

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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ March 11, 2016 \_\_\_\_\_

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released a compilation report on the Cincinnati Sewer Utility, Cincinnati, Iowa, for the year ended June 30, 2015.

The Sewer Utility's receipts totaled \$80,585 for the year ended June 30, 2015. The receipts included \$76,882 from charges for service, \$518 from unrestricted interest on investments and \$3,185 of miscellaneous fees.

Disbursements for the year ended June 30, 2015 totaled \$85,958, and included \$46,975 for operations, \$21,816 for debt service and \$17,167 for capital outlay.

A copy of the compilation report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1523-0017-BC00.pdf>.

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**CINCINNATI SEWER UTILITY**  
**ACCOUNTANT'S COMPILATION REPORT**  
**FINANCIAL STATEMENT**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2015**

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## Cincinnati Sewer Utility

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dave Rummans	Mayor	(Resigned)
Rebecca Clark (Appointed)	Mayor	Nov 2017
Rebecca Clark (Appointed)	Mayor Pro tem	(Resigned)
William Rick Long (Appointed)	Mayor Pro tem	Nov 2015
Jeff Lenik (Appointed)	Council Member	(Resigned)
Bruce Clinkenbeard (Appointed)	Council Member	Nov 2015
Patricia Fowler	Council Member	(Resigned)
Joshua McIntire (Appointed)	Council Member	Nov 2017
Ron Shady	Council Member	Jan 2018
Bob Wireman	Council Member	Jan 2018
Gail Finks	City Clerk	(Resigned)
Melissa McIntire (Appointed)	City Clerk	Indefinite
Mike Craver	Attorney	Indefinite

**Cincinnati Sewer Utility**



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Accountant's Compilation Report

To the Honorable Mayor and  
Members of the City Council:

Management is responsible for the accompanying financial statement, other information and supplementary information listed in the table of contents of the Cincinnati Sewer Utility, Cincinnati, Iowa, as of and for the year ended June 30, 2015 in accordance with the basis of accounting described in Note 1 and for determining this is an acceptable basis of accounting.

We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services issued by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. We did not audit or review the accompanying financial statement and we were not required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion or provide any form of assurance on the accompanying financial statement.


As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.


The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statement. This information is the representation of management. The information was subject to our compilation engagement. However, we have not audited or reviewed the information and, accordingly, we do not express an opinion, a conclusion or provide any assurance on such information.

The other information, the Sewer Utility's Budgetary Comparison Information, the Schedule of the Sewer Utility's Proportionate Share of the Net Pension Liability and the Schedule of Sewer Utility Contributions on pages 19 through 24, was subject to our compilation engagement. However we have not audited or reviewed the information and, accordingly, we do not express an opinion, a conclusion or provide any assurance on it.

We are not independent with respect to the Cincinnati Sewer Utility.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Cincinnati Sewer Utility and other parties to whom the Cincinnati Sewer Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 10, 2016

**Cincinnati Sewer Utility**



**Financial Statement**

**Cincinnati Sewer Utility**

Cincinnati Sewer Utility

Statement of Cash Receipts, Disbursements and  
Changes in Cash Basis Net Position

As of and for the year ended June 30, 2015

Operating receipts:	
Charges for service	\$ 76,882
Operating disbursements:	
Business type activities	46,975
Excess of operating receipts over operating disbursements	<u>29,907</u>
Non-operating receipts (disbursements):	
Interest on investments	518
Miscellaneous	3,185
Debt service	(21,816)
Capital outlay	(17,167)
Net non-operating receipts (disbursements)	<u>(35,280)</u>
Deficiency of receipts under disbursements	(5,373)
Transfers in from other funds of the City	174
Transfers out to other funds of the City	(999)
Change in cash basis net position	<u>(6,198)</u>
Cash basis net position beginning of year	113,300
Cash basis net position end of year	<u>\$ 107,102</u>
<b>Cash Basis Net Position</b>	
Restricted for debt service	\$ 25,493
Unrestricted	81,609
Total cash basis net position	<u>\$ 107,102</u>

See accompanying accountant's compilation report.

