



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE

March 14, 2017

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515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Perry Municipal Waterworks, Perry, Iowa.

The Waterworks' receipts totaled \$2,408,903 for the year ended June 30, 2016, a 4% increase over the prior year. The receipts included \$1,688,544 in charges for service, miscellaneous operating receipts of \$165,564, \$19,191 of rental income, \$2,980 of interest on investments and \$532,624 of sewer and garbage fees collected for the City of Perry.

Disbursements for the year ended June 30, 2016 totaled \$2,392,738, a 2% decrease from the prior year, and included operating disbursements of \$1,286,845, debt service of \$107,250, capital outlay of \$466,019 and \$532,624 of sewer and garbage fees remitted to the City of Perry.

A copy of the audit report is available for review in the office of the Perry Municipal Waterworks, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1623-0237-B00F>.

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**PERRY MUNICIPAL WATERWORKS**

**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENT**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2016**

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## **Perry Municipal Waterworks**

### **Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marcus Carris	Chairperson/Trustee	April 2019
Lonnie Ostransky	Trustee	April 2017
Amy Rathje	Trustee	April 2021
Hank Schmidt	Superintendent	Indefinite
Pamela Ballard	Accounting and Billing Manager	Indefinite

**Perry Municipal Waterworks**



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Independent Auditor's Report

To the Board of Trustees of the Perry Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Perry Municipal Waterworks as of and for the year ended June 30, 2016, and the related Notes to Financial Statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Perry Municipal Waterworks as of June 30, 2016, and the changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As described in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### Other Matters


#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statement. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The Other Information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Waterworks' Proportionate Share of the Net Pension Liability and the Schedule of Waterworks' Contributions on pages 7 through 9 and pages 22 through 28, has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2017 on our consideration of the Perry Municipal Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Perry Municipal Waterworks' internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

February 8, 2017

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Perry Municipal Waterworks provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the Waterworks' financial statement, which follows.

### **2016 FINANCIAL HIGHLIGHTS**

- The Waterworks' total receipts increased 4%, or approximately \$103,000, from fiscal year 2015 to fiscal year 2016. The Waterworks raised water rates in June 2015 and in June 2016.
- The Waterworks' total disbursements decreased 2%, or approximately \$59,000, from fiscal year 2015 to fiscal year 2016. In fiscal year 2015, the Waterworks replaced a roof, water filters and performed other upgrades that were not done in fiscal year 2016.
- The Waterworks' total cash basis fund balance increased 2%, or approximately \$16,000, from June 30, 2015 to June 30, 2016.

### **USING THIS ANNUAL REPORT**

The Perry Municipal Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Perry Municipal Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Perry Municipal Waterworks' cash basis of accounting.

This discussion and analysis is intended to serve as an introduction to the Perry Municipal Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Perry Municipal Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Waterworks' budget for the year and the City's proportionate share of the net pension liability and related contributions.



Supplementary Information provides detailed information about the individual Enterprise Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2016.

**FINANCIAL ANALYSIS OF THE PERRY MUNICIPAL WATERWORKS**

*Statement of Cash Receipts, Disbursements and Changes in Cash Balance*

The purpose of the statement is to present the receipts received by the Perry Municipal Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balance at year end. Over time, readers of the financial statement are able to determine the Perry Municipal Waterworks' financial position by analyzing the increase or decrease in cash balance.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. The City of Perry pays the Perry Municipal Waterworks contract fees to include sewer and garbage charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash balance for the years ended June 30, 2016 and June 30, 2015 is presented below:

	Changes in Cash Balances	
	Year ended June 30	
	2016	2015
<b>Receipts:</b>		
Use of money and property	\$ 22,171	22,120
Charges for service	1,688,544	1,654,257
Sewer and garbage fees collected for the City	532,624	474,955
Miscellaneous	165,564	154,304
Total receipts	2,408,903	2,305,636
<b>Disbursements:</b>		
Plant operation and maintenance	600,556	591,809
Distribution operation and maintenance	241,122	229,184
Administration	445,167	429,228
Sewer and garbage fees remitted to the City	532,624	474,955
Debt service:		
Principal redeemed	100,000	85,000
Interest paid	6,750	8,153
Service fees	500	500
Capital outlay	466,019	632,703
Total disbursements	2,392,738	2,451,532
Net change in cash balance	16,165	(145,896)
Cash balance beginning of year	805,112	951,008
Cash balance end of year	\$ 821,277	805,112
<b>Cash Basis Fund Balance</b>		
Restricted for:		
Sinking account	\$ 84,455	84,642
Reserve account	46,000	46,000
Customer water deposits	95,546	92,516
Total restricted cash basis fund balance	226,001	223,158
Unrestricted	595,276	581,954
Total cash basis fund balance	\$ 821,277	805,112

The Waterworks' unrestricted cash balance is available for use in the routine operation of the plant, distribution and administrative areas of the Waterworks and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Perry Municipal Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution. The Waterworks' restricted cash balances are for the repayment of the revenue refunding bonds issued in 2011, improvements to the water plant and customer water deposits.

