

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk**

**Independent Auditor's Report  
Management's Discussion and Analysis  
Financial Statements and Supplementary Information  
Independent Auditor's Reports on Compliance and Internal Control  
Schedule of Findings**

**June 30, 2017**

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**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Board of Trustees  
June 30, 2017**

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<b><u>Trustee</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
Mike Hausch	Trustee, Chairman	November 1, 2017
Michael Hickey	Trustee	November 1, 2017
Ray Long	Trustee	November 1, 2019
Dave Bogner	Trustee	November 1, 2021
Kim Boyd	Trustee	November 1, 2021
Andrea Rogers	Manager	
Shari Dunagan	Office Manager	



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## **Independent Auditor's Report**

Board of Trustees  
Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Keokuk, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the proprietary and fiduciary funds of Keokuk Municipal Waterworks (Waterworks), a component unit of the City of Keokuk, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Waterworks' basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks' 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 Waterworks' 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.

## Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Proprietary fund	Qualified
Fiduciary fund	Unmodified

### Basis for Qualified Opinion on Proprietary Fund

As discussed in Note 1, the Waterworks did not record or disclose the net annual required contribution for other postemployment benefits (OPEB) or the OPEB net liability obligation as required by Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The amount by which this departure could affect liabilities, net position and operating expenses has not been determined.

### Qualified Opinion

In our opinion, except for the omission of the information described in the "Basis for Qualified Opinion on Proprietary fund" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Waterworks as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the fiduciary fund of the Waterworks as of June 30, 2017 and 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison and pension information on pages 5 through 10 and 30 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Waterworks' basic financial statements. The schedule of changes in assets restricted for landfill, sewer and garbage charges and the schedule of changes in assets restricted for water revenue capital loan notes debt service are presented for purposes of additional analysis and are not a required part of the basic financial statements.

**Other Matters** (continued)

The schedule of changes in assets restricted for landfill, sewer and garbage charges and the schedule of changes in assets restricted for water revenue capital loan notes debt service are the responsibility of management and were derived from and relate 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of changes in assets restricted for landfill, sewer and garbage charges and the schedule of changes in assets restricted for water revenue capital loan notes debt service are fairly stated, in all material respects, 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 December 20, 2017, on our consideration of the Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Waterworks' internal control over financial reporting and compliance.

*CPA Associates PC*

December 20, 2017

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

The following Management's Discussion and Analysis (MD&A) of Keokuk Municipal Waterworks' activities and financial performance provides the reader with an introduction and overview to the financial statements of Keokuk Municipal Waterworks (Waterworks) for the fiscal year ended June 30, 2017. The information contained in this MD&A should be considered in conjunction with the Waterworks' basic financial statements.

Following this MD&A are the basic financial statements of the Waterworks together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements.

### **Financial Operations Highlights**

As a result of this year's operations, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$28.5 million (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$27.8 million. The net position increased by \$676,351 or 2.4%.

The following comprises total net position:

- Net position invested in capital assets (e.g., main extensions, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets is \$26,314,220. This balance represents resources allocated to capital assets. These capital assets, less accumulated depreciation, are shown at depreciated cost of \$36,716,852.
- Restricted net position of \$1,780,927 represents resources that are subject to external restrictions such as grantors, laws, debt covenants or regulations.
- Unrestricted net position of \$396,789 represents resources that can be used at the discretion of management and the Board of Trustees.

During the year, revenues decreased \$12,781, or 0.17%, while operating expenses increased \$63,381, or 0.95%. The decrease in revenues is due to decreased water usage by industrial customers (Steel Casting and Roquette). The operating expenses increase is due to increased chemical cost.

Net nonoperating expenses decreased \$26,000, or 10.56%, which is primarily attributable to the decrease in interest expense.

### **Using This Annual Report**

The Waterworks is governed by a Board of Trustees, appointed by the Mayor and approved by the City Council. The Waterworks is organized as an Enterprise Fund and is a component unit of the City of Keokuk, Iowa. This discussion and analysis is intended to serve as an introduction to the Waterworks' basic financial statements. 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 Keokuk Municipal Waterworks' financial activities.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

**Using This Annual Report** (continued)

- The financial statements consist of a Statement of Net Position - Proprietary fund, Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary fund, Statement of Cash Flows - Proprietary fund, Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. These provide information about the activities of the Waterworks as a whole and present an overall view of the Waterworks' finances.
- The financial statements tell how services were financed in the short term as well as what remains for future spending.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Waterworks' budget for the year and the Waterworks' proportionate share of the net pension liability and related contributions.

**Financial Position Summary**

Net position may serve over time as a useful indicator of the Waterworks' financial position. The Waterworks' net position of \$28.5 million at June 30, 2017, was an increase of \$676,351 from 2016.

A condensed summary of the Waterworks' net position at June 30, 2017 and 2016 is shown below:

	<b>2017</b>	<b>2016</b>
Assets		
Current and restricted assets	\$ 4,330,024	\$ 5,218,326
Capital assets	<u>36,716,852</u>	<u>36,837,064</u>
Total assets	<u>41,046,876</u>	<u>42,055,390</u>
Deferred outflow of resources:		
Pension related deferred outflows	<u>322,864</u>	<u>315,399</u>
Liabilities		
Current liabilities	3,002,339	3,055,807
Long-term debt	<u>9,861,991</u>	<u>11,292,252</u>
Total liabilities	<u>12,864,330</u>	<u>14,348,059</u>
Deferred inflow of resources		
Pension related deferred inflows	<u>13,474</u>	<u>207,145</u>
Net Position		
Invested in capital assets, net of related debt	26,314,220	24,795,336
Restricted funds	1,780,927	1,829,941
Unrestricted	<u>396,789</u>	<u>1,190,308</u>
	<u>\$ 28,491,936</u>	<u>\$ 27,815,585</u>

The largest portion of the Waterworks' net position each year represents its investment in capital assets (e.g., main extensions, buildings, improvements, and equipment), less any related indebtedness outstanding used to acquire those capital assets.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

