



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

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NEWS RELEASE

FOR RELEASE

May 17, 2018

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Auditor of State Mary Mosiman today released an audit report on the La Porte City Utilities, La Porte City, Iowa.

The Utilities' receipts totaled \$4,675,303 for the year ended June 30, 2017, an 87.3% increase over the prior year. The receipts included \$2,396,623 of charges for services, \$127,024 of miscellaneous operating receipts, \$2,413 of interest on investments, \$2,096 of rental income, \$947 of FEMA grant and \$2,146,200 of note proceeds.

Disbursements for the year ended June 30, 2017 totaled \$3,869,297, a 59.6% increase over the prior year, and included operating disbursements of \$1,833,742, capital outlay of \$1,621,820 and debt service of \$413,735.

The significant increase in receipts and disbursements is due to the receipt and disbursement of note proceeds used to construct improvements to the electric utility.

A copy of the audit report is available for review in the office of the La Porte City Utilities, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1723-0052-B00F>.

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LA PORTE CITY UTILITIES
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2017

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-9
Basic Financial Statement:	<u>Exhibit</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	A	13
Notes to Financial Statement		14-21
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)		25
Notes to Other Information – Budgetary Reporting		26
Schedule of the Utilities’ Proportionate Share of the Net Pension Liability		27
Schedule of Utilities’ Contributions		29
Notes to Other Information – Pension Liability		30
Supplementary Information:	<u>Schedule</u>	
Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Electric Enterprise Fund Accounts	1	32-33
Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Water Enterprise Fund Accounts	2	35
Schedule of Indebtedness	3	36-37
Note Maturities	4	39
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <u>Government Auditing Standards</u>		41-42
Schedule of Findings		43-51
Staff		52

La Porte City Utilities

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jonathan Barz	Trustee, Chair	Sep 2019
Tami Keune	Trustee, Secretary	Sep 2023
Shawn Mehlert	Trustee	Sep 2021
Michael Johnson	Utilities Manager	Indefinite
Kathy Strubel	Office Manager	Indefinite
Kevin Ahrenholz	Attorney	Indefinite

La Porte City Utilities



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Independent Auditor's Report

To the Board of Trustees of the La Porte City Utilities:

Report on the Financial Statement

We have audited the accompanying financial statement of the La Porte City Utilities, as of and for the year ended June 30, 2017, and the related Notes to Financial Statement listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the La Porte City Utilities as of June 30, 2017, and the changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

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

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utilities' Proportionate Share of the Net Pension Liability and the Schedule of Utilities' Contributions on pages 7 through 9 and pages 25 through 30, has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 9, 2018 on our consideration of the La Porte City Utilities' 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 the Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the La Porte City Utilities' internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

May 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The La Porte City Utilities provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the Utilities' financial statement, which follows.

2017 FINANCIAL HIGHLIGHTS

- The La Porte City Utilities' total receipts increased 87.3%, or approximately \$2,179,000 from fiscal year 2016 to fiscal year 2017. The increase is due to note proceeds received in fiscal year 2017.
- The La Porte City Utilities' total disbursements increased 59.6%, or approximately \$1,444,000, from fiscal year 2016 to fiscal year 2017. This is primarily due to the increase in capital overlay disbursements for the costs of constructing improvements to the utility system.
- The La Porte City Utilities' total cash basis fund balance increased 43.6%, or approximately \$806,000, from June 30, 2016 to June 30, 2017.

USING THIS ANNUAL REPORT

The annual report consists of a financial statement and other information, as follows:

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

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the La Porte City Utilities' receipts and disbursements, non-operating receipts and disbursements and whether the La Porte City Utilities' cash basis financial position improved or deteriorated as a result of the year's activities.

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

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

Supplementary Information provides detailed information about the individual Enterprise Fund Accounts for the electric utility and the water utility.

BASIS OF ACCOUNTING

The La Porte City Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the La Porte City Utilities is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE LA PORTE CITY UTILITIES

Statement of Cash Receipts, Disbursements and Changes in Cash Balance

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

Receipts include metered and bulk electric and water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees and miscellaneous fees. A summary of cash receipts, disbursements and changes in cash balance for the years ended June 30, 2017 and June 30, 2016 is presented below:

Changes in Cash Balances		
	Year ended June 30,	
	2017	2016
Receipts:		
Use of money and property	\$ 4,509	2,511
Charges for service:		
Electric	1,833,814	1,871,544
Water	562,809	566,291
Miscellaneous	127,971	55,502
Note proceeds	2,146,200	-
Total receipts	<u>4,675,303</u>	<u>2,495,848</u>
Disbursements:		
Plant operation and maintenance	1,220,372	1,776,117 *
Administration	613,370	-
Debt service	413,735	375,215
Capital outlay	1,621,820	273,099
Total disbursements	<u>3,869,297</u>	<u>2,424,431</u>
Change in cash balance	806,006	71,417
Cash balance beginning of year	1,850,927	1,779,510
Cash balance end of year	<u>\$ 2,656,933</u>	<u>1,850,927</u>
Cash Basis Fund Balance		
Restricted for:		
Customer deposits	\$ 9,903	9,882
Capital projects	1,060,288	-
Debt service	378,482	378,798
Total restricted cash basis fund balance	1,448,673	388,680
Unrestricted	1,208,260	1,462,247
Total cash basis fund balance	<u>\$ 2,656,933</u>	<u>1,850,927</u>

* A separate amount for fiscal year 2016 administration disbursements was not available.