Cincinnati Sewer Utility  
Notes to Financial Statements  
June 30, 2015

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

A) Reporting Entity

The Cincinnati Sewer Utility is a department of the City of Cincinnati. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis.

The financial statement of the Cincinnati Sewer Utility is intended to present the financial position and results of the cash transactions of only that portion of the City of Cincinnati attributable to the transactions of the Cincinnati Sewer Utility.

B) Basis of Presentation

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

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C) Measurement Focus and Basis of Accounting

The Sewer Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Sewer Utility 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 Sewer Utility in accordance with U.S. generally accepted accounting principles.

D) Budgets and Budgetary Accounting

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

**(2) Cash and Pooled Investments**

The Sewer Utility's deposits in banks at June 30, 2015 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 Sewer Utility 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 City Council; 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 Sewer Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Bond and Notes Payable**

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

Year Ending June 30,	Principal	Interest	Total
2016	\$ 11,596	9,590	21,186
2017	11,826	9,150	20,976
2018	13,067	8,699	21,766
2019	13,320	8,206	21,526
2020	13,587	7,700	21,287
2021-2025	78,413	30,118	108,531
2026-2030	90,391	13,618	104,009
2031-2032	24,000	1,080	25,080
Total	<u>\$ 256,200</u>	<u>88,161</u>	<u>344,361</u>

Sewer Revenue Bond

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay a \$157,800 sewer revenue bond issued in December 1988. The bond matures annually on July 1 and bears interest at 5.0% per annum, which is also due and payable every July 1. Proceeds from the bond provided financing for the construction of improvements to the sewer treatment plant. The bond is payable solely from sewer customer net receipts and is payable through 2029. Annual principal and interest payments on the bond required approximately 31% of net receipts. The total principal and interest remaining to be paid on the bond is \$136,111. For the current year, \$9,356 of principal and interest were paid and total customer net receipts were \$29,907.

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

- (a) The bond will be only redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) The City shall make annual payments of \$9,356, including interest at 5.0% per annum, to Farmers Home Administration in the years 1991 through 2029, inclusive.

- (c) User rates shall be established at a level which produces and maintains net receipts at a level net less than 125% the amount of principal and interest on the bond falling due in the same year.
- (d) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (e) Additionally, monthly transfers to a sewer revenue reserve account shall be made until an amount equal to the principal and interest due in any subsequent year has been accumulated. This account is restricted for the purpose of paying principal and interest payments on the bond.
- (f) All users of the sewer system, including the City, shall pay for usage.

The City's net revenues for the year ended June 30, 2015 were greater than the required 125% of bond principal and interest falling due during the year.

The City has established a separate sewer revenue bond sinking account and monthly transfers to the account have been made.

The City has established a separate sewer reserve account and the required transfers have been made.

The City pays for use of the sewer system as required by the sewer revenue bond resolution.

#### Sewer Revenue Capital Loan Notes

On March 2, 2011, the City entered into an agreement with the Iowa Finance Authority for the issuance of up to \$193,000 of sewer revenue capital loan notes with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements, extensions and a new pump station for the sewer utility system. At June 30, 2013, the City had drawn \$181,656, the final loan amount. An initiation fee of 1% of the authorized borrowing for the sewer revenue capital loan notes was charged by the Iowa Finance Authority and withheld from the first proceeds of the sewer revenue capital loan notes drawn by the City.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue capital loan notes. The notes are payable solely from sewer customer net receipts. Annual principal and interest payments on the notes are expected to require approximately 40% of net receipts. The total amount of principal and interest remaining to be paid on the notes at June 30, 2015 is \$208,250. For the current year, \$12,040 of principal and interest was paid and total customer net receipts were \$29,907.

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

- (1) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (2) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

The City's net revenues for the year ended June 30, 2015 were greater than the required 110% of bond principal and interest falling due during the year.

