

Financial Statements
June 30, 2025

Marshalltown Water Works

Officials	1
Independent Auditor’s Report	2
Management’s Discussion and Analysis	6
Financial Statements	
Statement of Net Position	10
Statement of Revenues, Expenses and Changes in Net Position.....	12
Statement of Cash Flows	13
Statement of Fiduciary Net Position.....	15
Statement of Changes in Fiduciary Net Position	16
Notes to Financial Statements	17
Required Supplementary Information	
Schedule of Water Works’ Proportionate Share of the Net Pension Liability and Schedule of Water Works’ Contributions to the Iowa Public Employees’ Retirement System	37
Notes to Required Supplementary Information – IPERS Pension Liability	38
Schedule of Changes in Net Pension Liability for the Marshalltown Water Works Supplemental Retirement Pension Plan.....	39
Schedule of Water Works’ Contributions to the Marshalltown Water Works Supplemental Retirement Pension Plan.....	40
Notes to Required Supplementary Information – Marshalltown Water Works Supplemental Retirement Pension Plan.....	41
Supplementary Information	
Budgetary Comparison of Revenues, Expenses and Changes in Net Position – Actual to Budget.....	42
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43
Schedule of Findings and Responses	45

Marshalltown Water Works

Officials

Year Ended June 30, 2025

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Laura Eilers	Trustee - Chairperson	May 1, 2030
Benjamin Fletcher	Trustee	May 1, 2028
Nick Loney	Trustee	May 1, 2029
Zach Maxfield	General Manager	Indefinite
Jacob Leeper	Customer Service Manager	Indefinite
Kyle Kusserow	Distribution Manager	Indefinite
Deborah McElroy	Finance and Human Resources Manager	Indefinite
Connor Hunt	Operations Manager	Indefinite
Vacant at June 30, 2025	Facilities Manager	Indefinite



Independent Auditor's Report

To the Board of Trustees
Marshalltown Water Works
Marshalltown, Iowa

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the enterprise fund and fiduciary fund of Marshalltown Water Works (the Water Works), a component unit of the City of Marshalltown, Iowa, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Water Works' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and fiduciary fund of the Marshalltown Water Works, as of June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Water Works and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Notes 1 and 10 to the financial statements, the Water Works has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, for the year ended June 30, 2025. Accordingly, a restatement has been made to the Water Works' net position as of July 1, 2024. Our opinions are not modified with respect to this matter.

Restatement

As discussed in Note 10 to the financial statements, it was determined to report the Marshelltown Water Works Supplemental Retirement Pension Plan as a Pension Trust Fund (fiduciary fund). Accordingly, a restatement has been made to the Pension Trust Fund net position as of July 1, 2024. Our opinions are not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Water Works' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Water Works' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Water Works' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Water Works' Proportionate Share of the Net Pension Liability and Schedule of Water Works Contributions to the Iowa Public Employees' Retirement System, Notes to Required Supplementary Information – IPERS Pension Liability, Schedule of Changes in the Net Pension Liability for the Marshalltown Water Works Supplemental Retirement Pension Plan, and Methods and Assumptions used to Determine Contribution Rates for the Marshalltown Water Works Supplemental Retirement Pension Plan, as listed in the table of contents. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Works' basic financial statements. The Budgetary Comparison of Revenues, Expenses and Changes in Net Position – Actual to Budget is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Budgetary Comparison of Revenues, Expenses and Changes in Net Position – Actual to Budget is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information. The other information comprises the list of officials but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report February 17, 2026, on our consideration of the Water Works' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Water Works' 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 Water Works' internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
February 17, 2026

Marshalltown Water Works (Water Works) provides this management's discussion and analysis (MD&A) of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2025. Please consider this information in conjunction with the financial statements and the accompanying notes to the basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Marshalltown Water Works' net position increased 10.3%, or \$2,762,400, from fiscal year 2024 to fiscal year 2025.

Operating revenues increased 12.7%, or \$1,063,704, from fiscal year 2024 to fiscal year 2025. This increase in operating revenues reflects a rate increase that went into effect July 1, 2024.

Operating expenses of the Water Works increased 13.1%, or \$752,602, from fiscal year 2024 to fiscal year 2025. The increase was attributed to an increase in salaries and benefits as well as inflation increasing the costs of goods and services purchased by the Water Works.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

MD&A serves as an introduction to the financial statements and represents management's examination and analysis of Marshalltown Water Works' financial condition and performance. The financial statements report information about the utility using full accrual accounting methods as utilized by similar entities in the private sector.

The statements of net position provide information about the Water Works' assets, deferred outflows, liabilities, deferred inflows and net position, thereby measuring the Water Work's liquidity and solvency. Liquidity is a measure of the Water Works' ability to meet current obligation (those due within one year). Solvency is a similar concept but measures the ongoing ability to meet obligations over a longer term.

The statement of revenues, expenses, and changes in net position presents the results of the Water Works' revenues and expenses over the course of the year and provides information about the Water Works' recovery of costs. Water rates and other charges are established by the Board of Trustees and are based on Water Works' cost of service.

The statement of cash flows presents cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities, and investing activities. This statement details where cash resources come from and how they are used.

Fiduciary funds are used to report assets held in a trust or custodial capacity for others which cannot be used to support the Water Works' own programs. The fiduciary fund is the Marshalltown Water Works Supplemental Retirement Pension Plan, which accounts for balances held for the pension plan.

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements. The notes supplement the basic financial statements by presenting information about the Water Works' accounting policies, significant account balances and activities, material risks, obligations, and commitments.

In addition to the basic financial statements and accompanying notes, this report also provides certain *required supplementary information* concerning the Marshalltown Water Works, including the Schedule of Water Works' Proportionate Share of the Net Pension Liability and Schedule of Water Works Contributions to the Iowa Public Employees' Retirement System, Notes to Required Supplementary Information – IPERS Pension Liabilities, Schedule of Changes in the Net Pension Liability for the Marshalltown Water Works Supplemental Retirement Pension Plan, and Methods and Assumptions used to Determine Contribution Rates for the Marshalltown Water Works Supplemental Retirement Pension Plan.

FINANCIAL ANALYSIS OF THE WATER WORKS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the Water Works' financial position. The Water Works' net position increased from \$37,207,501 at June 30, 2024, to \$39,465,845 at June 30, 2025. A Summary of the Water Works' net position is presented below.