### **BUDGETARY HIGHLIGHTS**

The Waterworks' charges for service receipts were \$18,736 less than budgeted as water consumption was less than anticipated. The Waterworks' disbursements were \$147,547 less than budgeted for the year as a result of a delay in the Lime Lagoon construction project completion. The project was completed in fiscal year 2017.

### **DEBT ADMINISTRATION**

At June 30, 2016 the Perry Municipal Waterworks had a total of \$200,000 of revenue refunding bond debt outstanding, compared to \$300,000 at June 30, 2015.

### **ECONOMIC FACTORS**

The Perry Municipal Waterworks raised water rates in June 2016 to improve its financial position. Current economic conditions beyond the Perry Municipal Waterworks Trustees control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, wells, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and well-head protection.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

### **CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Perry Municipal Waterworks' finances and to show the Waterworks' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Perry Municipal Waterworks, 1101 W 3<sup>rd</sup> Street, PO Box 604, Perry, Iowa 50220.

**Perry Municipal Waterworks**

## **Financial Statement**

**Perry Municipal Waterworks**

Perry Municipal Waterworks

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balance

As of and for the year ended June 30, 2016

Operating receipts:	
Charges for service	\$ 1,688,544
Miscellaneous	165,564
Total operating receipts	<u>1,854,108</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	600,556
Distribution operation and maintenance	241,122
Administration	445,167
Total operating disbursements	<u>1,286,845</u>
Excess of operating receipts over operating disbursements	<u>567,263</u>
Non-operating receipts (disbursements):	
Interest on investments	2,980
Rental income	19,191
Sewer and garbage fees collected for the City	532,624
Sewer and garbage fees remitted to the City	(532,624)
Debt service	(107,250)
Capital outlay	(466,019)
Net non-operating receipts (disbursements)	<u>(551,098)</u>
Change in cash balance	16,165
Cash balance beginning of year	<u>805,112</u>
Cash balance end of year	<u>\$ 821,277</u>
<b>Cash Basis Fund Balance</b>	
Restricted for:	
Sinking account	\$ 84,455
Reserve account	46,000
Customer water deposits	95,546
Total restricted cash basis fund balance	<u>226,001</u>
Unrestricted	<u>595,276</u>
Total cash basis fund balance	<u>\$ 821,277</u>

See notes to financial statement.

Perry Municipal Waterworks

Notes to Financial Statement

June 30, 2016

**(1) Summary of Significant Accounting Policies**

A. Reporting Entity

The Perry Municipal Waterworks is a component unit of the City of Perry, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a three-member Board of Trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Fund Balance

Funds set aside for bond principal and interest payments and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

**(2) Cash and Pooled Investments**

The Waterworks' deposits at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure 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 Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

**(3) Revenue Bonds Payable**

Annual debt service requirements to maturity for water revenue refunding bonds are as follows:

Year Ending June 30,	Water Revenue Refunding Bonds			
	Issued July 26, 2011			
	Interest Rates	Principal	Interest	Total
2017	2.25%	\$ 100,000	4,850	104,850
2018	2.60%	100,000	2,600	102,600
Total		\$ 200,000	7,450	207,450

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$640,000 of water revenue refunding bonds issued in July 2011. The bonds were issued for the purpose of refunding and early retirement of the Waterworks' outstanding water revenue bonds/notes. The refunding bonds are payable solely and only out of the net earnings of the Waterworks and are payable through 2018. The total principal and interest remaining to be paid on the refunding bonds is \$207,450. For the current year, principal and interest paid on the refunding bonds and total customer net receipts were \$106,750 and \$567,263, respectively. Annual principal and interest payments on the water revenue refunding bonds are expected to require less than 20% of net receipts.