The La Porte City Utilities' unrestricted cash balance is available for use in the routine operation of the plant, distribution and administrative areas of the La Porte City Utilities and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the La Porte City Utilities to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution. The Utilities' restricted cash balances are for debt service requirements restrictions for improvements to the electric and water plant and customer water deposits.

BUDGETARY HIGHLIGHTS

Over the course of the year, the La Porte City Utilities amended its budget one time. The La Porte City Utilities' receipts were \$73,413 less than budgeted. In spite of the budget amendment, the La Porte City Utilities' disbursements were \$1,767,994 more than budgeted for the year.

DEBT ADMINISTRATION

At June 30, 2017, the Utilities had \$5,641,232 in revenue note and other long-term debt outstanding compared to \$3,764,277 at June 30, 2016.

	Outstanding Debt at Year-End	
	June 30,	
	2017	2016
Revenue notes	\$ 5,601,000	3,685,000
Capital lease purchase agreement	40,232	79,277
	<u>\$ 5,641,232</u>	<u>3,764,277</u>

ECONOMIC FACTORS

The La Porte City Utilities last raised water rates in August 2014 to improve its financial position. Electric rates were increased in January 2017. Current economic conditions beyond the La Porte City Utilities Trustees control play a significant role in the daily operations of the electric and water plant and distribution services. These conditions include, but are not limited to:

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

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the La Porte City Utilities' finances and to show the La Porte City Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kathy Strubel, Office Manager, La Porte City Utilities, 403 Main Street, La Porte City, Iowa 50651.

La Porte City Utilities

Basic Financial Statement

La Porte City Utilities

La Porte City Utilities

Statement of Cash Receipts, Disbursements and
Changes in Cash Balances

As of and for the year ended June 30, 2017

	Enterprise		
	Electric Utility	Water Utility	Total
Operating receipts:			
Charges for service	\$ 1,833,814	562,809	2,396,623
Miscellaneous	126,488	536	127,024
Total operating receipts	1,960,302	563,345	2,523,647
Operating disbursements:			
Business type activities:			
Plant operation and maintenance	1,075,997	144,375	1,220,372
Administration	485,679	127,691	613,370
Total operating disbursements	1,561,676	272,066	1,833,742
Excess of operating receipts over operating disbursements	398,626	291,279	689,905
Non-operating receipts (disbursements):			
Interest on investments	398	2,015	2,413
FEMA grant	947	-	947
Rental income	1,596	500	2,096
Note proceeds	2,146,200	-	2,146,200
Debt service	(185,197)	(228,538)	(413,735)
Capital outlay	(1,584,365)	(37,455)	(1,621,820)
Net non-operating receipts (disbursements)	379,579	(263,478)	116,101
Excess of receipts over disbursements	778,205	27,801	806,006
Cash balance beginning of year	906,170	944,757	1,850,927
Cash balance end of year	\$ 1,684,375	972,558	2,656,933
Cash Basis Fund Balance			
Restricted for customer deposits	\$ 9,903	-	9,903
Restricted for capital projects	832,209	228,079	1,060,288
Restricted for debt service	359,983	18,499	378,482
Unrestricted	482,280	725,980	1,208,260
Total cash basis fund balance	\$ 1,684,375	972,558	2,656,933

See notes to financial statements.

La Porte City Utilities

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The La Porte City Utilities is a component unit of the City of La Porte City, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utilities is governed by a three-member Board of Trustees appointed by the Mayor and then approved by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

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

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

The Utilities report the following major proprietary funds:

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

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

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. Basis of Accounting

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

D. Restricted Cash Basis Fund Balance

Funds set aside for capital projects, debt service and customer deposits are classified as restricted.

E. Budgets and Budgetary Accounting

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

During the year ended June 30, 2017, disbursements exceeded the amount budgeted.

