



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

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NEWS RELEASE

FOR RELEASE

June 23, 2017

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

The Utilities' receipts totaled \$2,880,929 for the year ended June 30, 2016. The receipts included \$2,838,497 in charges for service, miscellaneous operating receipts of \$39,010 and \$3,422 of interest on investments.

Disbursements for the year ended June 30, 2016 totaled \$2,074,395, and included operating disbursements of \$1,946,696, debt service of \$28,990 and capital outlay of \$98,709.

A copy of the audit report is available for review in the office of the Remsen Municipal Utilities, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1623-5550-B000>.

#

REMSEN MUNICIPAL UTILITIES

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

JUNE 30, 2016

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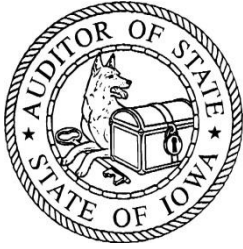
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Remsen Municipal Utilities

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|---------------------|---------------------|
| Lee Galles | Chairperson/Trustee | Jan 2018 |
| Dean Douvia | Trustee | Jan 2020 |
| Kim Keleher | Trustee | Jan 2022 |
| Craig Reiter | Operations Director | Indefinite |
| Rachel Keffeler | Utility Clerk | Indefinite |

Remsen Municipal Utilities



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Independent Auditor's Report

To the Board of Trustees of the Remsen Municipal Utilities:

Report on the Financial Statement

We have audited the accompanying financial statement of each major fund of the Remsen Municipal Utilities 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 opinions 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 Remsen Municipal Utilities' 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 Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of Remsen Municipal Utilities have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distributions by fund of the total fund balances at July 1, 2015.

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2015, as discussed in the preceding paragraph, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of each major fund of the Remsen Municipal Utilities as of June 30, 2016, and the respective 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 opinions 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, the Budgetary Comparison Information, the Schedule of the Utilities' Proportionate Share of the Net Pension Liability and the Schedule of Utilities' Contributions on pages 19 through 23, 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 May 1, 2017 on our consideration of the Remsen Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Remsen Municipal Utilities' internal control over financial reporting and compliance.



MARY MOSIMAN, CPA
Auditor of State

May 1, 2017

Financial Statement

Remsen Municipal Utilities

Remsen Municipal Utilities

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

As of and for the year ended June 30, 2016

| | Water Utility | Electric Utility | Gas Utility | Total Enterprise Funds |
|---|------------------|---------------------|----------------|------------------------------|
| Operating receipts: | | | | |
| Charges for service | \$ 325,421 | 1,964,862 | 548,214 | 2,838,497 |
| Operating disbursements: | | | | |
| Business type activities: | | | | |
| Personal services | 93,771 | 197,990 | 158,228 | 449,989 |
| Contractual services | 79,818 | 849,904 | 293,506 | 1,223,228 |
| Utilities | 18,121 | 8,111 | - | 26,232 |
| Repairs and maintenance | 19,905 | 23,544 | 5,931 | 49,380 |
| Other supplies and expenses | 20,039 | 51,377 | 45,154 | 116,570 |
| Insurance claims and expenses | 27,099 | 27,099 | 27,099 | 81,297 |
| Total operating disbursements | 258,753 | 1,158,025 | 529,918 | 1,946,696 |
| Excess of operating receipts over operating disbursements | 66,668 | 806,837 | 18,296 | 891,801 |
| Non-operating receipts (disbursements): | | | | |
| Interest on investments | 641 | 1,546 | 1,235 | 3,422 |
| Miscellaneous receipts | - | 39,010 | - | 39,010 |
| Debt service | (28,990) | - | - | (28,990) |
| Capital outlay | (31,248) | (52,624) | (14,837) | (98,709) |
| Net non-operating receipts (disbursements) | (59,597) | (12,068) | (13,602) | (85,267) |
| Excess of receipts over disbursements | 7,071 | 794,769 | 4,694 | 806,534 |
| Transfers in | 60,000 | - | - | 60,000 |
| Transfers out | - | (30,000) | (30,000) | (60,000) |
| Net transfers in (out) | 60,000 | (30,000) | (30,000) | - |
| Change in cash balances | 67,071 | 764,769 | (25,306) | 806,534 |
| Cash balances beginning of year | 15,611 | 1,180,391 | 109,304 | 1,305,306 |
| Cash balances end of year | \$ 82,682 | 1,945,160 | 83,998 | 2,111,840 |
| Cash Basis Fund Balance | | | | |
| Restricted for customer deposits | \$ 4,825 | 13,187 | 9,816 | 27,828 |
| Unrestricted | 77,857 | 1,931,973 | 74,182 | 2,084,012 |
| Total cash basis fund balance | \$ 82,682 | 1,945,160 | 83,998 | 2,111,840 |

See notes to financial statement.

