>	<u>\$ 1,233,194</u>	<u>\$ 5,750,962</u>

See Accompanying Notes to Financial Statements

LAKE PARK MUNICIPAL UTILITES
(A COMPONENT UNIT OF THE CITY OF LAKE PARK, IOWA)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Electric Fund	Water Fund	Gas Fund	Total
Operating Revenues				
Operating Revenues	\$ 1,539,520	\$ 259,166	\$ 629,808	\$ 2,428,494
Total Operating Revenues	<u>1,539,520</u>	<u>259,166</u>	<u>629,808</u>	<u>2,428,494</u>
Operating Expenses				
Direct Costs	718,341	45,412	391,137	1,154,890
Other Operating Expenses	396,638	138,627	176,574	711,839
Administrative Expenses	30,164	29,390	28,469	88,023
Total Operating Expense	<u>1,145,143</u>	<u>213,429</u>	<u>596,180</u>	<u>1,954,752</u>
Operating Income	394,377	45,737	33,628	473,742
Nonoperating Revenues (Expenses)				
Interest Income	37,927	588	15,686	54,201
Economic Development Contributions	(20,876)	(9,626)	(20,876)	(51,378)
Payments in Lieu of Property Taxes	(39,778)	(6,312)	(6,846)	(52,936)
Interest Expense	(22,885)	-	-	(22,885)
Net Nonoperating Revenues (Expenses)	<u>(45,612)</u>	<u>(15,350)</u>	<u>(12,036)</u>	<u>(72,998)</u>
Change in Net Position	348,765	30,387	21,592	400,744
Net Position - Beginning	3,565,206	601,720	1,211,602	5,378,528
Prior Period Adjustment	(28,310)	-	-	(28,310)
Net Position - Beginning, Restated	<u>3,536,896</u>	<u>601,720</u>	<u>1,211,602</u>	<u>5,350,218</u>
Net Position - End of Year	<u>\$ 3,885,661</u>	<u>\$ 632,107</u>	<u>\$ 1,233,194</u>	<u>\$ 5,750,962</u>

See Accompanying Notes to Financial Statements

LAKE PARK MUNICIPAL UTILITES
(A COMPONENT UNIT OF THE CITY OF LAKE PARK, IOWA)
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Electric Fund	Water Fund	Gas Fund	Total
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 1,541,179	\$ 250,256	\$ 614,701	\$ 2,406,136
Cash Paid to Suppliers	(763,532)	(94,761)	(437,387)	(1,295,680)
Cash Paid to Employees	(140,545)	(68,567)	(116,868)	(325,980)
Net Cash Provided by Operating Activities	<u>637,102</u>	<u>86,928</u>	<u>60,446</u>	<u>784,476</u>
Cash Flows from Capital & Related				
Financing Activities				
Acquisition & Construction of Capital Assets	(267,768)	(68,250)	(40,114)	(376,132)
Principal Paid on Capital Loan Notes	(170,000)	-	-	(170,000)
Interest Paid	(23,246)	-	-	(23,246)
(Disbursements) in Sinking Fund	(6,476)	-	-	(6,476)
Net Cash (Used) by Capital & Related Financing Activities	<u>(467,490)</u>	<u>(68,250)</u>	<u>(40,114)</u>	<u>(575,854)</u>
Cash Flows from Noncapital				
Financing Activities				
Economic Development Contributions	(20,876)	(9,626)	(20,876)	(51,378)
Payments in Lieu of Property Taxes	(39,778)	(6,312)	(6,846)	(52,936)
Cash Received From (Paid to) Other Funds	2,740	(2,740)	-	-
Net Cash (Used) by Noncapital Financing Activities	<u>(57,914)</u>	<u>(18,678)</u>	<u>(27,722)</u>	<u>(104,314)</u>
Cash Flows from Investing Activities				
Interest Received on Investments	37,927	588	15,686	54,201
Net Cash Provided from Investing Activities	<u>37,927</u>	<u>588</u>	<u>15,686</u>	<u>54,201</u>
Net Increase in Cash	149,625	588	8,296	158,509
Cash - Beginning of Year	<u>1,814,621</u>	<u>33,563</u>	<u>1,046,247</u>	<u>2,894,431</u>
Cash - End of Year	<u>\$ 1,964,246</u>	<u>\$ 34,151</u>	<u>\$ 1,054,543</u>	<u>\$ 3,052,940</u>