**(4) Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility 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 P.O., Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://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, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (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 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 - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1%. IPERS Contribution Rate Funding Policy requires 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 2015, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Sewer Utility contributed 8.93% for a total rate of 14.88%.

The Sewer Utility’s contributions to IPERS for the year ended June 30, 2015 were \$1,478.

Collective Net Pension Liability, Collective Pension Expense, Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the Sewer Utility’s liability for its proportionate share of the collective net pension liability totaled \$12,662. The collective net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The Sewer Utility’s proportion of the collective net pension liability was based on the Sewer Utility’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2014, the Sewer Utility’s proportion was 0.011944%, which was an increase of 0.001680% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Sewer Utility’s collective pension expense, collective deferred outflows of resources and collective deferred inflows of resources totaled \$948, \$697 and \$4,829, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% per annum
Salary increases (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Investment rate of return (effective June 30, 1996)	7.50% net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 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
US Equity	23%	6.31%
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
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 Sewer Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to 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 Sewer Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Sewer Utility's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Sewer Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate 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%)
Sewer Utility's proportionate share of the net pension liability	\$ 23,925	12,662	3,156

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

**(5) Compensated Absences**

Sewer Utility 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 Sewer Utility until used or paid. The Sewer Utility’s approximate liability for earned vacation payable to employees at June 30, 2015 is \$80. This liability has been computed based on rates of pay in effect at June 30, 2015.

**(6) Interfund Transfers**

The detail of interfund transfers to and from other City funds for the year ended June 30, 2015 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Enterprise: Sewer Utility	Enterprise: Water Utility	<u>\$ 174</u>
General	Enterprise: Sewer Utility	\$ 979
Enterprise: Water Utility	Enterprise: Sewer Utility	20
Total		<u>\$ 999</u>

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

**(7) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2015 were \$7,722. The Sewer Utility's share of the City's contributions to the Pool for the year ended June 30, 2015 were paid by the City.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

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

The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been recorded in the City's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

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

**(8) Subsequent Event**

On November 9, 2015, the City Council approved the issuance of \$405,000 of sewer revenue capital loan notes for the purpose of paying the costs of acquiring, constructing, reconstructing, extending, remodeling, improving, repairing and equipping all or part of the municipal sewer system.

**Other Information**

Cincinnati Sewer Utility  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements and Changes in Balance –  
 Budget and Actual (Cash Basis)

Other Information

Year ended June 30, 2015

	Actual	Budgeted Amount Original/Final	Final to Actual Variance
Receipts:			
Use of money and property	\$ 518	325	193
Charges for service	76,882	96,000	(19,118)
Miscellaneous	3,185	-	3,185
Total receipts	80,585	96,325	(15,740)
Disbursements:			
Business type activities	85,958	108,248	22,290
Excess (deficiency) of receipts over (under) disbursements	(5,373)	(11,923)	6,550
Other financing sources (uses), net	(825)	-	(825)
Change in cash balance	(6,198)	(11,923)	5,725
Cash balance beginning of year	113,300	110,545	2,755
Cash balance end of year	\$ 107,102	98,622	8,480

See accompanying accountant's compilation report.

Cincinnati Sewer Utility

Notes to Other Information – Budgetary Reporting

June 30, 2015

The Sewer Utility 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, which includes the Sewer Utility, on the cash basis following required public notice and hearing. 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 Sewer Utility's disbursements are budgeted in the City's business type activities function. The Sewer Utility's budget is reflected in the original and final budgeted amount. The Sewer Utility's budget was not amended during the year.

During the year ended June 30, 2015, disbursements in the business type activities function, which includes the Sewer Utility, did not exceed the amount budgeted.

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Cincinnati Sewer Utility

Schedule of the Sewer Utility's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
Last Fiscal Year\*

Other Information

	<u>2015</u>
Sewer Utility's proportion of the net pension liability	0.011944%
Sewer Utility's proportionate share of the net pension liability	\$ 12,662
Sewer Utility's covered-employee payroll	\$ 20,896
Sewer Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.60%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

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

See accompanying accountant's compilation report.