(2) Cash and Pooled Investments

The Utilities' deposits in banks at June 30, 2017 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Notes Payable

Annual debt service requirements to maturity for revenue notes are as follows:

Year Ending June 30,	Electric		Water		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 130,000	96,115	148,000	73,630	278,000	169,745
2019	135,000	94,140	152,000	69,390	287,000	163,530
2020	140,000	91,140	158,000	65,030	298,000	156,170
2021	140,000	87,990	162,000	60,502	302,000	148,492
2022	145,000	84,490	168,000	55,855	313,000	140,345
2023-2027	725,000	362,376	919,000	203,998	1,644,000	566,374
2028-2032	830,000	245,062	864,000	63,479	1,694,000	308,541
2033-2036	785,000	80,200	-	-	785,000	80,200
Total	\$ 3,030,000	1,141,513	2,571,000	591,884	5,601,000	1,733,397

Electric Revenue Notes

The Utilities has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,100,000 and \$2,190,000 of electric revenue notes issued in July 2013 and December 2016, respectively. Proceeds from the notes provided financing for the construction of improvements to the electric utility including acquisition of a generator and upgrade of generators. The notes are payable solely from electric customer net receipts and are payable through 2036. Annual principal and interest payments on one note required approximately 46% of net receipts. The total principal and interest remaining to be paid on the notes is \$4,171,513. For the current year, principal and interest paid and total customer net receipts were \$184,447 and \$398,626, respectively.

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

- (a) The notes will only be redeemed from the future earnings of the electric enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to electric revenue note sinking accounts for the purpose of making the note principal and interest payments when due.

- (c) Additional monthly transfers shall be made to an electric revenue reserve account until specific minimum balances have been accumulated in the accounts. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

The Enterprise, Electric Fund does not maintain a sufficient amount in the reserve account, and has not made the required transfers into the sinking account.

Water Revenue Notes

On August 25, 2010, the Utilities entered into a State Revolving Fund (SRF) loan and disbursement agreement with the Iowa Finance Authority for the issuance of up to \$3,000,000 of water revenue notes with interest at 3% per annum. The agreement also requires the Utilities to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of construction of certain improvements and extensions to the water treatment facility. The Utilities drew down funds from the Iowa Finance Authority upon request to reimburse the Utilities for costs as they are incurred. At June 30, 2017, the Utilities had drawn 100% of the \$3,000,000 authorized amount. An initiation fee of \$30,000 (1% of the authorized borrowing for the water revenue note) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the water revenue notes drawn by the Utilities during the year ended June 30, 2011. During the year ended June 30, 2017, the Utilities paid principal and interest of \$128,000 and \$72,570, respectively, on the note.

On July 11, 2012, the Utilities entered into a State Revolving Fund (SRF) loan and disbursement agreement with the Iowa Finance Authority for the issuance of up to \$600,000 of water revenue notes with interest at 1.75% per annum. The agreement also requires the Utilities to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of construction of certain improvements and extensions to the water treatment facility. The Utilities will draw down funds from the Iowa Finance Authority upon request to reimburse the Utilities for costs as they are incurred. At June 30, 2017, the Utilities had drawn \$377,426 of the \$600,000 authorized amount. An initiation fee of \$3,000 (1% of the authorized borrowing for the water revenue note) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the water revenue notes drawn by the Utilities during the year ended June 30, 2013. During the year ended June 30, 2017, the Utilities paid principal of \$16,000 and interest of \$5,180 on the note.

The Utilities has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue notes. The notes are payable solely from water customer net receipts. Annual principal and interest payments on the notes required approximately 76% of net receipts. The total amount of principal and interest remaining to be paid on the notes at June 30, 2017 is \$3,162,884. Annual principal and interest payments on the notes required approximately 76% of net receipts. For the current year, principal and interest paid and total customer water utility net receipts were \$221,750 and \$291,279, respectively.

The resolutions providing for the issuance of the water revenue notes issued under the loan agreement includes the following provisions:

- (a) 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.

- (b) Sufficient monthly transfers shall be made to a separate water revenue note sinking account for the purpose of making the note principal and interest payments when due.

Capital Lease Purchase Agreement

The Utilities entered into a capital lease purchase agreement to lease a directional boring drill with a historical cost of \$152,977. The following is a schedule of the future minimum lease payments, including interest at 3.0% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2017:

Year Ending June 30,	
2018	\$ 40,860
	Less amount representing interest (628)
	<u>\$ 40,232</u>
	Present value of net minimum lease payments

Payments under the capital lease purchase agreement totaled \$37,455 for the year ended June 30, 2017.