**Summary of Operations and Changes in Net Position**

	<b>2017</b>	<b>2016</b>
Net operating revenues	\$ 7,625,105	\$ 7,637,886
Net operating expenses	<u>6,728,499</u>	<u>6,665,118</u>
Net operating income	<u>896,606</u>	<u>972,768</u>
Nonoperating income and expenses:		
Interest income	56,841	55,607
Interest expense	<u>(277,096)</u>	<u>(301,879)</u>
Net nonoperating expense	<u>(220,255)</u>	<u>(246,272)</u>
Increase in net position	<u>\$ 676,351</u>	<u>\$ 726,496</u>

**Revenues**

A summary of revenues for the year ended June 30, 2017, and the amount and percentage of change in relation to prior year amounts, is as follows:

	2017 Amount	% of Total	Increase (Decrease) from Prior Year	% Increase (Decrease)
Operating				
Water sales	\$ 7,493,527	97.55 %	\$ (10,062)	(0.13)%
Miscellaneous charges	76,310	0.99	(3,044)	(3.84)%
Service charges and penalties	<u>55,268</u>	<u>0.72</u>	<u>325</u>	0.59 %
Total operating	7,625,105	99.26	(12,781)	(0.17)%
Nonoperating income				
Interest income	<u>56,841</u>	<u>0.74</u>	<u>1,234</u>	2.22 %
Total revenues	<u>\$ 7,681,946</u>	<u>100.00 %</u>	<u>\$ (11,547)</u>	(0.15)%

**Expenses**

A summary of expenses for the year ended June 30, 2017, and the amount and percentage of change in relation to prior year amounts, is as follows:

	2017 Amount	% of Total	Increase (Decrease) from Prior Year	% Increase (Decrease)
Operating				
Operating expenses	\$ 4,910,200	70.09 %	\$ 3,858	0.08 %
Depreciation	<u>1,818,299</u>	<u>25.95</u>	<u>59,523</u>	3.38 %
Total operating	6,728,499	96.04	63,381	0.95 %
Nonoperating expense				
Interest expense	<u>277,096</u>	<u>3.96</u>	<u>(24,783)</u>	(8.21)%
Total expenses	<u>\$ 7,005,595</u>	<u>100.00 %</u>	<u>\$ 38,598</u>	0.55 %

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

Operating expenses increased during the fiscal year. The largest increases were found in chemical costs.

**Summary of Cash Flow Activities**

The following shows a summary of the major sources and uses of cash and cash equivalents for the years ended June 30, 2017 and 2016. Cash equivalents are considered to be cash on hand, bank deposits and highly liquid investments with an original maturity of three months or less.

	<b>2017</b>	<b>2016</b>
Net cash provided by operating activities	\$ 2,647,465	\$ 2,714,730
Net cash provided by investing activities	54,361	53,074
Net cash used by capital and related financing activities	<u>(3,681,992)</u>	<u>(3,832,419)</u>
Net decrease in cash and cash equivalents	(980,166)	(1,064,615)
Cash and cash equivalents, beginning of year	<u>2,928,597</u>	<u>3,993,212</u>
Cash and cash equivalents, end of year	<u>\$ 1,948,431</u>	<u>\$ 2,928,597</u>

**Financial Statements**

The Waterworks' financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB). The Waterworks is structured as a single enterprise fund with revenues recognized when earned, not received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land) are depreciated over their useful lives. See the Notes to Financial Statements for a summary of the Waterworks' significant accounting policies.

**Long-term Debt**

At June 30, 2017, the Waterworks had \$10,402,632 in debt outstanding. This debt is from refinancing of the 1995, 1996 and 2010 bonds in April 2013; \$1.6 million state revolving loan related to the chlorine generation system construction project; \$2.7 million bonds issued for additional membrane filters (Skid 5 and 6) and \$2.3 million to pay off the 2008 debt. As of December 1, 2017, the Waterworks issued \$2,010,000 in water revenue bonds.

**Capital Acquisitions and Construction Activities**

At June 30, 2017, the Waterworks had \$61,163,435 in capital assets. Capital expenditures totaled \$1,757,827, a decrease of 8% from 2016. A summary of projects follows:

Distribution System

- Purchase of meters
- Purchase of hydrants

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

Water Treatment Plant

- Heat pumps
- Chemical room
- Control system
- Stainless steel piping
- Prefilters
- Computer upgrades
- High service pumps

Office

- Ampstun billing software

Mains

- Middle Road & Boulevard Road
- Hawthorne Place
- Keokuk Steel Castings
- Palean

Transportation

- 2017 Ford Transit Van

Equipment

- HP printers
- Scissor lift
- Update server

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Management's Discussion and Analysis**

**Economic Factors**

The Waterworks continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the country and local area continues to be a concern for the Waterworks' officials. Some of the realities that may potentially become challenges for the Waterworks to meet are:

- Facilities at the Waterworks require constant maintenance and upkeep.
- Water regulations continue to change; in order to meet these new standards, the Waterworks must constantly upgrade and change.
- The Waterworks' repair and replacement of mains is on-going, due to the age of the distribution system.
- Closing of businesses and declining population directly affect the income of the Waterworks, especially any change with its major customer as disclosed in the Notes to Financial Statements.