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Cincinnati Sewer Utility  
Schedule of Sewer Utility Contributions  
Iowa Public Employees' Retirement System  
Last Ten Fiscal Years

	2015	2014	2013
Statutorily required contribution	\$ 1,478	1,866	646
Contributions in relation to the statutorily required contribution	(1,478)	(1,866)	(646)
Contribution deficiency (excess)	\$ -	-	-
Sewer Utility's covered-employee payroll	\$ 16,546	20,896	7,451
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%

See accompanying accountant's compilation report.

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

Cincinnati Sewer Utility

Notes to Other Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current 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.

In 2008, legislative action 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.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

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

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

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

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

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

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs, deputies and protection occupation members.

**Cincinnati Sewer Utility**

## **Supplementary Information**

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Cincinnati Sewer Utility  
Schedule of Indebtedness  
Year ended June 30, 2015

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Farmer's Home Administration sewer revenue bond	Dec 15, 1988	5.00%	\$ 157,800
Sewer revenue capital loan notes	Mar 2, 2011 *	3.00%	\$ 181,656

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

See accompanying accountant's compilation report.

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Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
99,577	-	4,377	95,200	4,979
168,000	-	7,000	161,000	5,040

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**Schedule 2**

## Cincinnati Sewer Utility

## Bond and Note Maturities

June 30, 2015

Year Ending June 30,	Sewer				
	Revenue Bond		Revenue Notes		
	Issued Dec 15, 1988		Issued March 2, 2011		
	Interest		Interest		
	Rates	Amount	Rates	Amount	Total
2016	5.00%	\$ 4,596	3.00%	\$ 7,000	11,596
2017	5.00	4,826	3.00	7,000	11,826
2018	5.00	5,067	3.00	8,000	13,067
2019	5.00	5,320	3.00	8,000	13,320
2020	5.00	5,587	3.00	8,000	13,587
2021	5.00	5,866	3.00	9,000	14,866
2022	5.00	6,159	3.00	9,000	15,159
2023	5.00	6,467	3.00	9,000	15,467
2024	5.00	6,791	3.00	9,000	15,791
2025	5.00	7,130	3.00	10,000	17,130
2026	5.00	7,486	3.00	10,000	17,486
2027	5.00	7,861	3.00	10,000	17,861
2028	5.00	8,254	3.00	11,000	19,254
2029	5.00	13,790	3.00	11,000	24,790
2030		-	3.00	11,000	11,000
2031		-	3.00	12,000	12,000
2032		-	3.00	12,000	12,000
Total		<u>\$ 95,200</u>		<u>\$ 161,000</u>	<u>256,200</u>

See accompanying accountant's compilation report.



Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2015

**Findings Related to the Financial Statement:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the Sewer Utility, one individual has control over each of the following areas:
- (1) Cash – handling, reconciling and recording.
  - (2) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
  - (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
  - (4) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
  - (5) Payroll – recordkeeping, preparing and distributing.
  - (6) Utilities – billing, collecting, depositing and posting.
  - (7) Debt – recordkeeping, compliance and debt payment processing.
  - (8) Computer system – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Sewer Utility should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – The City (including the Sewer Utility) has implemented as many control procedures as is possible with the limited staff available. The City Clerk is not a signatory on any accounts. The designated signatories and the City Council review the disbursements and a non-signatory Council Member reviews the bank statement reconciliations. A monthly financial packet is presented for the Council's approval and includes a balance sheet of all financial assets, an income and expenditures statement along with a profit and loss statement and a budget versus actual report for comparing year to date totals. An initial receipts register has been implemented for utility payments. The City has begun preparing updated financial and investment policies and procedures. The City has implemented new accounting software for a more accurate capture and reporting of receipts and disbursements. The City will continue to review procedures to see if additional oversight and control can be achieved.