(4) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Utilities, except for those covered by another retirement system. Employees of the Utilities are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

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

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

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

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

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

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

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Utilities contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Utilities' contributions to IPERS for the year ended June 30, 2017 totaled \$28,545.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the Utilities reported a liability of \$287,164 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion of the net pension liability was based on the Utilities' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the Utilities' proportion was 0.004563%, which was a decrease of 0.000057% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Utilities' pension expense, deferred outflows of resources and deferred inflows of resources totaled \$34,059, \$83,367 and \$38,963, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality 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:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.69)
Total	<u>100%</u>	

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Utilities' proportionate share of the net pension liability	\$ 464,595	287,164	137,413

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.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The La Porte City Utilities operates a single-employer health benefit plan in which the Utilities participates. The plan provides medical/prescription drug benefits for employees, retirees and their spouses. The Utilities has 5 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

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

Funding Policy – The contribution requirements of plan members are established and may be amended by the La Porte City Utilities. The Utilities currently finances the benefit plan on a pay-as-you-go basis and are based upon coverage and age. The most recent active member monthly premiums for the Utility range from \$369 to \$2,171 per month. For the year ended June 30, 2017, the Utilities contributed \$77,034 and plan members eligible for benefits did not contribute to the plan.

(6) Compensated Absences

Utilities' employees accumulate a limited amount of earned but unused vacation, compensatory time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' approximate liability for earned vacation, compensatory time and sick leave payable to employees at June 30, 2017, is as follows:

Type of Benefit	Amount
Vacation	\$ 17,900
Compensatory time	3,700
Sick leave	16,000
Total	<u>\$ 37,600</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

(7) Intrafund Transfers

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise: Electric Debt Service	Enterprise: Electric Electric Bond Project	\$ 152,340 32,857 <u>185,197</u>
Enterprise: Water Debt Service Water	Enterprise: Water Water Capital Improvement Reserve	\$ 228,538 40,860 <u>269,398</u>

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

(8) Deficit Balance

The Enterprise, Electric Utility Fund, Diesel Engine 2013 account had a deficit balance of \$184,587 at June 30, 2017. The deficit was a result of incorrect coding of project funds between Electric Enterprise Fund accounts. The deficit will be eliminated through a correcting transfer from the Enterprise, Electric Utility Fund, Electric Bond Project account to the Enterprise, Electric Utility Fund, Diesel Engine 2013 account.

(9) Commitments

The Utilities has entered into contracts for construction of an electrical substation totaling \$1,445,227, of which \$413,588 has been paid as of June 30, 2017. The balance of \$1,031,639 will be paid as work on the project progresses.

(10) Risk Management

The Utilities 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 Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

La Porte City Utilities

Other Information

La Porte City Utilities

La Porte City Utilities
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balance –
 Budget and Actual (Cash Basis)

Other Information

Year ended June 30, 2017

	Actual	Budgeted Amounts		Final to
		Original	Final	Net Variance
Receipts:				
Use of money and property	\$ 4,509	5,503	5,796	(1,287)
Charges for service	2,396,623	2,572,520	2,471,120	(74,497)
Miscellaneous	127,971	117,600	125,600	2,371
Total receipts	2,529,103	2,695,623	2,602,516	(73,413)
Disbursements:				
Business type activities	3,869,297	2,085,003	2,101,303	(1,767,994)
Excess (deficiency) of receipts over (under) disbursements	(1,340,194)	610,620	501,213	(1,841,407)
Other financing sources, net	2,146,200	-	871,449	1,274,751
Change in cash balance	806,006	610,620	1,372,662	(566,656)
Cash balance beginning of year	1,850,927	3,128,909	3,128,909	(1,277,982)
Cash balance end of year	<u>\$ 2,656,933</u>	<u>3,739,529</u>	<u>4,501,571</u>	<u>(1,844,638)</u>

See accompanying independent auditor's report.

La Porte City Utilities

Notes to Other Information – Budgetary Reporting

June 30, 2017

The La Porte City Utilities prepares a budget on the cash basis of accounting for all funds and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Utilities, 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 Utilities' disbursements are budgeted in the business type activities function. During the year the Utilities adopted one budget amendment, increasing budgeted disbursements by \$16,300.

During the year ending June 30, 2017, disbursements exceeded the amount budgeted.

La Porte City Utilities

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

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

Other Information

	2017	2016	2015
Utilities' proportion of the net pension liability	0.004563%	0.004620%	0.004741%
Utilities' proportionate share of the net pension liability	\$ 287,164	228,261	188,018
Utilities' covered-employee payroll	\$ 327,459	316,413	310,222
Utilities' proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.69%	72.14%	60.61%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

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

See accompanying independent auditor's report.

La Porte City Utilities

La Porte City Utilities

Schedule of Utilities Contributions

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

Other Information

	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 28,545	29,242	28,255	27,703	24,932
Contributions in relation to the statutorily required contribution	(28,545)	(29,242)	(28,255)	(27,703)	(24,932)
Contribution deficiency (excess)	\$ -	-	-	-	-
Utilities' covered-employee payroll	\$ 320,349	327,459	316,413	310,222	287,564
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%	8.67%

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

See accompanying independent auditor's report.

La Porte City Utilities

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

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

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

Changes of assumptions:

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) 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.