	2025	2024 (not restated)
	<u>2025</u>	<u>(not restated)</u>
Current Unrestricted Assets	\$ 7,354,565	\$ 7,334,917
Current Restricted Assets	846,904	797,531
Noncurrent Assets	850,000	722,443
Capital Assets, Net	29,937,720	28,030,442
Deferred Outflows of Resources	<u>476,656</u>	<u>322,168</u>
 Total assets and deferred outflows of resources	 <u>\$ 39,465,845</u>	 <u>\$ 37,207,501</u>
Current Liabilities	\$ 1,826,124	\$ 1,967,543
Noncurrent Liabilities	7,971,151	8,292,895
Deferred Inflows of Resources	<u>3,926</u>	<u>44,819</u>
 Total liabilities and deferred inflows of resources	 <u>9,801,201</u>	 <u>10,305,257</u>
Net Investment in Capital Assets	23,280,546	21,026,268
Restricted	36,677	428,480
Unrestricted	<u>6,347,421</u>	<u>5,447,496</u>
 Total net position	 <u>29,664,644</u>	 <u>26,902,244</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 39,465,845</u>	 <u>\$ 37,207,501</u>

Statement of Revenues, Expenses, and Changes in Net Position

Operating revenues are received mainly for sales of water. Operating expenses are expenses paid to operate the Water Works. Non-operating revenues and expenses are for interest income, interest expense, and other miscellaneous items. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended June 30, 2025 and 2024 is presented below.

	2025	2024 (not restated)
Water Sales	\$ 9,180,501	\$ 8,178,507
Other Sales and Services	247,197	185,487
Total operating revenue	9,427,698	8,363,994
Wages	2,036,152	1,863,628
Benefits	537,623	566,258
Utilities	496,752	497,283
Chemicals	1,293,285	1,182,307
Insurance	162,384	138,384
Maintenance and Supplies	769,814	527,013
Depreciation	833,963	702,472
Other	350,395	250,421
Total operating expense	6,480,368	5,727,766
Operating income	2,947,330	2,636,228
Interest Income	112,447	116,384
Rental Income	3,712	6,877
Miscellaneous Revenue	56,245	80,268
Interest Expense	(114,413)	(99,361)
Miscellaneous Expense	(11,139)	(16,343)
Gain (Loss) on Disposal of Capital Asset	(198,871)	-
Total non-operating revenues (expenses)	(152,019)	87,825
Change in net position	2,795,311	2,724,053
Net Position, as Previously Reported	26,902,244	24,178,191
Adjustments, Note 10	(32,911)	-
Net Position Beginning of Year, as Restated	26,869,333	-
Net Position, End of Year	\$ 29,664,644	\$ 26,902,244

Total current assets increased 0.9% primarily due to a increase in accounts receivable.

Total current liabilities decreased 7.2% mainly due to a decrease in accrued expenses, particularly accrued vacation.

Long-term liabilities decreased 3.9% primarily due to debt payments made during the year.

Total operating revenue increased 12.7% due to a significant increase (12%) in rates.

Total operating expenses increased 13.1% primarily due to an increase in repairs and maintenance during the year, as well as increased cost of chemicals.

CAPITAL ASSETS

During 2025, net capital assets increased 6.8%. Projects included State Street and Main Street main replacement, rehabilitation of two wells, and metering equipment changeouts. See note 3 to the financial statements for more information about the Water Works' capital assets.

DEBT ADMINISTRATION

During fiscal year 2025, the Water Works paid \$347,000 in principal and \$81,480 in interest toward their water revenue capital loan note, leaving a balance of \$4,309,000 at June 30, 2025.

During fiscal year 2024, the Water Works drew down \$2,348,174 on a state revolving loan through the Iowa Finance Authority to help fund the costs of planning, designing, and construction of a water treatment plant upgrade. The note has available borrowings up to \$4,288,639, is interest free, and matures on April 14, 2026, when it will be refinanced into a water revenue capital loan note. No additional amounts were drawn down during fiscal year 2025.

Additional information about the Water Works' long-term debt is presented in note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Water Works implemented a 13.5% water rate increase effective July 1, 2025. Additionally, the Board passed a resolution setting future rate increase as follows: 16.5% increase effective July 1, 2026, 16.5% increase effective July 1, 2027, and 7.5% increase effective July 1, 2028. These increases were based on a water rate model completed in 2025 that recommended the increases based on projected operational costs, as well as capital improvement projects, and the updated projected costs of the water treatment plant expansion project which started in October 2025.

REQUESTS FOR INFORMATION

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

Financial Statements
June 30, 2025

Marshalltown Water Works

Marshalltown Water Works

Statement of Net Position

June 30, 2025

Assets and Deferred Outflows of Resources

Current Assets

Cash and cash equivalents	\$ 5,836,068
Accounts receivable	
Customer accounts	566,929
Unbilled water usage	794,258
Other receivables	56,350
Prepaid expenses	<u>100,960</u>
	<u>7,354,565</u>

Restricted assets - current

Restricted cash and cash equivalents	810,227
Revenue note sinking fund	<u>36,677</u>
	<u>846,904</u>

Total current assets	<u>8,201,469</u>
----------------------	------------------

Noncurrent Assets

Certificates of deposit	300,000
Capital reserve	<u>550,000</u>
	<u>850,000</u>

Total noncurrent assets	<u>850,000</u>
-------------------------	----------------

Capital Assets

Land and construction in progress not being depreciated	4,412,284
Other capital assets being depreciated	42,428,222
Less accumulated depreciation	<u>(16,902,786)</u>

Net capital assets	<u>29,937,720</u>
--------------------	-------------------

Total assets	<u>38,989,189</u>
--------------	-------------------

Deferred Outflows of Resources

Pension related deferred outflows	<u>476,656</u>
-----------------------------------	----------------

Total assets and deferred outflows of resources	<u><u>\$ 39,465,845</u></u>
---	-----------------------------

Marshalltown Water Works

Statement of Net Position

June 30, 2025

Liabilities, Deferred Inflows of Resources, and Net Position

Current Liabilities

Accounts payable	\$ 447,937
Payable from restricted assets	
Landfill fees	10,936
Sewer fees	370,894
Storm sewer fees	113,597
Customer deposits - sewer	172,965
Customer deposits - water	130,981
Accrued interest	7,654
Revenue notes	354,000
Accrued liabilities	217,160

Total current liabilities	1,826,124
---------------------------	-----------

Noncurrent Liabilities

Revenue notes	6,303,174
Net pension liability	1,667,977

Total noncurrent liabilities	7,971,151
------------------------------	-----------