For the fiscal year ending June 30, 2018, the Waterworks has already entered into the following capital improvement projects:

**Mains**

- Continuation of FY17 main replacement projects
- McKinley to Rainbow
- Main Street

**Water Plant**

- Chemical feed room
- Pumps
- High performance valves for Ultra filtration membranes

**Office**

- Continue of FY17 Software Amstun

**Request for Information**

This financial report is designed to provide a general overview of the Waterworks' finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Manager, Keokuk Municipal Waterworks; 20 North Fourth Street; Keokuk, Iowa 52632.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Statement of Net Position - Proprietary Fund  
June 30, 2017**

Assets	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 422,678
Certificates of deposit	36,350
Accrued interest receivable	13,751
Accounts receivable	786,813
Inventories	160,261
Prepaid expenses	<u>130,954</u>
Total current assets	<u>1,550,807</u>
<b>Restricted Assets</b>	
Cash and cash equivalents	1,525,753
Accounts receivable	212,627
Certificates of deposit	303,087
Guaranteed investment contracts	<u>737,750</u>
	<u>2,779,217</u>
<b>Property, Plant and Equipment</b>	
Property, plant and equipment, at cost	61,163,435
Less accumulated depreciation	<u>(24,446,583)</u>
	<u>36,716,852</u>
	<u>41,046,876</u>
<b>Deferred Outflows of Resources</b>	
Pension related deferred outflows	<u>322,864</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 280,865
State sales tax payable	3,732
Accrued salaries and vacation	273,252
Accrued interest payable	62,856
Current portion long-term debt	1,669,660
Due to city - sewer and garbage charges	425,684
Consumer water meter deposits	198,308
Consumer sewer meter deposits	<u>87,982</u>
Total current liabilities	<u>3,002,339</u>
<b>Long-term Liabilities</b>	
Long-term debt, net of current portion	8,732,972
Net pension liability	<u>1,129,019</u>
	<u>9,861,991</u>
	<u>12,864,330</u>
<b>Deferred Inflows of Resources</b>	
Pension related deferred inflows	<u>13,474</u>
<b>Net Position</b>	
Invested in capital assets, net of related debt	26,314,220
Restricted	
Sinking fund	469,607
Reserve fund	1,061,320
Improvement fund	250,000
Unrestricted	<u>396,789</u>
	<u>\$ 28,491,936</u>

See notes to financial statements.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund  
For the Year Ended June 30, 2017**

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<b>Operating Revenues</b>	
Water sales	\$ 7,493,527
Miscellaneous charges	76,310
Service charges and penalties	<u>55,268</u>
Total operating revenues	<u>7,625,105</u>
<b>Operating Expenses</b>	
Operating expenses	4,910,200
Depreciation	<u>1,818,299</u>
Total operating expenses	<u>6,728,499</u>
Net operating income	<u>896,606</u>
<b>Nonoperating income (expenses)</b>	
Interest income	56,841
Interest expense	<u>(277,096)</u>
Total nonoperating expenses	<u>(220,255)</u>
Changes in net position	676,351
Net position, beginning of year	<u>27,815,585</u>
Net position, end of year	<u>\$ 28,491,936</u>

See notes to financial statements.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended June 30, 2017**

<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 7,365,827
Receipts from service charges and miscellaneous	132,767
Meter deposits paid, net	(8,593)
Payments to suppliers	(3,419,458)
Payments to employees	(1,223,078)
Payment in lieu of taxes to the City of Keokuk	<u>(200,000)</u>
Net cash provided by operating activities	<u>2,647,465</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchases of capital assets	(1,757,827)
Principal payments on long-term debt	(1,630,000)
Interest payments on long-term debt	<u>(294,165)</u>
Net cash used by capital and related financing activities	<u>(3,681,992)</u>
<b>Cash Flows from Investing Activities</b>	
Purchases of certificates of deposit	(89,221)
Redemptions of certificates of deposit	88,000
Interest income	<u>55,582</u>
Net cash provided by investing activities	<u>54,361</u>
Net decrease in cash and cash equivalents	(980,166)
Cash and cash equivalents, beginning of year	<u>2,928,597</u>
Cash and cash equivalents, end of year	<u>\$ 1,948,431</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	\$ 896,606
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,818,299
Changes in assets and liabilities:	
Receivables, inventories and prepaids	(89,384)
Accounts payable and accrued expenses	(7,726)
Meter deposits, net	(8,593)
Net pension liability	239,399
Deferred outflows of resources	(7,465)
Deferred inflows of resources	<u>(193,671)</u>
Net cash provided by operating activities	<u>\$ 2,647,465</u>
<b>Supplemental Disclosure of Noncash Capital and Related Financing Activities</b>	
Equipment purchases financed through accounts payable	\$ 65,234
Bond premium amortization	9,096

See notes to financial statements.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Statement of Fiduciary Net Position  
June 30, 2017**

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	<b>Fiduciary Fund Employee Health Retirement <u>Account</u></b>
<b>Assets</b>	
Guaranteed fixed annuity	\$ <u>31,665</u>
<b>Net Position</b>	
Held in trust for health benefits	\$ <u>31,665</u>

See notes to financial statements.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Statement of Changes in Fiduciary Net Position  
Year Ended June 30, 2017**

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	<b>Fiduciary Fund Employee Health Retirement <u>Account</u></b>
<b>Additions</b>	
Contributions:	
Employer contributions	\$ 31,232
Investment earnings:	
Net increase in fair value of investments	<u>433</u>
Increase in net position	31,665
<b>Net position, beginning of year</b>	<u>-</u>
<b>Net position, end of year</b>	<b><u>\$ 31,665</u></b>

See notes to financial statements.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies**

The Keokuk Municipal Waterworks (Waterworks) currently provides water for the residential, commercial and industrial needs of locations within the City of Keokuk, Iowa. The governing body of the Waterworks is a Board of Trustees consisting of five members appointed by the City of Keokuk's Mayor and approved by the City of Keokuk's Council. The Board of Trustees has the responsibility for designating management and is accountable for fiscal matters relating to the Waterworks.

Reporting Entity

For financial reporting purposes, the Waterworks has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Waterworks has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Waterworks are such that exclusion would cause the Waterworks' financial statements to be misleading or incomplete.

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the entity to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the entity.

Based on the above criteria, there are no agencies or entities that should be combined with the financial statements of the Waterworks. However, based on these criteria, the Waterworks is a component unit of the City of Keokuk for financial reporting purposes. The City of Keokuk has financial accountability for the Waterworks because it appoints a voting majority of the Waterworks' Board of Trustees.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Waterworks are prepared in accordance with accounting principles generally accepted in the United States of America. The Waterworks' reporting entity applies all relevant GASB pronouncements, except for GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which has not been implemented. The Waterworks has not determined the impact of this departure on the financial statements.