See Accompanying Notes to Financial Statements

LAKE PARK MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF LAKE PARK, IOWA)
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

	Electric Fund	Water Fund	Gas Fund	Total
Reconciliation of Operating Income to Net Cash Flows from Operating Activities				
Operating Income	\$ 394,377	\$ 45,737	\$ 33,628	\$ 473,742
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation	174,324	51,501	24,898	250,723
(Increase) Decrease Operating Assets:				
Accounts Receivable	1,660	(8,908)	(15,107)	(22,355)
Inventory	10,671	(12,559)	918	(970)
Prepaid Expenses	(460)	(159)	242	(377)
Deferred Outflows of Resources	(13,224)	(4,783)	(10,058)	(28,065)
Increase (Decrease) Operating Liabilities:				
Accounts Payable	54,053	11,428	15,872	81,353
Accrued Salaries and Vacation	1,768	(383)	(571)	814
Customer Deposits	995	375	784	2,154
Net Pension Liability	16,642	6,019	12,658	35,319
Deferred Inflows of Resources	(3,704)	(1,340)	(2,818)	(7,862)
Net Cash Provided by Operating Activities	<u>\$ 637,102</u>	<u>\$ 86,928</u>	<u>\$ 60,446</u>	<u>\$ 784,476</u>

See Accompanying Notes to Financial Statements

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Nature of Activities

Lake Park Municipal Utilities (LPMU), a component unit of the City of Lake Park, Iowa (the City), is engaged in the activities of providing electric, water, and gas utilities services. LPMU is governed by a five-member Board of Trustees, appointed by the Mayor with the approval of the City Council, who are authorized to establish rates. LPMU is not liable for federal and state income or ad valorem property taxes; however, payments in-lieu-of taxes and other contributions are made to the City.

These financial statements are presented in conformity with U.S. generally accepted accounting principles (GAAP) applicable for proprietary funds of governmental entities as prescribed by the Governmental Accounting Standards Board.

B. Reporting Entity

Generally accepted accounting principles require LPMU to consider if it has oversight responsibility or control over any other legal entity. Control or dependence is determined based on budget adoption, taxing authority, funding, or appointment of the respective governing board. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; (c) is obligated in some manner for the debt of the organization. LPMU has no component units itself, but has determined that it is a component unit of the City of Lake Park.

C. Basis of Presentation

The accounts of LPMU are organized on the basis of proprietary enterprise funds, each of which is considered to be a separate accounting entity and each reported in a separate column in the financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts, which comprise its assets, deferred outflows, liabilities, deferred inflows, net positions, revenues and expenses, and debt service of the designated activity. LPMU reports the following major enterprise funds:

- Electric Fund
- Water Fund
- Gas Fund

D. Measurement Focus and Basis of Accounting

Measurement focus refers to what is measured and basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

LPMU's Proprietary Funds financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. As such, the fund measurement objective is the determination of operating income, changes in net positions, financial position, and cash flows. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the related obligation is incurred. The applicable generally accepted accounting principles are those similar to businesses in the private sector.

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Revenue Recognition

For all services, meters are read and bills are rendered on a cycle basis near the end of each month. Revenues based on meter readings are recorded close to the end of each month and, as such, the revenues earned from utilities delivered after meters are read to the end of the month are minimal and not estimated or recorded.

F. Cash

The various enterprise funds of LPMU combine their cash funds into a shared bank account at one financial institution in addition to having individual accounts for each fund. Interest earned on invested cash in these bank accounts is divided among the funds.

G. Accounts Receivable and Allowances

An estimate is made for allowances for doubtful accounts based on an analysis of the aging of accounts receivable and on historical write-offs net of recoveries. Additional specific amounts may be included based on credit risk as deemed appropriate by management. Accounts receivable are reported net of the allowance for doubtful accounts of \$7,000 at June 30, 2017.

H. Inventories

Materials, supplies, and other consumables are recorded as expenses when consumed rather than when purchased. Material, supplies, and fuel inventories are stated at cost, which does not exceed market.

I. Capital Assets

Capital assets, which include utility plants, infrastructures, facilities and equipment, are valued at historical cost. The cost of system renewals and betterments includes engineering, interest and other related costs. Preliminary and construction costs of projects not yet in service, if any, are shown in the financial statements as construction in progress. Maintenance and repairs which do not add to the capacity or efficiency of the asset are charged to operating expense.