Remsen Municipal Utilities
Notes to Financial Statement
June 30, 2016

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Remsen Municipal Utilities is a component unit of the City of Remsen, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utilities 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 Utilities are organized as Enterprise Funds. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Major individual funds are reported as separate columns in the financial statement.

The Utilities report the following major proprietary funds:

The Enterprise, Water Utility Fund accounts for the operation and maintenance of the Utilities water system.

The Enterprise, Electric Utility Fund accounts for the operation and maintenance of the electric system.

The Enterprise, Gas Utility Fund accounts for the operation and maintenance of the natural gas system.

C. Basis of Accounting

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Utilities 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 customer 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 Utilities’ deposits at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Revenue Notes Payable

Annual debt service requirements to maturity for the water revenue capital loan notes are as follows:

| Year Ending June 30, | Water Revenue Capital Loan Notes Issued July 29, 2009 | |
|----------------------------|---|-------------------|
| | Interest | |
| | Rates | Principal |
| 2017 | 0.00% | \$ 28,000 |
| 2018 | 0.00 | 28,000 |
| 2019 | 0.00 | 28,000 |
| 2020 | 0.00 | 28,000 |
| 2021 | 0.00 | 28,000 |
| 2022-2026 | 0.00 | 141,000 |
| 2027-2029 | 0.00 | 87,000 |
| Total | | <u>\$ 368,000</u> |

The Utilities has pledged future water customer receipts, net of specified operating disbursements, to repay \$564,886 in interest free water revenue capital loan notes issued in July 2009. Proceeds from the notes provided financing for the City of Remsen to acquire land to protect the City’s water source. The notes are payable solely and only out of the net earnings of the Utilities and are payable through 2029. The total principal and interest remaining to be paid on the notes is \$368,000. For the current year, principal paid on the notes and total customer net receipts were \$28,000 and \$66,668, respectively. Annual principal payments on the water revenue capital loan notes are expected to require approximately 42% of net receipts.

The resolution providing for the issuance of the water revenue capital loan notes 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) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

(4) Compensated Absences

Utilities' 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 Utilities until used or paid. The Utilities' approximate liability for earned compensated absences payable to employees at June 30, 2016 is \$17,000. This liability has been computed based on rates of pay in effect at June 30, 2016.

(5) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Utilities, except for those covered by another retirement system. Employees of the Utilities are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by 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.

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

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

- A multiplier based on years of service.
- The member's highest five-year average salary 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 Utilities contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Utilities’ contributions to IPERS for the year ended June 30, 2016 were \$25,828.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the Utilities’ reported a liability of \$184,283 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities’ proportion of the net pension liability was based on the Utilities’ share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utilities’ proportion was 0.003730%, which was a decrease of 0.000410% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Utilities’ pension expense, deferred outflows of resources and deferred inflows of resources totaled \$15,541, \$35,430 and \$42,910, 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 arithmetic real rates of return for each major asset class are summarized in the following table:

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

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 Utilities will be made at 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 Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---------------------|-----------------------|---------------------|
| Utilities' proportionate share of the net pension liability | \$ 322,647 | 184,283 | 67,494 |

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.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The Utilities operate a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 6 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 Utilities. The Utilities currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Utilities and plan members are \$565 for single coverage, \$1,072 for member plus child coverage and \$1,748 for family coverage. For the year ended June 30, 2016, the Utilities contributed \$82,535 and plan members eligible for benefits contributed \$6,212 to the plan.

(7) Interfund Transfers

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

| Transfer to | Transfer from | Amount |
|---------------|------------------|-----------|
| Enterprise: | | |
| Water Utility | Enterprise: | |
| | Gas Utility | \$ 30,000 |
| | Electric Utility | 30,000 |
| Total | | \$ 60,000 |

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

(8) Risk Management

The Utilities are exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Urban Renewal Loan to the City of Remsen

The loan represents amount paid by the Remsen Municipal Utilities for costs associated with the City of Remsen’s urban renewal projects. This loan will be repaid through payments from the City of Remsen’s Special Revenue, Tax Increment Financing Fund as receipts of the fund become available. The balance of the loan at June 30, 2016 was \$159,988.