Supplementary Information

La Porte City Utilities

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

Year ended June 30, 2017

	Electric	Meter Deposits	Electric Bond Project
Operating receipts:			
Charges for service	\$ 1,833,814	-	-
Miscellaneous	126,488	-	-
Total operating receipts	<u>1,960,302</u>	-	-
Operating disbursements:			
Business type activities:			
Plant operation and maintenance	1,075,997	-	-
Administration	485,679	-	-
Total operating disbursements	<u>1,561,676</u>	-	-
Excess of operating receipts over operating disbursements	<u>398,626</u>	-	-
Non-operating receipts (disbursements):			
Interest on investments	343	21	-
FEMA grant	947	-	-
Rental income	1,596	-	-
Note proceeds	-	-	2,146,200
Debt service	-	-	-
Capital outlay	(115,110)	-	(1,281,134)
Total non-operating receipts (disbursements)	<u>(112,224)</u>	21	865,066
Excess (deficiency) of receipts over (under) disbursements	<u>286,402</u>	21	865,066
Transfers in	-	-	-
Transfers (out)	(152,340)	-	(32,857)
Total transfers in (out)	<u>(152,340)</u>	-	(32,857)
Change in cash balance	134,062	21	832,209
Cash balance beginning of year	786,026	9,882	-
Cash balance end of year	<u>\$ 920,088</u>	<u>9,903</u>	<u>832,209</u>
Cash Basis Fund Balances			
Restricted for:			
Customer deposits	-	9,903	-
Capital projects	-	-	832,209
Debt service	263,221	-	-
Unrestricted	656,867	-	-
Total cash basis fund balance	<u>\$ 920,088</u>	<u>9,903</u>	<u>832,209</u>

See accompanying independent auditor's report.

Diesel Generator Improvement	Diesel Engine Reserve	Diesel Engine 2013	Electric Debt Service	Total
-	-	-	-	1,833,814
-	-	-	-	126,488
-	-	-	-	1,960,302
-	-	-	-	1,075,997
-	-	-	-	485,679
-	-	-	-	1,561,676
-	-	-	-	398,626
-	-	34	-	398
-	-	-	-	947
-	-	-	-	1,596
-	-	-	-	2,146,200
-	-	-	(185,197)	(185,197)
-	-	(188,121)	-	(1,584,365)
-	-	(188,087)	(185,197)	379,579
-	-	(188,087)	(185,197)	778,205
-	-	-	185,197	185,197
-	-	-	-	(185,197)
-	-	-	185,197	-
-	-	(188,087)	-	778,205
10,000	96,762	3,500	-	906,170
10,000	96,762	(184,587)	-	1,684,375
-	-	-	-	9,903
-	-	-	-	832,209
-	96,762	-	-	359,983
10,000	-	(184,587)	-	482,280
10,000	96,762	(184,587)	-	1,684,375

La Porte City Utilities

La Porte City Utilities

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

Year ended June 30, 2017

	Water	Water Capital Improvement Reserve	Water Debt Service	Total
Operating receipts:				
Charges for service	\$ 562,809	-	-	562,809
Miscellaneous	536	-	-	536
Total operating receipts	<u>563,345</u>	<u>-</u>	<u>-</u>	<u>563,345</u>
Operating disbursements:				
Business type activities:				
Plant operation and maintenance	144,375	-	-	144,375
Administration	127,691	-	-	127,691
Total operating disbursements	<u>272,066</u>	<u>-</u>	<u>-</u>	<u>272,066</u>
Excess of operating receipts over operating disbursements	<u>291,279</u>	<u>-</u>	<u>-</u>	<u>291,279</u>
Non-operating receipts (disbursements):				
Interest on investments	1,612	403	-	2,015
Rental income	500	-	-	500
Debt service	-	-	(228,538)	(228,538)
Capital outlay	(37,455)	-	-	(37,455)
Total non-operating receipts (disbursements)	<u>(35,343)</u>	<u>403</u>	<u>(228,538)</u>	<u>(263,478)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>255,936</u>	<u>403</u>	<u>(228,538)</u>	<u>27,801</u>
Transfers in	40,860	-	228,538	269,398
Transfers (out)	(228,538)	(40,860)	-	(269,398)
Total transfers in (out)	<u>(187,678)</u>	<u>(40,860)</u>	<u>228,538</u>	<u>-</u>
Change in cash balance	68,258	(40,457)	-	27,801
Cash balance beginning of year	676,221	268,536	-	944,757
Cash balance end of year	<u>\$ 744,479</u>	<u>228,079</u>	<u>-</u>	<u>972,558</u>
Cash Basis Fund Balances				
Restricted for:				
Capital projects	-	228,079	-	228,079
Debt service	18,499	-	-	18,499
Unrestricted	725,980	-	-	725,980
Total cash basis fund balance	<u>\$ 744,479</u>	<u>228,079</u>	<u>-</u>	<u>972,558</u>

See accompanying independent auditor's report.