The accounts of the Waterworks are primarily organized as an enterprise fund. Enterprise funds are used to account for operations (a) 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 or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (continued)**

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 a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Waterworks 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 Waterworks' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Waterworks also has an employee health retirement account, which is a fiduciary fund type. This fund is used to hold employer contributions to be used for future health insurance for the retired employee. The Waterworks reports resources held in trust by MidAmerican Administrative & Retirement Solutions.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

The Statement of Net Position is based on the following accounting policies:

Cash and Cash Equivalents

The Waterworks considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are recorded at the time the service is billed. Unbilled water usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

The Waterworks grants credit to customers, substantially all of whom are located in Keokuk, Iowa. The risk of loss on accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after thirty days and charged off when management determines the account is uncollectible. Bad debts are charged to operations in the year in which the account is determined uncollectible. Because of the Waterworks' ability 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.

Restricted Assets

Restricted assets consist of cash and cash equivalents, certificates of deposit, a guaranteed investment contract and accounts receivable. These funds are set aside for sewer, garbage and landfill fees collected for others, water and sewer meter deposits, and bond sinking, bond reserve, bond improvement accounts, and capital projects. The Waterworks carries its investment in the guaranteed investment contract at cost since it is a nonparticipating contract that has a fixed interest rate.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (continued)**

Inventories

Inventories, which consist of chemical and distribution supplies, are recognized at cost at the time they are purchased.

Property and Equipment

Property and equipment are accounted for at historical cost. Property and equipment are defined by the Waterworks as assets with an estimated useful life in excess of one year. Property and equipment are depreciated using the straight line method over the following estimated useful lives:

Buildings	10-40 years
Plant and tanks	5-100 years
Distribution system, meters and hydrants	15-80 years
Machinery and equipment	5-40 years

The cost of assets sold, retired, or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of an asset are capitalized.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense, the unamortized portion of the net difference between projected and actual earnings on IPERS' investments, differences between expected and actual experience, changes in proportion and differences between Waterworks' contributions and proportionate share of contributions and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Compensated Absences

Waterworks employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. The Waterworks' liability for accumulated vacation and sick leave has been computed based on rates in effect at June 30, 2017.

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.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (continued)**

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. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of differences between expected and actual experience.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2017, disbursements did not exceed the amounts budgeted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2. Cash and Investments**

The Waterworks' deposits 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.

The Waterworks 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 Waterworks 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 a drainage district.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

**Note 3. Restricted Assets**

Restricted assets consist of the following as of June 30, 2017:

	Cash and Cash Equivalents	Accounts Receivable	Certificates of Deposit	Guaranteed Investment Contract
Sewer, garbage and landfill	\$ 213,057	\$ 212,627	\$ -	\$ -
Consumer water meter deposits	198,308	-	-	-
Consumer sewer meter deposits	-	-	87,982	-
Sinking fund	469,607	-	-	-
Reserve fund	108,465	-	215,105	737,750
Improvement fund	250,000	-	-	-
General regulatory and system improvements	286,316	-	-	-
Total restricted assets	<u>\$ 1,525,753</u>	<u>\$ 212,627</u>	<u>\$ 303,087</u>	<u>\$ 737,750</u>

**Note 4. Property and Equipment**

Changes in property and equipment as June 30, 2017 consist of the following:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Property and equipment not being depreciated:				
Land	\$ 382,101	\$ -	\$ -	\$ 382,101
Construction in progress	260,514	-	(260,514)	-
Total property and equipment not being depreciated	<u>642,615</u>	<u>-</u>	<u>(260,514)</u>	<u>382,101</u>
Property and equipment being depreciated/amortized:				
Building	501,322	-	-	501,322
Plant and tanks	50,465,170	1,065,998	-	51,531,168
Distribution system, meters and hydrants	7,052,625	637,651	-	7,690,276
Machinery and equipment	957,537	112,886	(11,855)	1,058,568
Total property and equipment being depreciated/amortized	<u>58,976,654</u>	<u>1,816,535</u>	<u>(11,855)</u>	<u>60,781,334</u>
Less accumulated depreciation/amortization for:				
Building	246,826	10,017	-	256,843
Plant and tanks	19,117,981	1,621,980	-	20,739,961
Distribution system, meters and hydrants	2,632,194	142,982	(153,921)	2,621,255
Machinery and equipment	785,204	43,320	-	828,524
Total accumulated depreciation/amortization	<u>22,782,205</u>	<u>1,818,299</u>	<u>(153,921)</u>	<u>24,446,583</u>
Total property and equipment, net	<u>\$ 36,837,064</u>	<u>\$ (1,764)</u>	<u>\$ (118,448)</u>	<u>\$ 36,716,852</u>

**Note 5. Pension and Retirement Benefits**

Pension Plan Description

Iowa Public Employees' Retirement System (IPERS) membership is mandatory for employees, except those covered by the defined contribution pension plan discussed above. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by 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](http://www.ipers.org).

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

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**Note 5. Pension and Retirement Benefits (continued)**

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 description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A 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 member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except that 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 starting July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

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

Disability and Death Benefits

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

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

**Note 5. Pension and Retirement Benefits (continued)**

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%. 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, members contributed 5.95% of covered payroll and the Waterworks contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Waterworks' total contributions to IPERS for the year ended June 30, 2017 were \$104,852.