The resolution providing for the issuance of the water revenue refunding bonds includes the following provisions:

- (a) The Board shall provide for the collection of rates sufficient to pay the expenses of the utility and to leave a balance of net receipts equal to at least 110% of the principal and interest due in the fiscal year.
- (b) Sufficient monthly transfers shall be made to a sinking account for the purpose of making the bond principal and interest payments when due.
- (c) A reserve account shall be established and maintained in the amount of the lesser of (1) the maximum amount of the principal and interest coming due on the bonds in any succeeding fiscal year, (2) 10% of the stated principal amount of the bonds then outstanding, which is \$30,000, or (3) 125% of the average amount of principal and interest coming due on the bonds in any succeeding fiscal year.

**(4) Compensated Absences**

Waterworks' employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned compensated absences payable to employees at June 30, 2016 is \$30,000. This liability has been computed based on rates of pay in effect at June 30, 2016.



**(5) Intrafund Transfers**

The detail of intrafund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise:	Enterprise:	
Sinking Account	Waterworks	\$ 107,000
Self Insurance	Waterworks	3,713
		<u>\$ 110,713</u>

Transfers generally move resources from the account required to collect the resources to the account statutorily to disburse the resources.

**(6) Risk Management**

The Waterworks is included under the insurance for the City of Perry. The City of Perry 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 746 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.

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 due and payable in the current 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 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.

The Waterworks' property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The Waterworks' contributions to the Pool for the year ended June 30, 2016 were \$18,687.

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk sharing protection provided by the member's risk sharing certificate. Property and automobile physical damage risk 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 risk-sharing protection by the member'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 exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims, property loss or series of claims or losses exhausts total 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.

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.

The Waterworks is also included under the City of Perry's commercial insurance purchased from other insurers for coverage associated with worker's compensation. The City 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.

**(7) Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the Waterworks, except for those covered by another retirement system. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the 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, PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

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

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

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

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

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

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

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Waterworks contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Waterworks' contributions to IPERS for the year ended June 30, 2016 totaled \$44,731.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Waterworks reported a liability of \$350,415 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2015, the Waterworks' proportion was 0.007093%, which was a decrease of 0.000421% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Waterworks' pension expense, deferred outflows of resources and deferred inflows of resources totaled \$29,551, \$67,371 and \$81,593, respectively.

There were no non-employer contributing entities to IPERS.

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

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

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

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

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Waterworks will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Waterworks' 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 (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Waterwork's proportionate share of the net pension liability	\$ 613,514	350,415	128,341

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

**(8) Other Postemployment Benefits (OPEB)**

Plan Description – The Waterworks operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 9 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits were provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$493 for single coverage and \$710 to \$1,672 for family coverage. For the year ended June 30, 2016, the Waterworks contributed \$118,765 and plan members eligible for benefits contributed \$6,723 to the plan.

**(9) Water Tank Maintenance Contract**

In December 2008, the Waterworks entered into an agreement with Utility Service Co. for the maintenance of the water tower, including annual inspections of the tank, repair, cleaning and repainting the interior and exterior of the tank. The agreement was amended in May 2010 to include maintenance for the mixing system. The contract is for an indefinite period of time. Beginning in contract year ten and each third anniversary thereafter, the annual fee can be adjusted to reflect the current cost of service, with a maximum change of 5% per annum. The Waterworks was scheduled to pay quarterly installments of \$11,401 on the contract until the beginning of the 7<sup>th</sup> year (June 30, 2014) when quarterly installments were reduced to \$5,791. During the year ended June 30, 2016, the Waterworks paid \$23,162 on the contract.

**(10) New Accounting Pronouncement**

The Perry Municipal Waterworks adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

## **Other Information**

Perry Municipal Waterworks  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements and Changes in Cash Balance –  
 Budget and Actual (Cash Basis)

Other Information

Year ended June 30, 2016

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Use of money and property	\$ 22,171	-
Charges for service	2,221,168	532,624
Miscellaneous	165,564	-
Total receipts	2,408,903	532,624
Disbursements:		
Business type activities	2,392,738	532,624
Change in cash balance	16,165	-
Cash balance beginning of year	805,112	-
Cash balance end of year	\$ 821,277	-

See accompanying independent auditor's report.