Total liabilities	9,797,275
-------------------	-----------

Deferred Inflows of Resources

Pension related deferred inflows	3,926
----------------------------------	-------

Total liabilities and deferred inflows of resources	9,801,201
---	-----------

Net Position

Net investment in capital assets	23,280,546
Restricted for debt service	36,677
Unrestricted	6,347,421

Total net position	29,664,644
--------------------	------------

Total liabilities, deferred inflows and net position	\$ 39,465,845
--	---------------

Marshalltown Water Works
 Statement of Revenues, Expenses and Changes in Net Position
 Year Ended June 30, 2025

Operating Revenues	
Residential	\$ 2,978,213
Multi-family	374,770
Commercial	777,953
Irrigation	134,838
Industrial	3,417,887
Wholesale	1,496,840
Other operating revenue	247,197
Total operating revenues	9,427,698
Operating Expenses	
Salaries	2,036,152
Payroll taxes and benefits	537,623
Utilities	496,752
Fuels	32,143
Supplies	397,232
Maintenance	372,582
Chemicals	1,293,285
Contract services	125,931
Insurance	162,384
Professional fees	82,873
Other operating expense	109,448
Depreciation	833,963
Total operating expenses	6,480,368
Operating income	2,947,330
Non-operating Revenues (Expenses)	
Interest income	112,447
Rental	3,712
Miscellaneous revenue	56,245
Gain (loss) on disposal of capital assets	(198,871)
Interest expense	(114,413)
Miscellaneous expense	(11,139)
Total nonoperating revenue (expense)	(152,019)
Changes in net position	2,795,311
Net Position Beginning of Year, as Previously Reported	26,902,244
Restatement, Note 10	(32,911)
Net Position Beginning of Year, as Restated	26,869,333
Net Position End of Year	\$ 29,664,644

Marshalltown Water Works

Statement of Cash Flows

Year Ended June 30, 2025

Cash Flows from Operating Activities	
Cash received from customers	\$ 9,225,812
Cash payments for goods and services	(3,137,134)
Cash payments to employees	(2,883,282)
Utility receipts on behalf of City of Marshalltown	6,957,351
Utility payments to City of Marshalltown	<u>(6,932,264)</u>
Net cash provided by operating activities	<u>3,230,483</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(2,940,112)
Principal paid on revenue note	(347,000)
Interest paid on revenue note	<u>(114,413)</u>
Net cash used by capital and financing activities	<u>(3,401,525)</u>
Cash Flows from Investing Activities	
Purchase of investments	(127,557)
Investment income	112,447
Receipt of rental income	3,712
Other non-operating revenues	<u>45,106</u>
Net cash provided by investing activities	<u>33,708</u>
Net Decrease in Cash and Cash Equivalents	<u>(137,334)</u>
Cash and Cash Equivalents Beginning of Year	<u>6,820,306</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 6,682,972</u></u>

Marshalltown Water Works

Statement of Cash Flows

Year Ended June 30, 2025

Reconciliation of Operating Income to Net Cash Provided by
Operating Activities

Operating income	\$ 2,947,330
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	833,963
Change in assets	
Accounts receivable	(64,194)
Unbilled water usage	(126,498)
Other receivables	(11,194)
Prepaid expenses	(4,469)
Deferred outflows of resources	(154,488)
Change in liabilities	
Accounts payable	(73,467)
Payable to sewer fund	(5,207)
Payable to landfill fund	723
Payable to storm sewer fund	29,571
Customer deposits - sewer	1,334
Customer deposits - water	12,098
Accrued liabilities	(146,382)
Net pension liability	32,256
Deferred inflows of resources	(40,893)
	283,153
Total adjustments	
Net Cash Provided by Operating Activities	\$ 3,230,483

Marshalltown Water Works
Statement of Fiduciary Net Position
June 30, 2025

	<u>Pension Trust Fund</u>
Assets	
Investments	
Cash equivalents	\$ 82,683
Equity - large cap	867,656
Equity - mid cap	116,342
Equity - small cap	78,763
International equity	102,599
Fixed income	616,262
Other	<u>59,826</u>
Total assets	<u>1,924,131</u>
Fiduciary Net Position	
Net position restricted for pensions	<u><u>\$ 1,924,131</u></u>

Marshalltown Water Works
 Statement of Changes in Fiduciary Net Position
 Year Ended June 30, 2025

	Pension Trust Fund
Additions	
Employer contributions	\$ 192,523
Member contributions	34,657
Net investment income	189,227
Total additions	416,407
Deductions	
Benefit payments	246,787
Administration expenses	12,322
Total deductions	259,109
Change in fiduciary net position	157,298
Fiduciary Net Position Beginning of Year, as Previously Reported Restatement, Note 10	- 1,766,833
Fiduciary Net Position Beginning of Year, as Restated	1,766,833
Fiduciary Net Position End of Year	\$ 1,924,131

Note 1 - Summary of Significant Accounting Policies**Reporting Entity**

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

Employees of the Water Works, who do not elect to participate in the Iowa Public Employee's Retirement System, are eligible to participate in the Marshalltown Water Works Supplemental Retirement Pension Plan, a fiduciary component unit of the Marshalltown Water Works. The Marshalltown Water Works Supplemental Retirement Pension Plan functions for the benefit of these employees. The Water Works is obligated to make contributions to the Marshalltown Water Works Supplemental Retirement Pension Plan based upon actuarial valuations, which creates a financial burden on the Water Works.

Basis of Accounting

The financial statements of the Water Works have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

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

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

The Water Works distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods regarding the Water Works' principal ongoing operations. The principal operating revenues of the Water Works are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Water Works also includes a pension trust fund, a fiduciary fund type. Pension trust funds are accounted for in essentially the same manner as the enterprise fund, using the same measurement focus and basis of accounting. Contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the plan. The Pension Trust Fund accounts for the assets of the Marshalltown Water Works Supplemental Retirement Pension Plan. This plan is included in the reporting entity as the plan is administered through a pension trust fund and meets the criteria of fiduciary component unit of the Water Works.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid with maturities of three months or less at time of purchase are considered to be cash equivalents.

Restricted Assets

The Water Works' restricted assets consist of cash restricted for revenue note sinking funds, customer deposits, and collections for sewer charges, storm sewer, and landfill charges for the City of Marshalltown.