(10) Subsequent Event

In June 2016, the Utilities’ Board of Trustees authorized the issuance of \$650,000 in water capital loan notes for the purpose of paying the costs of acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping all or part of the municipal water utility. The notes were dated and proceeds were received in July 2016.

(11) New Accounting Pronouncement

The Remsen Municipal Utilities 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 statement. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statement.

Remsen Municipal Utilities

Other Information

Remsen Municipal Utilities

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

Other Information

Year ended June 30, 2016

| | Actual | Budgeted Amounts <u>Original/Final</u> | Final to Net Variance |
|--|---------------------|--|-----------------------------|
| Receipts: | | | |
| Use of money and property | \$ 3,422 | 1,450 | 1,972 |
| Charges for service | 2,838,497 | 2,988,010 | (149,513) |
| Miscellaneous | 39,010 | - | 39,010 |
| Total receipts | 2,880,929 | 2,989,460 | (108,531) |
| Disbursements: | | | |
| Business type activities | 2,074,395 | 2,959,460 | 885,065 |
| Change in cash balance | 806,534 | 30,000 | 776,534 |
| Other financing sources, net | - | (5,143) | 5,143 |
| Excess of receipts and other financing sources over disbursements | 806,534 | 24,857 | 781,677 |
| Cash balance beginning of year | 1,305,306 | 1,129,299 | 176,007 |
| Cash balance end of year | <u>\$ 2,111,840</u> | <u>1,154,156</u> | <u>957,684</u> |

See accompanying independent auditor's report.

Remsen Municipal Utilities

Notes to Other Information – Budgetary Reporting

June 30, 2016

The Remsen Municipal Utilities 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 Utilities' disbursements are budgeted in the business type activities function. During the year, there were no budget amendments.

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

Remsen Municipal Utilities

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

Iowa Public Employees' Retirement System
For the Last Fiscal Year*
(In Thousands)

Other Information

| | <u>2016</u> |
|---|-------------|
| Utilities' proportion of the net pension liability | 0.003730% |
| Utilities' proportionate share of the net pension liability | \$ 184 |
| Utilities' covered-employee payroll | \$ 259 |
| Utilities' proportionate share of the net pension liability as a percentage of its covered-employee payroll | 71.04% |
| Plan fiduciary net position as a percentage of the total pension liability | 85.19% |

* 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.

Remsen Municipal Utilities

Schedule of Utilities' Contributions

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

Other Information

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Statutorily required contribution | \$ 26 | 23 |
| Contributions in relation to the statutorily required contribution | <u>(26)</u> | <u>(23)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>-</u> |
| Utilities' covered-employee payroll | \$ 282 | 259 |
| Contributions as a percentage of covered-employee payroll | 9.22% | 8.88% |

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

See accompanying independent auditor's report.

Remsen Municipal Utilities

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

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

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

Changes of assumptions:

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

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

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

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in 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.

Remsen Municipal Utilities

Supplementary Information

Remsen Municipal Utilities
Schedule of Indebtedness
Year ended June 30, 2016

| Obligation | Date of Issue | Interest Rates* | Amount Originally Issued |
|----------------------------------|---------------|-----------------|--------------------------|
| Water revenue capital loan notes | July 29, 2009 | 0.00% | \$ 564,886 |

* The agreement also requires the Utility to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 396,000 | - | 28,000 | 368,000 | - |

Schedule 2

Remsen Municipal Utilities

Note Maturities

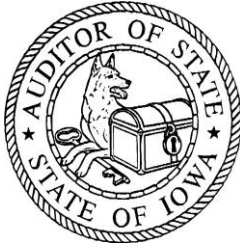
Year ended June 30, 2016

| Year Ending June 30, | Water Revenue Capital Loan Notes Issued July 1, 2009 | |
|----------------------------|---|-------------------|
| | Interest Rates | Amount |
| 2017 | 0.00% | \$ 28,000 |
| 2018 | 0.00 | 28,000 |
| 2019 | 0.00 | 28,000 |
| 2020 | 0.00 | 28,000 |
| 2021 | 0.00 | 28,000 |
| 2022 | 0.00 | 28,000 |
| 2023 | 0.00 | 28,000 |
| 2024 | 0.00 | 28,000 |
| 2025 | 0.00 | 28,000 |
| 2026 | 0.00 | 29,000 |
| 2027 | 0.00 | 29,000 |
| 2028 | 0.00 | 29,000 |
| 2029 | 0.00 | 29,000 |
| Total | | <u>\$ 368,000</u> |

See accompanying independent auditor's report.