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Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
22,171	22,750	22,800	(629)
1,688,544	1,706,280	1,707,280	(18,736)
165,564	170,450	170,460	(4,896)
1,876,279	1,899,480	1,900,540	(24,261)
1,860,114	1,899,440	2,007,661	147,547
16,165	40	(107,121)	123,286
805,112	1,356,669	996,308	(191,196)
821,277	1,356,709	889,187	(67,910)



Perry Municipal Waterworks

Notes to Other Information – Budgetary Reporting

June 30, 2016

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

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased disbursements by \$108,221. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements did not exceed the amount budgeted.

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Perry Municipal Waterworks

Schedule of the Waterworks' Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Two Years\*  
(In Thousands)

Other Information

	2016	2015
Waterworks' proportion of the net pension liability	0.007093%	0.007514%
Waterworks' proportionate share of the net pension liability	\$ 350	298
Waterworks' covered-employee payroll	\$ 486	495
Waterworks' proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.02%	60.20%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

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

See accompanying independent auditor's report.

Perry Municipal Waterworks  
 Schedule of Waterworks' Contributions  
 Iowa Public Employees' Retirement System  
 For the Last Ten Years

Other Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 44,731	43,393	44,241	42,555
Contributions in relation to the statutorily required contribution	(44,731)	(43,393)	(44,241)	(42,555)
Contribution deficiency (excess)	\$ -	-	-	-
Waterworks' covered-employee payroll	\$ 500,913	485,916	495,419	490,830
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%

See accompanying independent auditor's report.

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2012	2011	2010	2009	2008	2007
39,234	32,992	31,958	31,985	26,907	25,003
(39,234)	(32,992)	(31,958)	(31,985)	(26,907)	(25,003)
-	-	-	-	-	-
486,171	474,705	480,571	503,701	444,744	434,835
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

Perry Municipal Waterworks

Notes to Other Information – Pension Liability

Year ended June 30, 2016

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% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

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

Changes of assumptions

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

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

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

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

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

**Supplementary Information**

**Schedule 1**

Perry Municipal Waterworks

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Enterprise Fund Accounts

As of and for the year ended June 30, 2016

	Waterworks	Customer Deposit	2011 Revenue Bonds		Self Insurance	Total
			Sinking Account	Reserve Account		
Operating receipts:						
Charges for service:						
Sale of water	\$ 1,639,235	-	-	-	-	1,639,235
Other charges for service	48,592	-	-	-	-	48,592
Installations and connections	717	-	-	-	-	717
	<u>1,688,544</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,688,544</u>
Miscellaneous:						
Sales tax	104,498	-	-	-	-	104,498
Customer deposits	-	37,419	-	-	-	37,419
Miscellaneous	21,172	-	-	-	2,475	23,647
	<u>125,670</u>	<u>37,419</u>	<u>-</u>	<u>-</u>	<u>2,475</u>	<u>165,564</u>
Total operating receipts	<u>1,814,214</u>	<u>37,419</u>	<u>-</u>	<u>-</u>	<u>2,475</u>	<u>1,854,108</u>
Operating disbursements:						
Business type activities:						
Plant operation and maintenance:						
Salaries	223,230	-	-	-	-	223,230
Employee benefits	106,198	-	-	-	-	106,198
Contractual services	127,884	-	-	-	-	127,884
Commodities	143,244	-	-	-	-	143,244
	<u>600,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>600,556</u>
Distribution operation and maintenance:						
Salaries	121,446	-	-	-	-	121,446
Employee benefits	47,373	-	-	-	-	47,373
Contractual services	52,439	-	-	-	-	52,439
Commodities	19,864	-	-	-	-	19,864
	<u>241,122</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,122</u>
Administration:						
Salaries	160,805	-	-	-	-	160,805
Employee benefits	73,291	-	-	-	2,853	76,144
Contractual services	56,482	34,389	-	-	-	90,871
Sales tax remitted	95,706	-	-	-	-	95,706
Commodities	21,641	-	-	-	-	21,641
	<u>407,925</u>	<u>34,389</u>	<u>-</u>	<u>-</u>	<u>2,853</u>	<u>445,167</u>
Total operating disbursements	<u>1,249,603</u>	<u>34,389</u>	<u>-</u>	<u>-</u>	<u>2,853</u>	<u>1,286,845</u>