Accounts Receivable

Customer accounts receivable represent uncollected amounts billed for water usage at June 30, 2025. Because of the Water Works' policy to deny continued service to customers with past due bills, management believes uncollectible accounts are negligible. Therefore, no allowance for uncollectible accounts has been recorded. Unbilled usage for service consumed between periodic schedule billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Capital Assets

Capital assets, which include property, equipment and vehicles, and infrastructure, are recorded at historical cost. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Water Works as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Plants, wells, storage and distribution	\$ 5,000
Meters	5,000
Equipment and vehicles	5,000

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

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

Investments

Investments of the Marshalltown Water Works Supplemental Retirement Pension Plan are reported at fair value (generally based on quoted market prices).

Deferred Outflows of Resources

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

Compensated Absences

Employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when each of the following have occurred: the leave is attributable to services already rendered, the leave accumulates and carries forward from one reporting period to the next and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2025.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Marshalltown Water Works Supplemental Retirement Pension Plan and the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

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

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources in the financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Water Works' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Accounting Estimates

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

Sanitary Sewer, Solid Waste, and Stormwater Management Service

The Marshalltown Water Works bills and collects sewer, storm sewer, and landfill charges in accordance with the City ordinances for the City of Marshalltown, Iowa. Remittances are paid to the City monthly. The Marshalltown Water Works is reimbursed for a portion of the expense of billing and collecting the landfill charges, sewer charges, and storm sewer at rates agreed upon by the City of Marshalltown and Marshalltown Water Works.

Budgets

In accordance with the Code of Iowa, the Water Works prepares a budget to be incorporated into the City's legally adopted budget. The Water Works budgeted amounts were prepared on an accrual basis which is consistent with generally accepted accounting principles.

Adoption of New Accounting Standard

As of July 1, 2024, the Water Works adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. The effect of the implementation of this standard on beginning net position is disclosed in Note 10.

Note 2 - Cash, Cash Equivalents and Investments

The Water Works' deposits in financial institutions as of June 30, 2025, 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 Water Works is authorized by statute to invest public funds in obligations of the United States government, its agencies, and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants on improvement certificates of a drainage district.

The Water Works' investments consist entirely of certificates of deposit at June 30, 2025. The Water Works had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Interest Rate Risk

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

Marshalltown Water Works Supplemental Retirement Pension Plan

The Marshalltown Water Works Supplemental Retirement Pension Plan had the following investments at June 30, 2025:

Investment Type	Fair Value	Maturity
Cash Equivalents	\$ 82,683	N/A
Equity - Large Cap		
Mutual funds	395,080	N/A
Common stock	472,576	N/A
Equity - Mid Cap		
Mutual funds	116,342	N/A
Equity - Small Cap		
Mutual funds	78,763	N/A
International Equity		
Mutual funds	102,599	N/A
Fixed Income		
United States Treasury notes	174,725	5/31/26-3/28/30
Certificate of deposits	50,623	2/10/2028
Mutual funds	390,914	N/A
Other		
Mutual funds	59,826	N/A
	\$ 1,924,131	

The Marshalltown Water Works Supplemental Retirement Pension Plan categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. All the Marshalltown Water Works Supplemental Retirement Pension Plan's investments are valued using level 1 inputs, except for the United States Treasury Notes and Certificates of Deposits, which are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions (level 2 inputs). There have been no changes in valuation methodologies at June 30, 2025, compared to June 30, 2024.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The Marshalltown Water Works Supplemental Retirement Pension Plan manages its exposure to declines in fair values by limiting the maximum maturity length of investments to five years.

The following provides information about the sensitivity of the fair values of the Marshalltown Water Works Supplemental Retirement Pension Plan investments to market interest rate fluctuations:

Investment Type	Fair Value	Remaining Maturity			
		12 Months or Less	13-24 Months	25-60 Months	More Than 60 Months
Cash equivalents	\$ 82,683	\$ 82,683	\$ -	\$ -	\$ -
Mutual funds	1,143,524	1,143,524	-	-	-
Common stock	472,576	472,576	-	-	-
United States Treasury notes	174,725	50,230	48,756	75,739	-
Certificate of deposits	50,623	-	-	50,623	-
	<u>\$ 1,924,131</u>	<u>\$ 1,749,013</u>	<u>\$ 48,756</u>	<u>\$ 126,362</u>	<u>\$ -</u>

Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. Investments in securities of U.S. government agencies were rated AA+ by Standard & Poor's. The cash equivalents, mutual funds, common stock, and certificates of deposits are not rated.

Custodial Credit Risk - Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Marshalltown Water Works Supplemental Retirement Pension Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. To limit its exposure, all of the investments are held in trust at United Bank and Trust.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Marshalltown Water Works Supplemental Retirement Pension Plan's investment in a single issuer. Investments in any one issuer that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Amount	Percent of Portfolio
Vanguard 500 Index Admiral	Mutual fund	\$ 395,080	20.5%
iShares Russell Mid-Cap Index	Mutual fund	116,342	6.0%
Vanguard Total Bond Market	Mutual fund	113,758	5.9%
iShares Core US Aggregate Bond	Mutual fund	113,088	5.9%
Vanguard Short-Term Bond	Mutual fund	112,541	5.8%
Vanguard Total Int'l Stock	Mutual fund	102,599	5.3%
United States Treasury	Treasury notes	174,725	9.1%

Note 3 - Capital Assets

Capital assets activity for the year ended June 30, 2025, was as follows:

	Balance July 1, 2024	Increases	Decreases	Balance June 30, 2025
Capital Assets Not Being Depreciated				
Land	\$ 1,115,721	\$ -	\$ -	\$ 1,115,721
Construction in progress	3,533,179	1,074,625	(1,311,241)	3,296,563
Total capital assets not being depreciated	<u>4,648,900</u>	<u>1,074,625</u>	<u>(1,311,241)</u>	<u>4,412,284</u>
Capital Assets Being Depreciated				
Plant and source of supply	19,588,429	785,858	(1,124,174)	19,250,113
Booster station	220,653	-	-	220,653
Distribution system and pipe	17,146,832	924,957	(492,998)	17,578,791
Meters	3,258,206	1,230,487	(1,051,816)	3,436,877
Machinery and equipment	498,410	142,007	(159,726)	480,691
Vehicles	421,298	39,558	(98,662)	362,194
Capital improvements	113,916	-	-	113,916
Capital improvements - buildings	864,188	16,413	(113,175)	767,426
Office equipment and furnishings	519,137	37,447	(339,023)	217,561
Total capital assets being depreciated	<u>42,631,069</u>	<u>3,176,727</u>	<u>(3,379,574)</u>	<u>42,428,222</u>
Less Accumulated Depreciation for				
Plant and source of supply	11,321,177	325,858	(1,124,175)	10,522,860
Booster station	105,708	4,337	-	110,045
Distribution system and pipe	4,755,636	260,427	(376,255)	4,639,808
Meters	1,347,581	111,536	(1,003,814)	455,303
Machinery and equipment	422,579	41,484	(159,726)	304,337
Vehicles	252,378	43,721	(80,328)	215,771
Capital improvements	97,585	67	-	97,652
Capital improvements - buildings	508,644	22,209	(97,383)	433,470
Office equipment and furnishings	438,239	24,324	(339,023)	123,540
Total accumulated depreciation	<u>19,249,527</u>	<u>833,963</u>	<u>(3,180,704)</u>	<u>16,902,786</u>
Total capital assets being depreciated, net	<u>23,381,542</u>	<u>2,342,764</u>	<u>(198,870)</u>	<u>25,525,436</u>
Net capital assets	<u>\$ 28,030,442</u>	<u>\$ 3,417,389</u>	<u>\$ (1,510,111)</u>	<u>\$ 29,937,720</u>

Note 4 - Long Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2025, is as follows:

	Balance July 1, 2024	Increases	Decreases	Balance June 30, 2025	Due Within One Year
Revenue note	\$ 4,656,000	\$ -	\$ (347,000)	\$ 4,309,000	\$ 354,000
Project anticipation note	2,348,174	-	-	2,348,174	-
Compensated absences, restated	226,004	-	(55,852)	170,152	170,152
Total	<u>\$ 7,230,178</u>	<u>\$ -</u>	<u>\$ (402,852)</u>	<u>\$ 6,827,326</u>	<u>\$ 524,152</u>

Compensated absences are reported as part of accrued expenses in the Statement of Net Position. The roll-forward schedule only reports the net change in the compensated absences liability.

Revenue Note

On July 29, 2016, the Water Works entered into an agreement with the Iowa Finance Authority (IFA) for the issuance of \$7,883,531 of a revenue capital loan note with interest at 1.75% per annum. The agreement also requires the Water Works to annually pay a 0.25% servicing fee. The note was issued pursuant to Chapters 384.24A and 384.83 of the Code of Iowa to provide financing for improvements to the water plant. In the event of a default, the issuer shall have the right to take any action authorized under the regulations, the revenue note, or the agreement, and to take whatever action as law or equity may appear necessary or desirable to collect the amounts due. During the year ended June 30, 2025, the Water Works paid principal of \$347,000 and interest of \$81,480 on the note.

The Water Works has pledged future water revenues, net of specified operating expenses, to repay the revenue note. The note is payable solely from water customer net revenues and is payable through 2036. Annual principal and interest payments on the note are expected to require 16.2% of net receipts. The total principal and interest remaining to be paid on the note is \$4,776,443. For the current year, principal and interest paid and total net receipts were \$428,480 and \$3,781,293, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the water fund and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note falling due in the same year.

During the year ended June 30, 2025, the Water Works was in compliance with the revenue note provisions.

A summary of the annual revenue note principal and interest requirements to maturity as of June 30, 2025, is as follows:

Year Ending June 30,	Principal	Interest	Total
2026	\$ 354,000	\$ 75,408	\$ 429,408
2027	361,000	69,212	430,212
2028	368,000	62,895	430,895
2029	376,000	56,455	432,455
2030	383,000	49,875	432,875
2031-2035	2,035,000	146,038	2,181,038
2036	432,000	7,560	439,560
Totals	<u>\$ 4,309,000</u>	<u>\$ 467,443</u>	<u>\$ 4,776,443</u>

Project Anticipation Note

On April 14, 2023, the Water Works entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority for up to \$4,288,639 for the purpose of paying the costs of planning, designing, and construction of a water treatment plant upgrade. As of June 30, 2025, the Water Works had drawn down \$2,348,174 on the note. The note is interest free and matures on April 14, 2026. The note was issued pursuant to Chapters 76.13 and 384.24A of the Code of Iowa in anticipation of the receipt of and is payable from the proceeds of an authorized loan and disbursement agreement and the corresponding future issuance of water revenue bonds.

Note 5 - Iowa Public Employees' Retirement System (IPERS)

Plan Description

IPERS membership is mandatory for employees of the Water Works, except for those covered by the Marshalltown Water Works Supplemental Retirement Pension Plan. Employees of the Water Works are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9177, 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 early-retirement reductions. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

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

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

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

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability 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 benefits or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

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

In fiscal year 2025, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Water Works contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Water Works' contributions to IPERS for the year ended June 30, 2025, totaled \$123,892.

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

At June 30, 2025, the Water Works reported a liability of \$464,700 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water Works' proportion of the net pension liability was based on the Water Works' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2024, the Water Works' collective proportion was 0.012761%, which was an increase of 0.001604% from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the Water Works recognized pension expense of \$83,866. At June 30, 2025, the Water Works reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 36,977	\$ 289
Change of assumptions	-	6
Net difference between projected and actual earnings on pension plan investments	5,812	-
Changes in proportion and differences between Water Works contributions and proportionate share of contributions	118,158	3,631
Water Works contributions subsequent to the measurement date	<u>123,892</u>	<u>-</u>
Total	<u>\$ 284,839</u>	<u>\$ 3,926</u>

Deferred outflows of resources of \$123,892 related to pensions resulting from the Water Works contribution subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows or resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ended</u>	
June 30, 2026	\$ (31,179)
June 30, 2027	145,562
June 30, 2028	34,969
June 30, 2029	3,314
June 30, 2030	4,355
	<u>\$ 157,021</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investments rate of return (effective June 30, 2017)	7.00%, compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum based on 2.60% inflation and 0.65% real wage inflation

The actuarial assumptions used in the June 30, 2024 valuation were based on the results of a quadrennial experience study covering the period of July 1, 2017 through June 30, 2021.

Mortality rates used in the 2024 valuation were based on the PubG-2010 mortality tables with mortality improvements modeled using Scale MP-2021.

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	21.0%	3.52%
International equity	13.0	5.18
Global smart beta equity	5.0	4.12
Core plus fixed income	25.5	3.04
Public credit	3.0	4.53
Cash	1.0	1.69
Private equity	17.0	8.89
Private real assets	9.0	4.25
Private credit	5.5	6.62
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Water Works will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits payments to determine the total pension liability.