Interest costs on debt are capitalized when proceeds are used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowings which are restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount of interest capitalized. No interest costs were capitalized for the year June 30, 2017.

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LPMU does not have a written policy for capitalizing assets. Management determines capitalization or expensing on an individual basis. Capital assets are depreciated over the assets estimated useful lives using the straight-line method with one-half year convention. No depreciation is taken on construction in progress. The range of estimated useful lives by capital asset sub-categories is as follows:

Building and Plant	10 - 40 Years
Equipment	5 - 15 Years
Distribution System	20 - 40 Years
Land Improvements	15 Years

J. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Pension related deferred outflows of resources consist of unrecognized items not yet charges to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

K. Compensated Absences

The Utilities' employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement, or death. A liability is recorded when incurred, included in salaries and benefits payable in the respective enterprise fund financial statements, and computed based on rates of pay in effect at June 30, 2017.

L. 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.

M. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Pension related deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Net Positions

Net positions are shown in three components:

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

Restricted net positions result when constraints placed on net asset use are either externally imposed by outside creditors, others or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net positions consist of net positions not meeting the definition of the two preceding categories. Unrestricted net positions often have constraints on resources imposed by management (designations), which can be removed or modified.

Amounts shown as restricted net positions and the purpose of the restriction are as follows:
Restricted for Debt Service \$42,612.

The Utilities' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

O. Income Taxes

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

P. Estimates

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

Note 2 – CASH

LPMU's deposits in banks at June 30, 2017, 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.

LPMU 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 or savings accounts at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; 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 drainage districts.

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 2 – CASH (Continued)

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

Monies held for special purposes are limited to the use for which restricted and cannot be used for the general operations of the Utilities. The funds held for the Revenue Bond Sinking Fund are required by covenants of the Loan Agreement.

Note 3 – CAPITAL ASSETS

Capital asset categories and changes in each cost category and depreciation for the year ended June 30, 2017 are as follows:

	Balance at July, 1, 2016	Additions and Transfers In	Deletions and Transfers Out	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	\$ 35,564	\$ -	\$ -	\$ 35,564
Construction in Progress	-	215,934	-	215,934
Total assets not being depreciated:	<u>35,564</u>	<u>215,934</u>	<u>-</u>	<u>251,498</u>
Capital assets being depreciated:				
Land and improvements	13,228	-	-	13,228
Buildings	1,204,834	8,385	-	1,213,219
Equipment	1,199,502	82,789	-	1,282,291
Distribution sytem	6,098,528	69,024	-	6,167,552
Total capital assets being depreciated	<u>8,516,092</u>	<u>160,198</u>	<u>-</u>	<u>8,676,290</u>
Less accumulated depreciation for:				
Land and land improvements	13,228	-	-	13,228
Buildings	349,074	31,251	-	380,325
Equipment	951,751	56,571	-	1,008,322
Distribution system	3,737,266	162,901	-	3,900,167
Total accumulated depreciation	<u>5,051,319</u>	<u>250,723</u>	<u>-</u>	<u>5,302,042</u>
Total capital assets being depreciated, net	<u>3,464,773</u>	<u>(90,525)</u>	<u>-</u>	<u>3,374,248</u>
Total Capital Assets, Net	<u>\$ 3,500,337</u>	<u>\$ 125,409</u>	<u>\$ -</u>	<u>\$ 3,625,746</u>

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 3 – CAPITAL ASSETS (Continued)

Capital asset categories and changes in each cost category and depreciation for the year ended June 30, 2017 for each major fund are as follows:

Electric Utility	Balance at July, 1, 2016	Additions and Transfers In	Deletions and Transfers Out	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	\$ 11,500	\$ -	\$ -	\$ 11,500
Construction in Progress	-	215,934	-	215,934
Total assets not being depreciated:	11,500	215,934	-	227,434
Capital assets being depreciated:				
Buildings	1,127,663	8,385	-	1,136,048
Equipment	733,355	17,069	-	750,424
Distribution system	3,371,097	26,380	-	3,397,477
Total capital assets being depreciated	5,232,115	51,834	-	5,283,949
Less accumulated depreciation for:				
Buildings	341,544	28,206	-	369,750
Equipment	520,548	42,229	-	562,777
Distribution system	1,824,401	103,889	-	1,928,290
Total accumulated depreciation	2,686,493	174,324	-	2,860,817
Total capital assets being depreciated, net	2,545,622	(122,490)	-	2,423,132
Total Capital Assets, Net	\$ 2,557,122	\$ 93,444	\$ -	\$ 2,650,566