Conclusion – Response accepted.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2015

- (B) Utilities – Utility billings, collections and delinquent accounts were not reconciled throughout the year and the Sewer Utility’s shut-off policy and procedures were not strictly enforced.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person should review the reconciliations and monitor delinquent accounts. Established shut-off policies and procedures should be followed.

Response – The Sewer Utility has begun a utility billings, collections and delinquent account reconciliation. The Sewer Utility is currently enforcing the shut off policy and procedures. However, the Sewer Utility will evaluate the policy to determine if more concise language is needed to enable clear understanding of the policy by all parties involved.

Conclusion – Response accepted.

- (C) Computer System – The Sewer Utility does not have written policies for:

- (1) Requiring the use of a user name or password.
- (2) Requiring the maintenance of password privacy and confidentiality.
- (3) Requiring passwords to be changed at least every 60 to 90 days.
- (4) Requiring password history to be maintained to prevent employees from using the same password.
- (5) Usage of the internet.

Also, the Sewer Utility does not have a written disaster recovery plan.

Recommendation – The Sewer Utility should develop written policies addressing the above items to improve the Sewer Utility’s control over its computer system. Also, a written disaster recovery plan should be developed and tested periodically.

Response – The City is in the process of preparing a written computer usage policy addressing the concerns for passwords, privacy, confidentiality, and internet usage. The City will prepare a written disaster recovery plan. The new policy and plan will also cover the Sewer Utility.

Conclusion – Response accepted.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2015

- (D) Accounting Policies and Procedures Manual – The Sewer Utility does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- (4) Ensure Sewer Utility accounts are appropriately utilized.

Response – The City is in the process of developing an accounting policies and procedures manual which will also cover the Sewer Utility.

Conclusion – Response accepted.

- (E) Credit Cards – The Sewer Utility has credit cards for use by various employees while on Sewer Utility business. The Sewer Utility has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The Sewer Utility should adopt a formal written policy regulating the use of Sewer Utility credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The City is in the process of preparing a written credit card policy as part of its financial policy, which will cover the Sewer Utility as well and address the concerns of credit card control, authorization to use, purposes for use and the types of supporting documentation required to substantiate charges. The City currently requires supporting documentation for all disbursements.

Conclusion – Response accepted.

- (F) Disbursement Allocation – The Sewer Utility has no formal policy detailing how certain disbursements should be allocated.

Recommendation – The Sewer Utility should establish a written policy providing guidelines for proper and consistent allocation of these costs.

Response – The City is in the process of preparing a written financial policy which will cover the Sewer Utility as well as address the issues of consistent allocation of receipts, disbursements and costs.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2015

**Findings Related to Statutory Matters:**

- (1) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The City is in the process of preparing a written investment policy in order to be in compliance with the provisions of Chapter 12B. 10B of the Code of Iowa.

Conclusion – Response accepted.

- (2) Other Information Required by the Farmers Home Administration Sewer Bond Resolution

Insurer	Description	Amount	Expiration Date
Iowa Communities Assurance Pool			
	Property	\$ 864,406	Feb. 15, 2016
	General liability	2,000,000	Feb. 15, 2016
	Auto liability	2,000,000	Feb. 15, 2016
	Wrongful acts official liability	2,000,000	Feb. 15, 2016
	Law enforcement liability	2,000,000	Feb. 15, 2016
	Auto physical damage	105,300	Feb. 15, 2016
	Crime	5,000	Feb. 15, 2016
Iowa Municipalities Workers Compensation Association			
	Workers' Compensation	1,000,000	Jul 1, 2015

Statistical Information


Description	Amount
Sewer customers served at June 30, 2015	188
Sewer rates in effect at June 30, 2015:	
First 1,000 gallons or less per month	\$ 29.36
All over 1,000 gallons, per month, per 1,000 gallons	11.91

Cincinnati Sewer Utility

Staff

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