Sensitivity of the Water Works’ Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Water Works’ proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Water Works’ proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0 percent) than the current rate.

	<u>1% Decrease (6.0%)</u>	<u>Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Water Works' proportionate share of the net pension liability (asset) at June 30, 2025	\$ 1,140,365	\$ 464,700	\$ (101,173)

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2025, the Water Works had no payables to the defined benefit pension plan for legally required employer contributions or legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 6 - Marshalltown Water Works Supplemental Retirement Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, the information about the fiduciary net position of the Plan and additions to and deductions from Marshalltown Water Works Supplemental Retirement Pension Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments held at United Bank and Trust (the plan administrator) are valued as of the March 31, 2025 measurement date at fair market value.

Plan Description

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

The Plan was established by the Marshalltown Water Works' Board of Trustees on September 30, 1953. The Plan was restated and amended on January 1, 2014. The Board of Trustees has the authority to amend the Plan at any time. The Plan currently does not issue a stand-alone financial report.

Pension Benefits

Employees who retire at or after age 65, or age 62 with 25 years of credited service, are entitled to retirement benefits payable monthly for life. Monthly benefits are equal to 2.12% of the employee's five-year final average salary multiplied by the number of years of consecutive service for the year ended June 30, 2025. Service prior to January 1, 1986, shall be limited to 25 years. Benefits are fully vested on reaching ten or more years of credited service.

Disability and Death Benefits

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

Contributions

The Water Works’ funding policy provides for employer and employee contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. The entry age normal actuarial cost method is used to determine annual plan costs. The employer contribution rate for the year ended June 30, 2025, was 8.93% plus an additional \$5,000 per bi-weekly payroll. The employee contribution rate for the year ended June 30, 2025, was 4.95%. Contributions paid by the Water Works for the year ended June 30, 2025, totaled \$192,523, and the contributions paid by employees totaled \$34,657.

As of the March 31, 2025 measurement date, pension plan membership consisted of the following:

Active plan members	9
Inactive plan members entitled to but not yet receiving benefits	2
Inactive plan members (or beneficiary) currently receiving benefits	<u>13</u>
	<u><u>24</u></u>

Net Pension Liability

The County’s net pension liability was measured as of March 31, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the March 31, 2025 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Investment rate of return	7.0%
Asset valuation method	Market Value
Discount rate	7.0%
Inflation rate	N/A
Salary scale	3.0%
Mortality table	1983 GAM
Actuarial cost method	Entry Age Normal Method
Valuation date	March 31, 2025
Measurement date	March 31, 2025
Reporting date	June 30, 2025

Rate of Return

For the year ended March 31, 2025, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.99%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The cash flows used as inputs in the calculation are determined on a monthly basis.

The long-term expected rate of return on pension plan investments was determined using best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation). These ranges are combined to produce the long-term expected rate of return. The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.99% based on the target allocation of assets summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>
Large cap equity	30.0%
Small cap equity	10.0
International equity	10.0
High dividend equity	10.0
Fixed income	40.0
	<hr/>
Total	100%
	<hr/> <hr/>

Discount Rate

The discount rate used to measure the total pension liability as of March 31, 2025, was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at 4.95% of covered payroll and employer contributions will be made at 8.93% of covered payroll plus \$5,000 per bi-weekly payroll for each year in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

For the year ended June 30, 2025, the Water Works recognized pension expense of \$113,196. At June 30, 2025, the Water Works reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 129,337	\$ -
Net difference between projected and actual earnings on pension plan investments	19,138	-
Water Works contributions subsequent to the measurement date	43,342	-
	<hr/>	<hr/>
Total	\$ 191,817	\$ -
	<hr/> <hr/>	<hr/> <hr/>

Deferred outflows of resources of \$43,342 related to pensions resulting from the Water Works contribution subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

<u>Fiscal Year Ended</u>	
June 30, 2026	\$ 77,285
June 30, 2027	65,767
June 30, 2028	3,090
June 30, 2029	<u>2,333</u>
	<u>\$ 148,475</u>

Sensitivity of the Water Works’ Net Pension Liability to Changes in the Discount Rate

The following presents the Water Works’ net pension liability calculated using the discount rate of 7.00%, as well as what the Water Works’ net pension liability would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0 percent) than the current rate.

	<u>1% Decrease (6.0%)</u>	<u>Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Water Works' proportionate share of the net pension liability (asset) at March 31, 2025	\$ 1,462,589	\$ 1,203,277	\$ 980,683

Payable to the Pension Plan

At June 30, 2025, the Water Works had no payables to the Marshalltown Water Works Supplemental Retirement Pension Plan for legally required employer contributions or legally required employee contributions which had been withheld from employee wages but not yet remitted to the plan.

Schedule of Changes in Net Pension Liability

Measurement date	March 31, 2025
Fiscal year	June 30, 2025
Service cost	\$ 50,802
Interest in the total pension liability	197,402
Difference between expected and actual experience	161,494
Benefit payments	<u>(229,843)</u>
Net change in total pension liability	179,855
Total pension liability beginning of year	<u>2,884,147</u>
Total pension liability end of year	<u>3,064,002</u>
Employer contributions	192,812
Member contributions	34,818
Net investment income	110,900
Benefit payments	(229,843)
Administrative expenses	<u>-</u>
Net change in plan fiduciary net position	108,687
Plan fiduciary net position beginning of year	<u>1,752,038</u>
Plan fiduciary net position end of year	<u>1,860,725</u>
Net pension liability	<u><u>\$ 1,203,277</u></u>

Note 7 - Concentrations

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

The Water Work's provides services to a variety of types of customers, including residential, commercial, industrial, and wholesale. The industrial and wholesale categories contain the three largest customers. For the year ended June 30, 2025, these three customers represented 52% of the total operating revenues.

Note 8 - Risk Management

The Water Works is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Water Works assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the last three years. There have been no reductions in insurance coverage from prior years.

Note 9 - Construction Commitments

The Water Works has entered into engineering and construction contracts totaling \$5,004,916 for the design and construction of a new reverse osmosis membrane treatment process train at the water treatment plant (water treatment plant upgrade project). As of June 30, 2025, there have been \$2,681,622 of costs incurred on the project. This project will be funded with a State Revolving Fund loan.