Reconciliation of Net Investment in Capital Assets:

Capital Assets (Net of Accumulated Depreciation)	\$ 2,650,566
Less: Revenue Capital Loan Notes Payable	(1,010,000)
	<u>\$ 1,640,566</u>

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 3 – CAPITAL ASSETS (Continued)

Water Utility	Balance at July, 1, 2016	Additions and Transfers In	Deletions and Transfers Out	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	\$ 22,003	\$ -	\$ -	\$ 22,003
Total assets not being depreciated:	22,003	-	-	22,003
Capital assets being depreciated:				
Land and improvements	13,228	-	-	13,228
Buildings	62,000	-	-	62,000
Equipment	205,014	48,651	-	253,665
Distribution sytem	2,166,873	19,599	-	2,186,472
Total capital assets being depreciated	2,447,115	68,250	-	2,515,365
Less accumulated depreciation for:				
Land improvements	13,228	-	-	13,228
Buildings	7,182	2,666	-	9,848
Equipment	197,140	4,682	-	201,822
Distribution system	1,524,050	44,153	-	1,568,203
Total accumulated depreciation	1,741,600	51,501	-	1,793,101
Total capital assets being depreciated, net	705,515	16,749	-	722,264
Total Capital Assets, Net	\$ 727,518	\$ 16,749	\$ -	\$ 744,267
Gas Utility	Balance at July, 1, 2016	Additions and Transfers In	Deletions and Transfers Out	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	\$ 2,061	\$ -	\$ -	\$ 2,061
Total assets not being depreciated:	2,061	-	-	2,061
Capital assets being depreciated:				
Building	15,171	-	-	15,171
Equipment	261,133	17,069	-	278,202
Distribution sytem	560,558	23,045	-	583,603
Total capital assets being depreciated	836,862	40,114	-	876,976
Less accumulated depreciation for:				
Building	348	379	-	727
Equipment	234,063	9,660	-	243,723
Distribution system	388,815	14,859	-	403,674
Total accumulated depreciation	623,226	24,898	-	648,124
Total capital assets being depreciated, net	213,636	15,216	-	228,852
Total Capital Assets, Net	\$ 215,697	\$ 15,216	\$ -	\$ 230,913

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 4 – LONG-TERM DEBT

Notes payable activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Electric Revenue Refunding Capital Loan Notes	\$ 1,180,000	\$ -	\$ 170,000	\$ 1,010,000	\$ 170,000

The Utilities issued Electric revenue refunding capital loans notes (Series 2015) during the year ended June 30, 2015 in the amount of \$1,350,000 to refund the Series 2008 capital loan notes. The notes bear interest of 1.97%. The notes are secured by future revenues of the Electric Utility. The notes payable mature and bear interest as follows:

Ending June 30	Principal	Interest	Total
2018	\$ 170,000	\$ 19,897	\$ 189,897
2019	170,000	16,548	186,548
2020	170,000	13,199	183,199
2021	170,000	9,850	179,850
2022	165,000	6,501	171,501
2023	165,000	3,251	168,251
TOTAL	<u>\$ 1,010,000</u>	<u>\$ 69,246</u>	<u>\$ 1,079,246</u>

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

Restricted Funds

Outstanding Electric refunding capital loan notes are collateralized by the revenue of the Utility and the various special funds established by bond covenants. The covenants provide that the revenue of the Utility is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the special funds. Remaining revenues may then be used for any lawful purpose. The covenants also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of June 30, 2017, the Utility is in compliance with all bond covenant requirements.

Monthly deposits into a bond sinking fund are required to establish the amount necessary to pay the next installments of principal and interest. As of June 30, 2017, this account has a balance of \$44,188.

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 5 – PAYMENT TO THE CITY

LPMU made voluntary in-lieu-of-tax payments to the City in the amount of \$52,936 for the year ended June 30, 2017.