**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**

Remsen Municipal Utilities



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 Remsen Municipal Utilities:

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 each major fund of the Remsen Municipal Utilities as of and for the year ended June 30, 2016, and the related Notes to Financial Statement, and have issued our report thereon dated May 1, 2017. Our report expressed modified opinions 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 since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance of July 1, 2015.

Internal Control Over Financial Reporting

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

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

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 Remsen Municipal Utilities' 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, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items B and C to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Remsen Municipal Utilities' 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

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


Remsen Municipal Utilities' Responses to the Findings

Remsen Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' 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 Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' 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 Remsen Municipal Utilities 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

May 1, 2017

Remsen Municipal Utilities

Schedule of Findings

Year ended June 30, 2016

Finding Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCY:

(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 Utility’s financial statements.

Condition – Generally, one or two individuals have control over the following areas for which no compensating controls exist:

- (1) Cash – Depositing, reconciling and recording receipts is done by the custodian of the change funds.
- (2) Bank accounts were not reconciled by an individual who does not sign checks, handle or record cash.
- (3) Investments – The person responsible for the detailed investment records is also the custodian of the investments. Investments are not periodically inspected or reconciled to investment records by an independent person and an independent verification of interest earnings is not performed.
- (4) Receipts – opening mail, collecting, recording, depositing, reconciling and posting.
- (5) Disbursements – purchasing, check writing, check signing, recording, reconciling and mailing.
- (6) Long-term debt – The person responsible for maintaining records for long-term debt also performs cash functions.
- (7) Journal entries – preparing and recording with no independent review.

Cause – The Utilities have 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 Utilities’ 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 – The Utilities should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including Board members, to provide additional control through review of financial transactions, reconciliations and reports.

Remsen Municipal Utilities

Schedule of Findings

Year ended June 30, 2016

Response – With only two employees in the office, we know that it is going to be very difficult to remove this finding. We will continue to review the existing internal controls and make changes as necessary to maintain the maximum amount of internal control possible with the resources available to us.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – Utility billings, collections and delinquent accounts were reconciled throughout the year and a delinquent accounts listing was prepared, however, there was no evidence of independent review.

Cause – Policies have not been established and procedures have not been implemented to have an independent review of the utility billings reconciliation.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances as well as incorrect utility billings.

Recommendation – The Utility Board or a Board-designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – A policy for independent review of the Utility Account Reconciliation has been established and is completed each month. There was a lapse in the review for a couple months due to scheduling conflicts and it was overlooked. The process has been revised to avoid similar conflicts occurring again.

Conclusion – Response accepted.

(C) Computer Systems

Criteria – Properly designed policies and procedures pertaining to control activities over the Utilities' computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Remsen Municipal Utilities

Schedule of Findings

Year ended June 30, 2016

Condition – The Utilities do not have written policies for:

- password privacy and confidentiality.
- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- no minimum password length and no password history to prevent reuse.
- system does not lock out a user after repeated failed log in attempts.

Cause – Management has not required written policies for the above computer based controls.

Effect – Lack of written policies for computer based systems could result in a loss of data or compromised data, resulting in unreliable financial information.

Recommendation – The Utilities should develop written policies addressing the above items in order to improve the Utilities' control over its computer systems.

Response – The computer policy has been expanded to address password privacy and confidentiality. It also addresses the requirement of changing passwords quarterly.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Remsen Municipal Utilities

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 Remsen includes the amount budgeted for the Utilities. Disbursements during the year ended June 30, 2016 did not exceed the amount budgeted for the Utilities.
- (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 Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.
- (4) Business Transactions – No business transactions between the Utilities and Utilities' officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Utilities' 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) Utilities 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 Utilities' investment policy were noted.
- (8) Revenue Notes – No instances of non-compliance with the revenue notes requirements for the year ended June 30, 2016 were noted.

Remsen Municipal Utilities

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
Emma McGrane, Staff Auditor
Alex Dau, Staff Auditor
Jason Miller, 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