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

At June 30, 2017, the Waterworks reported a liability of \$1,129,019 for its 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 Waterworks' proportion of the net pension liability was based on the Waterworks' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the Waterworks' proportion was 0.017940%, which was an increase of 0.000007% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Waterworks recognized pension expense of \$143,115. At June 30, 2017, the Waterworks reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,977	\$ 13,474
Changes in assumptions	17,225	-
Net difference between projected and actual earnings on IPERS investments	160,940	-
Changes in proportion and differences between Waterworks' contributions and proportionate share of contributions	29,870	-
Waterworks' contributions subsequent to the measurement date	<u>104,852</u>	<u>-</u>
	<u>\$ 322,864</u>	<u>\$ 13,474</u>

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

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**Note 5. Pension and Retirement Benefits (continued)**

The \$104,852 reported as deferred outflows of resources related to pensions resulting from the Waterworks' 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:

<u>Year Ended June 30,</u>	
2018	\$ 31,029
2019	30,939
2020	92,541
2021	50,442
2022	<u>(413)</u>
	<u>\$ 204,538</u>

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:

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 a 3.00% inflation and 1.00% 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 Tables 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 IPERS 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:

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

**Note 5. Pension and Retirement Benefits (continued)**

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28 %	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	<u>1</u>	(0.26)
Total	<u>100 %</u>	

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 that employee contributions will be made at the contractually required rate and contributions from the Waterworks will be made at the contractually required rates, actuarially determined. Based on those assumptions, the 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 Association's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Waterworks' proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Waterworks' 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 <u>(6.50%)</u>	Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Proportionate share of the net pension liability	\$1,826,600	\$1,129,019	\$ 540,251

IPERS Fiduciary Net Position

Detailed information about the IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

**Note 6. Bonds and Long-Term Debt**

On March 27, 2013, the Waterworks issued \$10,000,000 in Water Revenue Refunding Capital Loan Notes. The Waterworks entered into an escrow agreement with Wells Fargo Bank, N.A. and deposited the proceeds from the refunding notes. The proceeds were used to advance refund 2004 Water Revenue Refunding Capital Loan Notes and 2005 Water Revenue Refunding Capital Loan Notes on the call date of April 1, 2013, and 2010 Water Revenue Capital Loan Notes. These notes mature semi-annually beginning October 1, 2013 through April 1, 2031, with interest rates from 1.85% to 3.10%. Notes maturing after April 1, 2019 may be called for redemption and paid before maturity on said date or any date thereafter at par plus accrued interest in whole or in part, in order of maturity. The notes were issued at a premium and the unamortized premium as of June 30, 2017 is \$19,825.

On April 12, 2013, the Waterworks issued \$1,600,000 in Water Revenue Capital Loan Notes. The Waterworks entered into an escrow agreement with Wells Fargo Bank, N.A., the trustee of the master trust of the Iowa Finance Authority, and deposited the proceeds from the notes. The proceeds funded the Chlorine Generation System project. Upon completion of the project and receipt by the State of Iowa of a certification of completion from the Waterworks, \$480,000 of the outstanding debt was forgiven. The remaining notes mature semi-annually beginning June 1, 2013 through June 1, 2032, with a 2.00% interest rate.

On June 30, 2014, the Waterworks issued \$2,675,000 in Water Revenue Capital Loan Notes. These notes mature semi-annually beginning April 1, 2015 through April 1, 2034, with interest rates from 2.00% to 4.00%. Notes maturing after April 2, 2021 may be called for redemption and paid before maturity on said date or any date thereafter at par plus accrued interest in whole or in part, in order of maturity. The notes were issued at a premium and the unamortized premium as of June 30, 2017 is \$10,009.

On June 30, 2014, the Waterworks issued \$2,305,000 in Water Revenue Capital Loan Notes. The Waterworks entered into an escrow agreement with Wells Fargo Bank, N.A. and deposited the proceeds from the refunding notes. The proceeds were used to advance refund 2008 Water Revenue Capital Loan Notes on the call date of April 1, 2015. These notes mature semi-annually beginning April 1, 2015 through April 1, 2023, with interest rates from 2.00% to 3.00%. Notes maturing after April 1, 2020 may be called for redemption and paid before maturity on said date or any date thereafter at par plus accrued interest in whole or in part, in order of maturity. The notes were issued at a premium and the unamortized premium as of June 30, 2017 is \$12,798.

A summary of changes in long-term debt for the year ended June 30, 2017 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
2013B Series Revenue Notes	\$ 6,574,218	\$ -	\$ (1,199,393)	\$ 5,374,825	\$ 1,224,397
2013A Series Revenue Notes	930,000	-	(50,000)	880,000	51,000
2014A Series Revenue Notes	2,485,970	-	(110,961)	2,375,009	110,936
2014B Series Revenue Notes	<u>2,051,540</u>	<u>-</u>	<u>(278,742)</u>	<u>1,772,798</u>	<u>283,327</u>
Total Revenue Notes	<u>\$12,041,728</u>	<u>\$ -</u>	<u>\$ (1,639,096)</u>	<u>\$10,402,632</u>	<u>\$ 1,669,660</u>

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

**Note 6. Bonds and Long-Term Debt (continued)**

Annual debt service requirements for Water Revenue Capital Loan Notes are as follows:

Year Ending June 30,	\$10,000,000 Water Revenue Refunding Capital Loan Notes Series 2013B		\$1,600,000 Water Revenue Capital Loan Notes Series 2013A			
	Principal	Interest	Principal	Interest		
	2018	\$ 1,224,397	\$ 120,180	\$ 51,000	\$ 15,400	
2019	1,244,382	95,780	52,000	14,508		
2020	577,119	70,980	53,000	13,598		
2021	185,802	59,480	54,000	12,670		
2022	190,807	56,058	55,000	11,725		
2023-2027	1,029,068	214,998	292,000	43,820		
2028-2032	923,250	70,483	323,000	17,185		
2033-2034	-	-	-	-		
	<u>\$ 5,374,825</u>	<u>\$ 687,959</u>	<u>\$ 880,000</u>	<u>\$ 128,906</u>		

  