	2011 Revenue Bonds					Total
	Waterworks	Customer Deposit	Sinking Account	Reserve Account	Self Insurance	
Excess (deficiency) of operating receipts over (under) operating disbursements	564,611	3,030	-	-	(378)	567,263
Non-operating receipts (disbursements):						
Interest on investments	2,917	-	63	-	-	2,980
Rental income	19,191	-	-	-	-	19,191
Sewer and garbage fees collected for the City	532,624	-	-	-	-	532,624
Sewer and garbage fees remitted to the City	(532,624)	-	-	-	-	(532,624)
Debt service:						
Principal redeemed	-	-	(100,000)	-	-	(100,000)
Interest paid	-	-	(6,750)	-	-	(6,750)
Service fees	-	-	(500)	-	-	(500)
Capital outlay	(466,019)	-	-	-	-	(466,019)
Total non-operating receipts (disbursements)	(443,911)	-	(107,187)	-	-	(551,098)
Excess (deficiency) of receipts over (under) disbursements	120,700	3,030	(107,187)	-	(378)	16,165
Transfers in (out):						
Transfers in	-	-	107,000	-	3,713	110,713
Transfers out	(110,713)	-	-	-	-	(110,713)
Total transfers in (out)	(110,713)	-	107,000	-	3,713	-
Change in cash balances	9,987	3,030	(187)	-	3,335	16,165
Cash balances beginning of year	581,954	92,516	84,642	46,000	-	805,112
Cash balances end of year	\$ 591,941	95,546	84,455	46,000	3,335	821,277

See accompanying independent auditor's report.



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Perry Municipal Waterworks  
Schedule of Indebtedness  
Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue bonds: Water refunding	July 26, 2011	1.10-2.60%	\$ 640,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
300,000	-	100,000	200,000	6,750

**Perry Municipal Waterworks**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

Mary Mosiman, CPA  
Auditor of State

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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 a Financial Statement Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees of the Perry Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statement of the Perry Municipal Waterworks as of and for the year ended June 30, 2016, and the related Notes to Financial Statement, and have issued our report thereon dated February 8, 2017. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Perry Municipal 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 statement, but not for the purpose of expressing an opinion on the effectiveness of the Perry Municipal Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Perry Municipal 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 a deficiencies in internal control we consider to be a material weakness and a significant deficiency.

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

A significant deficiency is a deficiency, of 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. We consider the deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement 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.


### The Perry Municipal Waterworks' Responses to the Findings

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

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the 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 Perry Municipal 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.

  
MARY MOSIMAN, CPA  
Auditor of State

February 8, 2017

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2016

**Finding Related to the Financial Statement:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) 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 the 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 statement.

Condition – Water utility billings, collections and deposits, posting to customer accounts and the cash receipts journal, posting journal entries and reconciliation of billings to collections and delinquent accounts are all performed by the same person. Also, bank accounts are not reconciled by an individual who does not sign checks, handle or record cash.

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 segregation of duties is difficult with a limited number of office employees. However, the Waterworks should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including Waterworks' officials.

Response – The Perry Waterworks will continue to monitor and revise operating procedures to ensure the Waterworks is, to the best of our ability, using the practice of the segregation of duties.

Conclusion – Response accepted.

(B) Credit Cards

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity's governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2016

Condition – The Waterworks has credit cards for use by various employees while on Waterworks business. The Waterworks has adopted a formal policy to regulate the use of credit cards and has established procedures for the proper accounting of credit card charges. However, supporting documentation was not always available to support credit card charges.

Cause – Lack of supporting documentation for credit card charges is the result of not enforcing the established credit card policy requiring proper support for these charges.

Effect – Lack of supporting documentation could result in unauthorized or improper transactions and the opportunity for misappropriation.

Recommendation – All credit card charges should be supported by vendor invoices.

Response – Future purchases with payments by credit card will be supported by vendor invoice.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2016

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

- (1) Certified Budget – The budget certified by the City of Perry includes an amount budgeted for the Waterworks. Disbursements during the year ended June 30, 2016 did not exceed the amount budgeted for the Waterworks.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Waterworks’ money for travel expenses of spouses of Waterworks’ officials or employees were noted.
- (4) Business Transactions – No business transactions between the Waterworks and Waterworks’ officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Waterworks’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) 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 Waterworks’ investment policy were noted.
- (8) Revenue Bonds – No instances of non-compliance with the revenue bond requirements for the year ended June 30, 2016 were noted.




Perry Municipal Waterworks

Staff

This audit was performed by:

Jennifer L. Wall, CPA, Manager  
Chad C. Lynch, Staff Auditor  
Cole J. Hanley, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, prominent initial "A".

Andrew E. Nielsen, CPA  
Deputy Auditor of State