Note 6 – 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, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

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

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 6 – PENSION AND RETIREMENT BENEFITS (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. 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 2017, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utilities contributed 8.93 percent for a total rate of 14.88 percent.

The Utilities' total contributions to IPERS for the year ended June 30, 2017 were \$22,049.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the Utilities reported a liability of \$204,879 for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Utilities' collective proportion was .003285 percent which was a decrease of .000126 percent from their proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Utilities recognized pension expense of \$21,444. At June 30, 2017, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 6 – PENSION AND RETIREMENT BENEFITS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,811	\$ 2,445
Changes of assumptions	3,126	-
Net difference between projected and actual earnings on pension plan investments	54,542	25,353
Changes in proportion and differences between Utility contributions and proportionate share of contributions	-	9,585
Utility contributions subsequent to the measurement date	22,049	-
Total	\$ 81,528	\$ 37,383

\$22,049 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, 2018. 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	\$ 1,060
2018	1,060
2019	13,363
2020	7,195
2021	(582)
Total	\$ 22,096

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 6 – PENSION AND RETIREMENT BENEFITS (Continued)

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation
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, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Plus Fixed Income	28%	1.90%
Domestic Equity	24%	5.85
International Equity	16%	6.32
Private Equity/Debt	11%	10.31
Real Estate	8%	3.87
Credit Opportunities	5%	4.48
U.S. TIPS	5%	1.36
Other Real Assets	2%	6.42
Cash	1%	-0.26
Total	<u>100%</u>	

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 6 – PENSION AND RETIREMENT BENEFITS (Continued)

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, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the 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.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Utilities' proportionate share of the net pension liability	\$ 331,467	\$ 204,879	\$ 98,038

IPERS' Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2017, the Utilities reported \$0 of payables related to the defined benefit pension plan.

Note 7 – LOCAL GOVERNMENT RISK POOL

LPMU is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 753 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Note 7 – LOCAL GOVERNMENT RISK POOL (Continued)

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

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

LPMU's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. LPMU's contributions to the Pool for the year ended June 30, 2017 were \$17,074.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by LPMU's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by Lake Park's risk-sharing certificate.

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

LPMU does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2017, no liability has been recorded in Lake Park's financial statements. As of June 30, 2017, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 7 – LOCAL GOVERNMENT RISK POOL (Continued)

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

LPMU also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation and employee blanket bond in the amount of \$1,000,000 and \$100,000, respectively. Lake Park assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8 – INTERFUND RECEIVABLES AND PAYABLES

As of June 30, 2017, short-term interfund borrowings were as follows:

Fund Due To	Fund Due From	Amount
Electric Utility	Water Utility	\$181,503

The purpose of the interfund balance from the Water Utility to the Electric Utility is for an overspent cash account in the Water Utility. The Utilities pool their funds in one bank account, which in total has a positive balance, however, Water's portion is negative.

Note 9 – PRIOR PERIOD ADJUSTMENT

In the financial statements for prior years, an error was made in accounting for the accounts payable recorded for amounts due to the City for Sewer and Garbage in the Electric Utility. This error has been corrected and had the following effect on the beginning fund balance during fiscal year June 30, 2017:

	Electric Utility
Net Position June 30, 2016, as previously reported	\$ 3,565,206
Prior Period Adjustment	(28,310)
Net Position June 30, 2016, as restated	<u>\$ 3,536,896</u>

REQUIRED SUPPLEMENTARY INFORMATION

**LAKE PARK MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF LAKE PARK, IOWA)
SCHEDULE OF THE UTILITIES' PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE LAST THREE YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Utilities' collective proportion of the net pension liability	0.003285%	0.003411%	0.003465%
Utilities' collective proportionate share of the net pension liability	\$ 204,879	\$ 169,560	\$ 140,227
Utilities' covered employee payroll	\$ 233,627	\$ 235,129	\$ 231,366
Utilities' collective proportionate share of the net pension liability as a percentage of its covered employee payroll	87.69%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utilities will present information for those years for which information is available.