La Porte City Utilities
Schedule of Indebtedness
Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes:			
Electric	Jul 10, 2013	1.25-2.90%	\$ 1,100,000
Electric	Dec 27, 2016	2.75-4.00	2,190,000
Total			
Water	Aug 25, 2010	3.00 *	3,000,000
Water	Jul 11, 2012	1.75 *	377,426
Total			
Total			
Capital lease purchase agreement	Jul 15, 2014	3.00%	\$ 152,977

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
970,000	-	130,000	840,000	21,840
-	2,190,000	-	2,190,000	32,607
970,000	2,190,000	130,000	3,030,000	54,447
2,419,000	-	128,000	2,291,000	72,570
296,000	-	16,000	280,000	5,180
2,715,000	-	144,000	2,571,000	77,750
\$ 3,685,000	2,190,000	274,000	5,601,000	132,197
79,277	-	39,045	40,232	1,815

La Porte City Utilities

La Porte City Utilities
 Note Maturities
 Year ended June 30, 2017

Year Ending June 30,	Revenue Notes									Total
	Electric		Electric		Water		Water			
	Issued Jul 10, 2013		Issued Dec 27, 2016		Issued Aug 25, 2010		Issued Jul 11, 2012			
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount			
2018	1.75%	\$ 130,000	2.75%	\$ -	3.00%	\$ 132,000	1.75%	\$ 16,000	278,000	
2019	2.00	135,000	2.75	-	3.00	136,000	1.75	16,000	287,000	
2020	2.25	140,000	2.75	-	3.00	141,000	1.75	17,000	298,000	
2021	2.50	140,000	2.75	-	3.00	145,000	1.75	17,000	302,000	
2022	2.70	145,000	2.75	-	3.00	150,000	1.75	18,000	313,000	
2023	2.90	150,000	2.75	-	3.00	155,000	1.75	18,000	323,000	
2024	-	-	2.75	135,000	3.00	160,000	1.75	18,000	313,000	
2025	-	-	2.75	145,000	3.00	165,000	1.75	19,000	329,000	
2026	-	-	2.75	145,000	3.00	170,000	1.75	19,000	334,000	
2027	-	-	3.25	150,000	3.00	176,000	1.75	19,000	345,000	
2028	-	-	3.25	155,000	3.00	181,000	1.75	20,000	356,000	
2029	-	-	3.50	160,000	3.00	187,000	1.75	20,000	367,000	
2030	-	-	3.50	165,000	3.00	193,000	1.75	21,000	379,000	
2031	-	-	3.50	170,000	3.00	200,000	1.75	21,000	391,000	
2032	-	-	3.50	180,000	-	-	1.75	21,000	201,000	
2033	-	-	4.00	185,000	-	-	-	-	185,000	
2034	-	-	4.00	190,000	-	-	-	-	190,000	
2035	-	-	4.00	200,000	-	-	-	-	200,000	
2036	-	-	4.00	210,000	-	-	-	-	210,000	
Total		<u>\$ 840,000</u>		<u>\$ 2,190,000</u>		<u>\$ 2,291,000</u>		<u>\$ 280,000</u>	<u>\$ 5,601,000</u>	

See accompanying independent auditor's report.

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



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

To the Board of Trustees of the La Porte City Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statement of the La Porte City Utilities as of and for the year ended June 30, 2017, and the related Notes to Financial Statement, and have issued our report thereon dated May 9, 2018. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) through (H) to be significant deficiencies.

Compliance and Other Matters

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

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

The La Porte City Utilities' Response to the Finding

The La Porte City Utilities' response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Utilities' response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the La Porte City Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

May 9, 2018

Finding Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

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

Condition – Generally, one or two individuals have control over each of the following areas for the Utilities:

- (1) Accounting system – performing all general accounting functions, including journal entries, and controlling all data input and output.
- (2) Cash – handling cash, reconciling bank accounts and initiating and recording cash receipt and disbursement transactions.
- (3) Investments – investing and recording.
- (4) Bank reconciliation – preparing bank account reconciliations, handling cash receipt and disbursement functions and handling and recording cash. There is no independent review of the bank reconciliations.
- (5) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (6) Disbursements and payroll – purchasing, preparing checks, recording, reconciling, distributing.
- (7) Long term debt – recordkeeping, compliance and debt payment processing.
- (8) Journal entries – preparing and recording. In addition, there is no independent review of journal entries.
- (9) Incoming mail is not opened by an employee who is not authorized to make entries to accounting records.

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

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

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2017

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utilities should review their operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including officials. Independent reviews of reconciliations, compensated absences records and utility rates entered into the computer system should be documented by the signature or initials of the independent reviewer and the date of the review.