Year Ending June 30,	\$2,675,000 Water Revenue Capital Loan Notes Series 2014A		\$2,305,000 Water Revenue Refunding Capital Loan Notes Series 2014B		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2018	\$ 110,936	\$ 81,910	\$ 283,327	\$ 44,200	\$ 1,669,660
2019	115,911	79,710	287,906	38,600	1,700,199	228,598
2020	115,885	77,410	297,477	32,900	1,043,481	194,888
2021	120,857	74,995	297,033	27,000	657,692	174,145
2022	120,828	72,475	301,366	18,150	668,001	158,408
2022-2026	658,449	301,750	305,689	9,150	2,285,206	569,718
2027-2031	776,898	166,000	-	-	2,023,148	253,668
2032-2034	<u>355,245</u>	<u>21,400</u>	<u>-</u>	<u>-</u>	<u>355,245</u>	<u>21,400</u>
	<u>\$ 2,375,009</u>	<u>\$ 875,650</u>	<u>\$ 1,772,798</u>	<u>\$ 170,000</u>	<u>\$ 10,402,632</u>	<u>\$ 1,862,515</u>

The resolutions providing for the issuance of the revenue notes include the following provisions:

**A. Rate Covenant**

The Waterworks covenants to continue in effect rates for services rendered to be sufficient to produce gross revenues adequate to pay expenses of operation and maintenance and to maintain a balance of net revenues equal to at least 125% of the principal and interest on the 2013A, 2013B, 2014A and 2014B Series notes as they become due.

**B. Sinking Fund**

For the 2013A, 2013B, 2014A and 2014B Series notes, the Sinking Fund requirement is an amount on deposit equal to the monthly amount of the next principal and interest payment.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

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**Note 6. Bonds and Long-Term Debt** (continued)

C. Reserve Fund

For the 2013A, 2013B, 2014A and 2014B Series notes, the Reserve Fund requirement is an amount equal to the lesser of (a) the maximum principal and interest coming due on the notes in any fiscal year, (b) 10% of the stated principal of the notes, or (c) 125% of the average annual debt service on the notes. Amounts on deposit in the Reserve Fund shall be solely for the purpose of paying principal and interest on the notes. The Reserve Fund is to be valued on April 1st of each year and whenever the amount on deposit is less than the Reserve Fund requirement. The Waterworks is required to make monthly deposits in an amount equal to 25% of the amount required to be deposited in the Sinking Fund until the Reserve Fund has been restored.

D. Improvement Fund

For the 2013A Series notes, the Improvement Fund requirement is \$250,000. Money on deposit in the Improvement Fund shall be used for the purpose of paying principal and interest on the notes when there are insufficient balances in the Sinking Fund and Reserve Fund. Funds may also be used to pay the costs of extraordinary maintenance expenses or repairs, renewals and replacement. Whenever it shall become necessary to use the money on deposit in the Improvement Fund, the Waterworks shall deposit \$21,000 per month until the amount on deposit is restored to \$250,000. There is no Improvement Fund requirement for the 2013B, 2014A and 2014B Series notes.

**Note 7. Risk Management**

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

**Note 8. Major Customers**

Water sales to one major customer totaled \$5,565,895 for the year ended June 30, 2017, representing 73% of the total operating revenue for the year. At June 30, 2017, the amount due from this customer was \$558,034, which is included in accounts receivable.

**Note 9. Related Party Transactions**

During the year ended June 30, 2017, the Waterworks had business transactions amounting to \$4,865, relating to one employee.

The Waterworks has a board member who is also a board member for a local bank. As of June 30, 2017, the Waterworks had \$1,515,102 in cash held at the bank and paid \$158,078 in insurance premiums to the bank's affiliate during the year ended June 30, 2017.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

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**Note 10. Related Organization**

Based on criteria set by the GASB, Keokuk Municipal Waterworks is a component unit of the City of Keokuk (City) for financial reporting purposes. The City has financial accountability for the Waterworks under these criteria because it appoints a voting majority of the Waterworks' Board of Trustees.

The Waterworks provides billing service for sewer and garbage for the City and collects fees for these services. For the year ending June 30, 2017, total fees collected for the City were \$2,785,389, and billing service fees received by Waterworks amounted to \$20,580. As of June 30, 2017, the amount due to the City was \$425,684 for sewer and garbage charges.

For the year ended June 30, 2017, the Waterworks made a payment to the City in the amount of \$200,000, in lieu of taxes.

The municipal parks, city hall and other municipally operated facilities of the City of Keokuk are not billed for water usage provided to them during the year. The meters from these facilities are read monthly and the resulting amounts computed at normal rates is considered to be a donation to the City. During the year ended June 30, 2017, services donated to the City totaled \$465,663. No revenue or expense has been recognized in the financial statements for these amounts.

**Note 11. Commitments**

The water treatment plant generates spent lime and other solids from the treatment process, and has established a contract with a third party to haul the lime and other solids from the plant and properly dispose. With the contract dated March 17, 2016, the Waterworks is required to pay for a minimum of 10,000 tons per year at \$8.17 per ton. The contract duration is from November 1, 2017 through October 31, 2023 with an automatic renewal process. The rate per ton will also increase 3% each anniversary year.

**Note 12. Employee Health Retirement Account**

The Waterworks offers its retirees a health retirement account created in accordance with the Internal Revenue Code Section 105 and 106. The plan is available to all retirees for payout of unused paid time off through employer contributions.

All contributions under the plan, all property and rights purchased with those contributions, and all income attributable to those contributions, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Waterworks (without being restricted to the provisions of benefits under the plan). Any forfeited contributions will be used to offset future employer contributions.