LAKE PARK MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF LAKE PARK, IOWA)
SCHEDULE OF THE UTILITIES' CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
LAST 10 FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 22,049	\$ 20,863	\$ 20,997	\$ 20,661
Contributions in relation to the statutorily required contribution	\$ (22,049)	\$ (20,863)	\$ (20,997)	\$ (20,661)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utilities' covered-employee payroll	\$ 254,363	\$ 233,627	\$ 235,129	\$ 231,366
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%

See Accompanying Independent Auditors' Report

2013	2012	2011	2010	2009	2008
\$ 20,194	\$ 18,759	\$ 15,132	\$ 17,534	\$ 15,361	\$ 9,112
\$ (20,194)	\$ (18,759)	\$ (15,132)	\$ (17,534)	\$ (15,361)	\$ (9,112)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 232,918	\$ 232,454	\$ 217,727	\$ 263,669	\$ 241,906	\$ 150,612
8.67%	8.07%	6.95%	6.65%	6.35%	6.05%

See Accompanying Independent Auditors' Report

**LAKE PARK MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017**

Changes of Benefit Terms:

Legislation passed 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 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.

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 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.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Lake Park Municipal Utilities
Lake Park, IA 51347

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 accompanying financial statements of the business-type activities and each major fund of Lake Park Municipal Utilities, a component unit of the City of Lake Park, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents, and have issued our report thereon dated September 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lake Park 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 Lake Park Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Park Municipal Utilities' 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 identify certain deficiencies in internal control, described in part II of the accompanying schedule of findings as items 2017-001 and 2017-002, to be material weaknesses.

Compliance and Other Matters

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

Lake Park Municipal Utilities' Response to Findings

Lake Park Municipal Utilities' response to the finding identified in our audit is described in the accompanying schedule of findings. LPMU's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
September 12, 2017

**LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

PART I – SUMMARY OF AUDITORS’ RESULTS

- (A) An unmodified opinion was issued on the financial statements.
- (B) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (C) The audit did not disclose any non-compliance which is material to the financial statements.

PART II – FINDING RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

MATERIAL WEAKNESSES:

2017-001 Financial Reporting

Criteria – The Utilities is responsible for the accuracy of the financial statements.

Condition – During the audit, we identified material and immaterial adjustments which could result in material misstatements of accounts payable and equity and immaterial misstatements of inventory, fixed assets, and expenses that were not initially identified by Lake Park Municipal Utilities’ internal control. These amounts were either not recorded or not properly recorded in the financial statements.

Effect – As a result of these misstatements, there was a potential for the financial statements to be materially misstated.

Recommendation –The Utilities should review its procedures to ensure all accounts are properly identified, classified, and included in the Utilities’ financial statements.

Response – We will continue to improve procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion - Response accepted.

2017-002 Segregation of Duties

Criteria – The Utilities is responsible for the establishment of adequate segregation of duties to help prevent losses from employee error or dishonesty and, therefore, maximizing the accuracy of the Utilities’ financial statements.

Condition – The Utilities has a small accounting staff and accordingly has not been able to achieve full segregation of duties over all accounting transactions. Employees who handle cash receipts are also involved with the posting of payments and reconciling the bank statements. Also, the same employee that is entering the payroll information is also processing the payroll.

Effect – As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period. Internal controls that are in place could be averted, overridden, or not consistently implemented.

**LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

**PART II – FINDING RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)**

Recommendation – We realize with a limited number of personnel, segregation of duties is difficult. However, the Utilities should review the operating procedures of the office and the Board should be diligent in reviewing the financial records.

Response – The Utilities feels that additional personnel would not be cost effective. However, management and the Board will review procedures and investigate available alternatives.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE: No matters were reported.

PART III – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

III-A-17: Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities’ investment policy were noted.

III-B-17: Questionable Disbursements – No expenditures we believe did not meet the requirement of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

III-C-17: Travel Expense – No disbursements of the Utilities’ money for travel expenses of spouses of Utilities’ officials or employees were noted.

III-D-17: Business Transactions – Business transactions between Lake Park Municipal Utilities and Utilities’ officials and employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Marcy Wittrock, Board Member Owner of Red Roses and Ivy	Flowers for Memorials	\$101
Tony Lemker, Board Member, Owner of LBR Enterprises	Signs and Decals	\$ 60

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Board Members do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the year.

III-E-17: Bond Coverage – Surety bond coverage of Lake Park 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.

**LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

**PART III – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING
(Continued)**

III-F-17: Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-17: Revenue Bonds – As of June 30, 2017, the LPMU is in compliance with all bond covenant requirements.