Note 10 - Change in Accounting Principle and Restatement

As of July 1, 2024, the Water Works implemented GASB Statement No. 101, *Compensated Absences*. This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The effect of the changes on beginning fund balances is shown in the table below.

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, includes guidance for when to report single employer pension plans as pension trust funds. This guidance is complex and ambiguous, including references to other GASB statements and nonauthoritative flowcharts. During fiscal year 2025, it was determined to include the Marshalltown Water Works Supplemental Retirement Pension Plan as a pension trust fund, as of July 1, 2024.

During fiscal year 2025, the change in accounting principle and error correction resulted in restatements of beginning net position, as follows:

	July 1, 2024, As Previously Reported	Change in Accounting Principle	Correction of an Error	July 1, 2024, As Restated
Enterprise Fund, Net position	<u>\$ 26,902,244</u>	<u>\$ (32,911)</u>	<u>\$ -</u>	<u>\$ 26,869,333</u>
Pension Trust Fund, Net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,766,833</u>	<u>\$ 1,766,833</u>

Note 11 - Subsequent Events

In September 2025, the water treatment plant upgrade project’s construction contract was awarded for an amount not to exceed \$57,675,800 and the project’s engineering contract was amended to an amount not to exceed \$4,881,263. These contracts will be financed by two new State Revolving Fund loans.

In November 2025, the Water Works entered into two State Revolving Fund loans totaling \$65,000,000 with the Iowa Finance Authority to finance the water treatment plant upgrade project. In addition, the Project Anticipation Note in the amount of \$2,348,174 was refinanced with the proceeds. The interest rates on the loans are 3.01% and 3.89% with final maturity on June 1, 2047.

Required Supplementary Information
June 30, 2025

Marshalltown Water Works

Marshalltown Water Works

Schedule of Water Works' Proportionate Share of the Net Pension Liability and Schedule of Water Works' Contributions to the Iowa Public Employees' Retirement System Last Ten Fiscal Years Ended June 30, 2025

Fiscal Year Ended	Water Works' Proportionate Share of the Net Pension Liability (Asset)	Water Works' Proportion of the Net Pension Liability (Asset)	Water Works' Covered Payroll	Water Works' Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2025	0.012761%	\$ 464,700	\$ 1,176,034	39.51%	92.30%
2024	0.011157%	503,612	979,852	51.40%	90.13%
2023	0.009291%	351,042	748,328	46.91%	91.41%
2022	-0.003398%	11,732	679,199	1.73%	100.81%
2021	0.008433%	592,438	669,308	88.52%	82.90%
2020	0.008842%	512,025	672,930	76.09%	85.45%
2019	0.008313%	526,041	624,770	84.20%	83.62%
2018	0.007153%	476,503	533,963	89.24%	82.21%
2017	0.007343%	462,143	526,989	87.69%	81.82%
2016	0.007330%	362,120	502,146	72.11%	85.19%

The amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying notes to required supplementary information

Fiscal Year Ended	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Water Works' Covered Payroll	Contributions as a Percentage of Covered Payroll
2025	\$ 123,892	\$ 123,892	-	\$ 1,312,415	9.44%
2024	111,018	111,018	-	1,176,034	9.44%
2023	92,498	92,498	-	979,852	9.44%
2022	70,642	70,642	-	748,328	9.44%
2021	64,116	64,116	-	679,199	9.44%
2020	63,183	63,183	-	669,308	9.44%
2019	63,525	63,525	-	672,930	9.44%
2018	55,792	55,792	-	624,770	8.93%
2017	47,683	47,683	-	533,963	8.93%
2016	47,060	47,060	-	526,989	8.93%

Changes of Benefits Terms

There are no significant changes in benefit terms.

Changes of Assumptions

The 2022 valuation implemented the following refinements after a demographic assumption study:

- Mortality assumption was changed to the family of PubG-2010 Mortality Tables for all groups, with age setbacks and set forwards, as well as other adjustments. Future mortality improvements are modeled using Scale MP-2021.
- Retirement rates were adjusted to partially reflect observed experience for Regular members only.
- Disability rates were lowered for Regular members only.
- Termination rates were adjusted to partially reflect observed experience for all groups.

The 2018 valuation implemented the following refinements after a demographic assumption study:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the long-term rate of return assumption from 7.50% to 7.00%.
- Decreased the wage growth and payroll growth assumption from 4.00% to 3.25%.

Marshalltown Water Works
Schedule of Changes in Net Pension Liability for the
Marshalltown Water Works Supplemental Retirement Pension Plan
Last Ten Fiscal Years Ended June 30, 2025