The financial position and changes in financial position of the health retirement account are presented in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. The plan assets are invested in guaranteed fixed annuity and are recorded at contract value. The net position value as of June 30, 2017 is \$31,665. Plan contributions for the year ended June 30, 2017 were \$31,232. Plan contributions and deductions are recorded on the cash basis of accounting.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Financial Statements**

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**Note 13. Subsequent Events**

The Waterworks performed an evaluation of subsequent events through December 20, 2017, which is the date the financial statements were issued. The Waterworks issued the \$2,010,000 Water Revenue Capital Bonds, Series 2017 subsequent to year end.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Required Supplementary Information  
Comparison of Cash Receipts and Disbursements - Actual to Budget  
For the Year Ended June 30, 2017**

	<u>Actual</u>	Budgeted Amounts - <u>Final</u>	Budgeted Amounts - <u>Original</u>	Variance: Favorable <u>(Unfavorable)</u>
Receipts	\$ 7,633,583	\$ 8,222,173	\$ 8,222,173	\$ (588,590)
Disbursements	<u>8,613,749</u>	<u>8,622,173</u>	<u>8,222,173</u>	<u>8,424</u>
Changes in cash and cash equivalents	<u>\$ (980,166)</u>	<u>\$ (400,000)</u>	<u>\$ -</u>	<u>\$ (580,166)</u>

The following table is a reconciliation of the actual operating results presented consistent with the basis used to generate the budget to the operating results presented in the Statement of Revenues, Expenses and Changes in Fund Net Position:

Changes in cash and cash equivalents, as presented above	\$ (980,166)
Add: Cash expenditures for property, plant and equipment capitalized under GAAP	1,757,827
Add: Cash expenditures for long-term debt principal payments	1,630,000
Add: Change in accrued interest receivable	1,259
Add: Change in accounts payable and accrued expenses	7,726
Add: Change in net pension liability, deferred outflows of resources and deferred inflows of resources	(38,263)
Add: Cash expenditure for purchases of certificates of deposit	89,221
Add: Change in accrued interest payable	7,973
Add: Bond premium amortization	9,096
Subtract: Cash receipts from redemption of certificates of deposit	(88,000)
Subtract: Change in accounts receivable, inventory and prepaids	89,384
Subtract: Change in customer meter deposits	8,593
Subtract: Depreciation expense and loss on disposal of property, plant and equipment	<u>(1,818,299)</u>
Changes in net position, as presented in the Statement of Revenues, Expenses and Changes in Fund Net Position	<u>\$ 676,351</u>

See accompanying independent auditor's report.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Required Supplementary Information  
Notes to Required Supplementary Information - Actual to Budget  
Year Ended June 30, 2017**

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The Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing on all funds and submits it to the City Council. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund or category type. The Waterworks' disbursements are budgeted in the business type activities function. During the year, a budget amendment increased disbursements by \$400,000. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements did not exceed the amounts budgeted.

See accompanying independent auditor's report.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Required Supplementary Information  
Schedule of the Waterworks' Proportionate Share of the Net Pension Liability  
Iowa Public Employees Retirement System  
Last Three Fiscal Years\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Waterworks' proportion of the net pension liability	0.017940%	0.018007%	0.017381%
Waterworks' proportionate share of the net pension liability	\$1,129,019	\$889,620	\$703,422
Waterworks' covered-employee payroll	\$1,288,438	\$1,233,624	\$1,160,614
Waterworks' proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.63%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

\* The amounts presented for each fiscal year were determined as of June 30.

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

See accompanying independent auditor's report.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Required Supplementary Information  
Schedule of the Waterworks' Contributions  
Iowa Public Employees Retirement System  
Last 10 Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Statutorily required contribution	\$ 104,852	\$ 115,058	\$ 110,163	\$ 103,643	\$ 96,380	\$ 85,404	\$ 74,072	\$ 66,941	\$ 57,191	\$ 47,432
Contributions in relation to the statutorily required contribution	<u>(104,852)</u>	<u>(115,058)</u>	<u>(110,163)</u>	<u>(103,643)</u>	<u>(96,380)</u>	<u>(85,404)</u>	<u>(74,072)</u>	<u>(66,941)</u>	<u>(57,191)</u>	<u>(47,432)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Waterworks' covered-employee payroll	\$1,174,143	\$1,288,438	\$1,233,624	\$1,160,614	\$1,111,652	\$1,058,286	\$1,065,778	\$1,006,626	\$ 900,643	\$ 824,904
Contributions as a percentage of covered-employee payroll	8.93 %	8.93 %	8.93 %	8.93 %	8.67 %	8.07 %	6.95 %	6.65 %	6.35 %	5.75 %

See accompanying independent auditor's report.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Notes to Required Supplementary Information – Pension Liability  
Year ended June 30, 2017**

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Changes in benefit terms:

Legislation passed in 2010 modified benefit terms for current members. The definition of final average salary changed from the highest 3 to the highest 5 years of covered wages. The vesting requirement changed from 4 years of service to 7 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.

Changes in 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.
- 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.

See accompanying independent auditor's report.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Other Information  
Schedule of Changes in Assets Restricted  
for Landfill, Sewer and Garbage Charges  
For the Year Ended June 30, 2017**

	<u>Landfill Charges</u>	<u>Sewer Charges</u>	<u>Garbage Charges</u>	<u>Total</u>
Restricted asset balance, June 30, 2016	\$ -	\$ 358,722	\$ 159,917	\$ 518,639
Fees				
Landfill service charges	84	-	-	84
Sewer service charges	-	2,067,129	-	2,067,129
Garbage service charges	-	-	718,260	718,260
Less billing adjustments	<u>-</u>	<u>20,653</u>	<u>(2,512)</u>	<u>18,141</u>
	<u>84</u>	<u>2,087,782</u>	<u>715,748</u>	<u>2,803,614</u>
Expenditures				
To the City of Keokuk	<u>(84)</u>	<u>(2,163,931)</u>	<u>(732,554)</u>	<u>(2,896,569)</u>
Restricted asset balance, June 30, 2017	<u>\$ -</u>	<u>\$ 282,573</u>	<u>\$ 143,111</u>	<u>\$ 425,684</u>
Restricted asset balance is composed of the following:				
Cash and cash equivalents	\$ 15	\$ 158,515	\$ 54,527	\$ 213,057
Accounts receivable	<u>(15)</u>	<u>124,058</u>	<u>88,584</u>	<u>212,627</u>
	<u>\$ -</u>	<u>\$ 282,573</u>	<u>\$ 143,111</u>	<u>\$ 425,684</u>

See accompanying independent auditor's report.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Other Information  
Schedule of Changes in Assets Restricted for  
Water Revenue Capital Loan Notes Debt Service  
For the Year Ended June 30, 2017**