Response – This is an ongoing issue of the audit report every year. Due to the size of our Utility Office, we feel we have divided the general duties between the office personnel as best as we can. We feel we have a good check and balance system and each employee does not complete one process. We will continue to review and monitor ways to improve segregation of duties.

Conclusion – Response accepted.

(B) Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by reconciling bank and book balances and review by an independent person.

Condition – Monthly bank reconciliations did not include investment accounts and were not reviewed by an independent person.

Cause – Procedures have not been designed and implemented to ensure bank reconciliations are complete and are reviewed by an independent person.

Effect – Lack of supporting documentation for bank reconciliations and lack of review can result in unrecorded transactions, undetected errors and the opportunity for misappropriation.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be supported, include investment accounts and should be reviewed by an independent person. The review should be documented by the signature or initials of the reviewer and the date of the review.

Response – The Utility Office is now requiring our Board Member President to sign and date the bank statements after they have been reconciled.

Conclusion – Response accepted.

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

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

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2017

Condition – Although the City’s utility software generates a monthly reconciliation of utility billings, collections and delinquent accounts, the amounts in the reconciliation are not compared to supporting records. Also, certain reconciling items were not supported and “payments received” on the reconciliation did not agree to receipts per the general ledger. In addition, the monthly reconciliations are not reviewed by an independent person.

Cause – Policies have not been established and procedures have not been implemented to maintain delinquent account listings, reconcile utility billings, collections and delinquent accounts and to reconcile utility collections to deposits.

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

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The Utilities Board or a designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – Accounts receivable and audit reports are balanced at the end of each month. The Office Manager will sign and date these reports after review.

Conclusion – Response accepted.

(D) Vacation and Compensatory Time

Criteria – An effective internal control system provides for internal controls related to the processing and approval of payroll, including vacation and comp time available for all Utility employees. The La Porte City Utilities has an employee manual which requires all accrued vacation time be used prior to June 30 or be forfeited, unless approved by the Mayor. In addition, the employee manual does not allow for accrual of compensatory time, but requires all hours over 40 hours be paid at 150% of regular pay.

Condition – For 5 of 5 employees tested, the employee had accrued vacation and compensatory time balances as of June 30, 2017, in violation of the employee manual. In addition, there was no indication of independent review of compensated absences accrued or paid.

Cause – The Utilities has allowed vacation balances to be carried over past June 30 and compensatory time to be accrued in excess of the 40 hours allowed.

Effect – Lack of compliance with the employee handbook and lack of independent review could result in the unapproved and/or unallowable vacation time off or compensatory time payouts in excess of the amount allowed.

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2017

Recommendation – The Utilities should establish procedures to ensure the vacation and compensatory time policies are adhered to. In addition, independent review of compensated absences should be performed and the review should be documented by the signature or initials of the reviewer and the date of the review.

Response – The policy manual you are looking at is the City of La Porte’s manual. The Utilities vacation time follows their actual hire date. The employees would need to use their time 1 year from their anniversary date. The payroll report is currently being signed by the Plant Operations manager. He does not date these when he reviews them but we are going to start dating them at the time of review.

Conclusion – Response acknowledged. The Utilities should comply with the City employee manual until separate guidelines are established.

(E) Disbursements

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity’s governing body, management, and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing approval of disbursements and ensuring the amount approved is the amount paid to the vendor.

Condition – For two of ten items tested, the amount paid to the vendor did not match the disbursement amount approved by the Utilities Board. In addition, the Utilities’ Board approved disbursements after payment. The listing of approved disbursements is not signed or dated.

Cause – Management has allowed disbursements to be paid prior to Board meetings and there is no reconciliation of the approved disbursements to the amounts paid.

Effect – Payment of bills prior to Board approval limits the Board’s authority to disallow a payment if the services or product provided does not meet the Board’s expectation. Lack of prior Board approval and reconciliation of amounts paid to the amounts approved could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – A written policy specifying the disbursements which are allowable to be paid prior to meetings should be instituted. The disbursement listing should be approved, as evidenced with signature and date, and the total amount of the disbursements approved should be indicated in the Board minutes. The amounts approved should be reconciled with the amounts paid by an independent person.

Response – Our Board meets the 2nd Wednesday of each Month. At that time, all the invoices that are current and due are presented to the board members to review and sign the checks (checks are already printed for board members to sign). After the 2nd Wednesday of the month, any other invoices that come in are paid at the end of the month with the Utility Clerk and also the Office Manager signing these checks. These invoices are normally the day to day bills that occur on a monthly basis—ex: telephone bill, gas bill, insurance bill and dental. If there is an unusual invoice and it does not need to be paid prior to the next month’s meeting, we will have the plant manager sign

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2017

off and create a check so we won't get any late charges. A monthly disbursement report is signed by all board members and dated and a copy of this report is sent to the paper to be published with the meeting minutes. This has been the policy of the Utility for over 15-20 years. The board members would not be available to come in and sign the checks each time we issue them. We could give them a list of invoices we pay at the end of the month, if you think this situation is an issue.