Measurement date	March 31, 2025	March 31, 2024	March 31, 2023	March 31, 2022	March 31, 2021	March 31, 2020	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016
Fiscal year	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Service cost	\$ 50,802	\$ 41,394	\$ 38,686	\$ 41,951	\$ 39,207	\$ 26,401	\$ 24,674	\$ 35,610	\$ 33,280	\$ 38,144
Interest in the total pension liability	197,402	196,412	192,996	192,313	182,996	182,785	184,349	185,091	186,976	188,671
Difference between expected and actual experience	161,494	-	44,457	-	126,618	-	(15,402)	-	(2,911)	-
Benefit payments	<u>(229,843)</u>	<u>(236,295)</u>	<u>(223,800)</u>	<u>(218,682)</u>	<u>(218,247)</u>	<u>(219,707)</u>	<u>(215,680)</u>	<u>(225,057)</u>	<u>(268,145)</u>	<u>(224,175)</u>
Net change in total pension liability	179,855	1,511	52,339	15,582	130,574	(10,521)	(22,059)	(4,356)	(50,800)	2,640
Total pension liability beginning of year	<u>2,884,147</u>	<u>2,882,636</u>	<u>2,830,297</u>	<u>2,814,715</u>	<u>2,684,141</u>	<u>2,694,662</u>	<u>2,716,721</u>	<u>2,721,077</u>	<u>2,771,877</u>	<u>2,769,237</u>
Total pension liability end of year	<u>3,064,002</u>	<u>2,884,147</u>	<u>2,882,636</u>	<u>2,830,297</u>	<u>2,814,715</u>	<u>2,684,141</u>	<u>2,694,662</u>	<u>2,716,721</u>	<u>2,721,077</u>	<u>2,771,877</u>
Employer contributions	192,812	187,736	192,584	180,674	178,953	159,012	135,922	140,640	146,911	139,873
Member contributions	34,818	32,004	31,920	28,089	27,136	19,961	17,695	20,310	23,755	23,210
Net investment income	110,900	237,400	(98,988)	92,694	399,502	(62,305)	55,026	95,259	117,616	(8,077)
Benefit payments	(229,843)	(236,295)	(223,800)	(218,682)	(218,247)	(219,707)	(215,680)	(225,057)	(268,145)	(224,175)
Administrative expenses	-	-	(250)	(250)	(250)	(267)	(360)	(4,550)	-	(4,250)
Net change in plan fiduciary net position	108,687	220,845	(98,534)	82,525	387,094	(103,306)	(7,397)	26,602	20,137	(73,419)
Plan fiduciary net position beginning of year	<u>1,752,038</u>	<u>1,531,193</u>	<u>1,629,727</u>	<u>1,547,202</u>	<u>1,160,108</u>	<u>1,263,414</u>	<u>1,270,811</u>	<u>1,244,209</u>	<u>1,224,072</u>	<u>1,297,491</u>
Plan fiduciary net position end of year	<u>1,860,725</u>	<u>1,752,038</u>	<u>1,531,193</u>	<u>1,629,727</u>	<u>1,547,202</u>	<u>1,160,108</u>	<u>1,263,414</u>	<u>1,270,811</u>	<u>1,244,209</u>	<u>1,224,072</u>
Net pension liability	<u>\$ 1,203,277</u>	<u>\$ 1,132,109</u>	<u>\$ 1,351,443</u>	<u>\$ 1,200,570</u>	<u>\$ 1,267,513</u>	<u>\$ 1,524,033</u>	<u>\$ 1,431,248</u>	<u>\$ 1,445,910</u>	<u>\$ 1,476,868</u>	<u>\$ 1,547,805</u>
Plan fiduciary net position as a percentage of the total pension liability	60.73%	60.75%	53.12%	57.58%	54.97%	43.22%	46.89%	46.78%	45.72%	44.16%
Covered valuation payroll	568,750	498,191	467,561	567,455	491,102	403,265	274,313	421,308	385,702	471,164
Net pension liability as a percentage of covered valuation payroll	211.57%	227.24%	289.04%	211.57%	258.10%	377.92%	521.76%	343.20%	382.90%	328.51%

Marshalltown Water Works
 Schedule of Water Works' Contributions to the
 Marshalltown Water Works Supplemental Retirement Pension Plan
 Last Ten Fiscal Years Ended June 30, 2025

Fiscal Year Ended	Actuarially Required Contribution	Contributions in Relation to the Actuarially Required Contribution	Contribution Deficiency (Excess)	Water Works' Covered Payroll	Required Contributions as a Percentage of Covered Payroll
2025	\$ 62,524	\$ 192,523	\$ (129,999)	\$ 700,156	8.93%
2024	58,581	188,581	(130,000)	656,006	8.93%
2023	55,905	175,905	(120,000)	626,039	8.93%
2022	51,309	181,309	(130,000)	574,573	8.93%
2021	50,976	180,976	(130,000)	570,838	8.93%
2020	38,760	168,760	(130,000)	434,039	8.93%
2019	32,630	136,630	(104,000)	365,396	8.93%
2018	34,104	138,104	(104,000)	381,898	8.93%
2017	44,575	152,140	(107,565)	499,157	8.93%
2016	41,344	119,344	(78,000)	462,980	8.93%

See Notes to Required Supplementary Information

Methods and Assumptions used to Determine Contribution Rates

The total pension liability in the March 31, 2025 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Investment rate of return	7.0%
Asset valuation method	Market Value
Discount rate	7.0%
Inflation rate	N/A
Salary scale	3.0%
Mortality table	1983 GAM
Actuarial cost method	Entry Age Normal Method
Valuation date	March 31, 2025
Measurement date	March 31, 2025
Reporting date	June 30, 2025

Supplementary Information
June 30, 2025

Marshalltown Water Works

Marshalltown Water Works

Budgetary Comparison of Revenues, Expenses and Changes in Net Position – Actual to Budget Year Ended June 30, 2025

	<u>Actual</u>	<u>Budget</u>	Variance Positive (Negative)
Total revenues	\$ 9,600,102	\$ 9,176,846	\$ 423,256
Total expenses	<u>6,804,791</u>	<u>7,249,365</u>	<u>444,574</u>
Net	2,795,311	1,927,481	<u>\$ 867,830</u>
Net position beginning of the year, restated	<u>26,869,333</u>	<u>25,415,470</u>	
Net position end of year	<u>\$ 29,664,644</u>	<u>\$ 27,342,951</u>	



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Marshalltown Water Works
Marshalltown, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Marshalltown Water Works (the Water Works), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Water Works' basic financial statements and have issued our report thereon dated February 17, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water Works' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Works' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Water Works' financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2025-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Water Works' operations for the year ended June 30, 2025, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water Works. 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.

Marshalltown Water Works' Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Water Works' response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Water Works' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



Dubuque, Iowa
February 17, 2026

Part I: Findings Related to the Financial Statements:

MATERIAL WEAKNESS

2025-001 Preparation of Financial Statements and Restatement

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity.

Condition – As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision to accept the degree of risk associated with this condition because of cost or other considerations. In addition, the fiduciary fund financial statements were restated to include the Marshalltown Water Works Supplemental Retirement Pension Plan as a pension trust fund.

Cause – We recognize that with a limited number of office employees and complexity of multiple contracts, preparation of the financial statements is difficult.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the entity. The outside party does not have the constant contact with ongoing financial transactions that internal staff have.

Recommendation – We recommend that Water Works staff continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statements internally.

Response – Management agrees with the finding.

Part II: Other Findings Related to Statutory Reporting:

- 2025-IA-A** **Questionable Expenditures** – We noted no expenditures that fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 2025-IA-B** **Travel Expense** – No expenditures of Water Work’s money for travel expenses of spouses or Water Work’s officials or employees were noted.
- 2025-IA-C** **Business Transactions** – No business transactions between the Water Works and its officials or employees were noted.
- 2025-IA-D** **Restricted Donor Activity** – No transactions were noted between the Water Works and Water Works officials, Water Works employees, and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- 2025-IA-E** **Bond Coverage** – Surety bond coverage of Water Works officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- 2025-IA-F** **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2025-IA-G** **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 Water Work’s investment policy were noted.
- 2025-IA-H** **Revenue Notes** – No instances of non-compliance with the revenue note provisions were noted.