	<u>Water Revenue Notes Sinking Fund</u>	<u>Water Revenue Notes Reserve Fund</u>	<u>Water Revenue Notes Improvement Fund</u>	<u>Total</u>
Restricted asset balance, June 30, 2016	\$ <u>518,622</u>	\$ <u>1,061,320</u>	\$ <u>250,000</u>	\$ <u>1,829,942</u>
Receipts				
Transfers from (to) operations	<u>1,875,150</u>	<u>-</u>	<u>-</u>	<u>1,875,150</u>
Expenditures				
Note principal payments	(1,630,000)	-	-	(1,630,000)
Note interest payments	<u>(294,165)</u>	<u>-</u>	<u>-</u>	<u>(294,165)</u>
	<u>(1,924,165)</u>	<u>-</u>	<u>-</u>	<u>(1,924,165)</u>
Restricted asset balance, June 30, 2017	\$ <u>469,607</u>	\$ <u>1,061,320</u>	\$ <u>250,000</u>	\$ <u>1,780,927</u>

See accompanying independent auditor's report.



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**Independent Auditor's 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  
Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Keokuk, Iowa

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the proprietary and fiduciary funds of Keokuk Municipal Waterworks (Waterworks), a component unit of the City of Keokuk, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Waterworks' basic financial statements, and have issued our report thereon dated December 20, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Waterworks' 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 the Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Waterworks' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as item I-A-17 and I-B-17 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Waterworks' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic 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*; however, we noted certain other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2017 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## **Waterworks' Responses to Findings**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and of compliance and the results of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Waterworks' 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 Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*CPA Associates PC*

December 20, 2017

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Schedule of Findings  
For the Year Ended June 30, 2017**

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

**MATERIAL WEAKNESSES**

I-A-17 Preparation of Financial Statements

Criteria - A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Waterworks' financial statements.

Condition - The Waterworks does not have an internal control system designed to record all transactions in conformity with accounting principles generally accepted in the United States of America. During the audit, we noted that the Waterworks relies on proposed audit adjustments to correct the vacation and sick time accrual to be in conformity with GASB No. 16, record property and equipment additions, record disposals and related depreciation expense, adjust net pension liability, adjust deferred outflows and inflows for GASB No. 68, and adjust bond interest expense accounts to appropriately account for principal payments.

Cause - The Waterworks policies do not require and procedures have not be established to require independent review of year end adjusting entries to ensure the Waterworks' financial statements are accurate and reliable.

Effect - Lack of policies and procedures resulted in the Waterworks employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the Waterworks' financial statements were necessary. Audit adjustments resulted in an decrease to changes in fund net position of approximately \$165,000.

Recommendation - The Waterworks should re-evaluate its year-end close policies and procedures and consider recording these entries before the start of the audit.

Response - The Waterworks will review and monitor procedures currently in place and evaluate how changes can be made.

Conclusion - Response accepted.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Schedule of Findings  
For the Year Ended June 30, 2017**

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**Part I: Findings Related to the Financial Statements (continued)**

I-B-17 Segregation of Duties

Criteria - Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Waterworks' financial statements.

Condition - Generally, one individual has control over the payroll area, which includes changes to master list, preparation, record keeping and bank reconciliation.

Cause - The Waterworks has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect - Inadequate segregation of duties could adversely affect the Waterworks ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Board of Trustees and management should continue to provide oversight and direction, based upon their direct knowledge of the Waterworks' operations and day-to-day contact with employees, to control and safeguard assets.

Response - The Waterworks will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

**Instances of Noncompliance:**

No matters were noted.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Schedule of Findings  
For the Year Ended June 30, 2017**

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

- II-A-17 Official Depositories - A resolution naming official depositories has been adopted by the Waterworks. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2017.
- II-B-17 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.
- II-C-17 Travel Expense - No expenditures of the Waterworks money for travel expenses of spouses of Waterworks board members or employees were noted.
- II-D-17 Board Minutes - No transactions were found that we believe should have been approved in the Waterworks minutes but were not.
- II-E-17 Questionable Disbursements - Certain disbursements were noted that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid To</u>	<u>Purpose</u>	<u>Amount</u>
	Paid mileage and gas for trip	
Joni Crenshaw	reimbursement	\$ 155.07
Steve Johnston	Safety boots and clothing	\$ 257.00
Michael Haney	Safety boots and clothing	\$ 247.00

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items are certainly subject to close scrutiny. The line between a proper and an improper purpose is very thin.

Recommendation - The Waterworks' Board of Trustees should determine and document the public purpose served by questionable disbursements before authorizing any further payments.

Response - The Waterworks Board of Trustees will establish written policies and procedures in determining the public purpose of disbursements.

Conclusion - Response accepted.

- II-F-17 Business Transactions with Waterworks Officials and Employees - Business transactions between Waterworks officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Mike Haney, Employee	Mowing	\$ 4,865

The transaction for mowing services does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

**Keokuk Municipal Waterworks,  
A Component Unit of the City of Keokuk  
Schedule of Findings  
For the Year Ended June 30, 2017**

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**Part II Other Findings Related to Required Statutory Reporting (continued)**

II-G-17 Revenue Bonds and Notes - No instances of noncompliance with the revenue bond and note resolutions were noted.

II-H-17 Unsupported Expense Reimbursements - For the year ended June 30, 2017, the Waterworks reimbursed employees for expenses in the amount of \$16.53 without obtaining independent supporting documentation (e.g. store receipt or invoice for dues).

Recommendation - The Waterworks should reimburse employees only when the proper documentation is submitted to validate the expenditure.

Response - The Waterworks' Board of Trustees will establish written policies or procedures for all reimbursement to employees.

Conclusion - Response accepted.

II-I-17 Employee Retirement Vacation Payout - Vacation payout for a retired employee was not calculated in accordance with the union contract, which was followed for management employees, resulting in an overpayment to the employee of \$3,693.

Recommendation - The Waterworks should perform an independent review of all nonrecurring vacation payouts to ensure the calculation is accurate.

Response - The Waterworks will implement an independent review for all future retirement calculations.

Conclusion - Response accepted.