Conclusion – Response acknowledged. A written policy specifying the disbursements which are allowable to be paid prior to meetings should be instituted. All other disbursements should be approved by the Board prior to payments.

(F) Disaster Recovery Plan

Criteria – A disaster recovery plan for financial continuity should include the following:

- Identification of critical applications.
- Identification of steps for recovery of any operating system for Utility operations.
- Identification of computer equipment needed for temporary processing.
- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
- Requirement to keep a copy of the disaster recovery plan off site.
- Requirement to keep system backups current and off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedure manuals be located off site.
- A requirement for extra stock of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.
- Requirement outlining the frequency of testing the disaster recovery plan to identify issues and document the results of testing.

Condition – The Utilities does not have a written disaster recovery plan.

Cause – Management has not required written disaster recovery policies addressing financial continuity.

Effect – Lack of a disaster recovery plan could result in the Utilities' inability to function in the event of a disaster or continue business without interruption.

Recommendation – A written disaster recovery plan should be developed and tested.

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2017

Response – We have a verbal plan on what would happen if a disaster were to strike and we are working on implementing a written policy.

Conclusion – Response accepted.

(G) Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the Utilities’ computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and the Utilities is in compliance with applicable laws and regulations.

Condition – The Utilities does not have written policies for:

- Password privacy and confidentiality.
- Requiring password changes because software does not require the user to change log-ins/passwords periodically.

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

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

Recommendation – The Utilities should develop written policies addressing the above items to improve the Utilities’ control over its computer system.

Response – Since the Utility is a small office, it is inevitable we would need to get into each other’s computer for work reasons. We don’t share our passwords but if we would need information, there is a log of passwords that is locked up and the office manager is the only one who has access to them.

Conclusion – Response acknowledged. The Utilities should develop written policies addressing the above items to improve the Utilities’ control over its computer system.

(H) Accounting Policies and Procedures Manual

Criteria – An accounting policies and procedures manual provides the following benefits:

- (1) Aid in training additional 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.

Condition – The Utilities does not have an accounting policies and procedures manual.

Cause – Utilities officials have been unaware of the need for an accounting policies and procedures manual.

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2017

Effect – Lack of an accounting policies and procedures manual could result in a lack of ability to continue operating effectively and efficiently in the event there is accounting staff turnover.

Recommendation – An accounting policies and procedures manual should be developed.

Response – The Utility Office does not have a formal procedures/training manual in place. However, the Utility Clerk and Office Manager have written notes and examples of how different procedures are conducted.

Conclusion – Response acknowledged. An accounting policies and procedures manual should be developed.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements at June 30, 2017 exceeded the amount budgeted in the business-type activities function. Disbursements also exceeded the amount budgeted prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The Budget was amended once in May. The disbursements exceeded the amount budgeted because we started a project, Series 2016. We were not aware we needed to prepare another amendment. We will be more aware of this type of situation in the next year’s amendments and budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- (4) Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Utilities officials and employees is carried by the La Porte City Utilities in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – The Utilities has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

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

Response – We do not have a policy for our investments. This is one area we will work on for the coming year.

Conclusion – Response accepted.

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2017

(8) Electric Revenue Notes – The following instances of non-compliance with the two electric revenue note requirements were noted:

- The Utilities’ electric revenue notes resolutions require electric revenue note sinking accounts to be established and transfers be made to the sinking accounts in equal monthly installments on the first day of each month. The Utilities did not make monthly transfers to the sinking accounts, as required.
- The Utilities’ electric revenue note resolutions require electric revenue note reserve accounts to be established and maintained at a specified amount. The Utilities has established one of the two required reserve accounts, however, the required minimum amount has not been established or maintained.

Recommendation – The Utilities should establish sinking electric revenue note sinking accounts and make the necessary transfers, as required by the electric note resolutions. In addition, the Utilities should establish and maintain the required reserve accounts.

Response – We do not have a separate sinking fund account for bond payments. The money is set aside each month for those payments. However, we are using a money market account. We will set up a sinking account for both electric and water. This will not be implemented by the end of the 2018 fiscal year, but we will put this on our priority list for the 2018-2019 fiscal year.

Conclusion – Response accepted.

La Porte City Utilities

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Dorothy O. Stover, Senior Auditor II
Michael Holowinski, Staff Auditor

A handwritten signature in cursive script that reads "Andrew E. Nielsen". The signature is written in black ink and is positioned above the printed name and title.

Andrew E. Nielsen, CPA
Deputy Auditor of State