



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

November 28, 2018

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Auditor of State Mary Mosiman today released a compilation report on the Cincinnati Sewer Utility, Cincinnati, Iowa.

The Sewer Utility's receipts totaled \$89,245 for the year ended June 30, 2017. The receipts included \$89,017 from charges for service, \$108 from interest on investments and \$120 of miscellaneous fees.

Disbursements for the year ended June 30, 2017 totaled \$83,936, and included \$62,575 for operations and \$21,361 for debt service.

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 <https://auditor.iowa.gov/reports/audit-reports/>.

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CINCINNATI SEWER UTILITY
ACCOUNTANT'S COMPILATION REPORT
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2017

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Cincinnati Sewer Utility

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rebecca Clark	Mayor	Nov 2017
Jessica Lenik	Mayor Pro tem	Jan 2018
Joshua McIntire	Council Member	(Resigned Oct 2016)
Angie Jones (Appointed Nov 2016)	Council Member	Nov 2017
Ron Shady	Council Member	Jan 2018
Bruce Clinkenbeard	Council Member	Jan 2020
William Rick Long	Council Member	Jan 2020
Melissa McIntire	City Clerk	(Resigned Jul 2016)
Nicole Edwards (Appointed Aug 2016)	City Clerk	(Resigned Feb 2017)
Susan Graves (Appointed Mar 2016)	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:

We have compiled the accompanying Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Position of the City of Cincinnati Sewer Utility as of and for the year ended June 30, 2017. We have not audited or reviewed the accompanying financial statement and, accordingly, do not express an opinion or provide any assurance about whether the financial statement is in accordance with the cash basis of accounting.

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the basis of accounting described in Note 1, and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statement.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statement.

The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statement. This information has been compiled from information that is the representation of management. We have not audited or reviewed the information and, accordingly, we do not express an opinion or provide any assurance on the information.

The other information, the 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 21 through 26, was subject to our compilation engagement. However we have not audited or reviewed the information and, accordingly, we do not express an opinion 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 citizens 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
MARY MOSIMAN, CPA
Auditor of State

November 7, 2018

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, 2017

Operating receipts:	
Charges for service	\$ 89,017
Operating disbursements:	
Business type activities	<u>62,575</u>
Excess of operating receipts over operating disbursements	<u>26,442</u>
Non-operating receipts (disbursements):	
Interest on investments	108
Miscellaneous	120
Debt service	<u>(21,361)</u>
Net non-operating receipts (disbursements)	<u>(21,133)</u>
Change in cash basis net position	5,309
Cash basis net position beginning of year	<u>110,686</u>
Cash basis net position end of year	<u>\$ 115,995</u>
Cash Basis Net Position	
Restricted for debt service	\$ 51,895
Unrestricted	<u>64,100</u>
Total cash basis net position	<u>\$ 115,995</u>

See accompanying notes to financial statement.

Cincinnati Sewer Utility

Notes to Financial Statement

June 30, 2017

(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, 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 insure 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. 72.

(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
2018	\$ 13,067	8,699	21,766
2019	13,320	8,206	21,526
2020	13,587	7,700	21,287
2021	14,866	7,180	22,046
2022	15,159	6,617	21,776
2023-2027	83,735	24,005	107,740
2028-2032	79,044	7,013	86,057
Total	<u>\$ 232,778</u>	<u>69,420</u>	<u>302,198</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 are expected to require approximately 35% of net receipts. The total principal and interest remaining to be paid on the bond is \$117,398. For the current year, \$9,356 of principal and interest were paid and total customer net receipts were \$26,442.

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 System, including the City, shall pay for usage.

Sewer Revenue Capital Loan Notes

On March 2, 2011, the City entered into an agreement with the Iowa Finance Authority (IFA) 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, 2017, 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 44% of net receipts. The total amount of principal and interest remaining to be paid on the notes at June 30, 2017 is \$184,800. For the current year, \$11,620 of principal and interest was paid and total customer net receipts were \$26,442.

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.

Sewer Revenue Capital Loan Anticipation Project Note

On December 11, 2015, the City entered into an agreement with the Iowa Finance Authority for the issuance of up to \$405,000 of a sewer revenue capital loan anticipation project note with no interest. The note was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of planning and design related to the acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping all or part of the municipal sewer system. The note is payable from the proceeds of an authorized loan agreement and a corresponding issuance of sewer revenue capital loan notes in an amount sufficient to repay the note. At June 30, 2017, the City had drawn \$29,700 against the anticipation note and \$29,700 remains outstanding at that date. This anticipation note matures on December 11, 2018.

(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, 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 Utility contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Utility’s contributions to IPERS for the year ended June 30, 2017 totaled \$1,747.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the Utility reported a liability of \$9,877 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 Utility’s proportion of the net pension liability was based on the Utility’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the Utility’s proportion was 0.000157%, which was an increase of 0.000012% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017 the Utility’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$1,171, \$2,868 and \$1,340, 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:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core Plus Fixed Income	28%	1.90%
Domestic equity	23	5.85
International equity	15	6.32
Private equity/debt	13	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	(0.26)
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 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 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 Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Utility's 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%)
Utility's proportionate share of the net pension liability	\$ 15,980	9,877	4,726

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) 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 753 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 disbursements from its operating funds at the time of payment to the pool. The City's contributions to the Pool for the year ended June 30, 2017 were \$8,373. The Sewer Utility's share of the City's contributions to the Pool for the year ended June 30, 2017 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 \$500,000 per claim. Claims exceeding \$500,000 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.

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 \$40,000, 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.

Cincinnati Sewer Utility

Other Information

Cincinnati Sewer Utility

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

Other Information

Year ended June 30, 2017

	Actual	Budgeted Amount Original/Final	Final to Actual Variance
Receipts:			
Use of money and property	\$ 108	-	108
Charges for service	89,017	100,750	(11,733)
Miscellaneous	120	-	120
Total receipts	89,245	100,750	(11,505)
Disbursements:			
Business type activities	83,936	83,657	(279)
Change in cash balance	5,309	17,093	(11,784)
Cash balance beginning of year	110,686	118,858	(8,172)
Cash balance end of year	\$ 115,995	135,951	(19,956)

See accompanying accountant's compilation report.

Cincinnati Sewer Utility

Notes to Other Information – Budgetary Reporting

June 30, 2017

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, 2017, disbursements in the business type activities function, which includes the Sewer Utility, exceeded the amount budgeted.

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

Iowa Public Employees' Retirement System
For the Last Three Years*

Other Information

	2017	2016	2015
Utility's proportion of the net pension liability	0.000157%	0.000145%	0.000190%
Utility's proportionate share of the net pension liability	\$ 9,877	7,169	12,662
Utility's covered-employee payroll	\$ 12,475	16,546	20,896
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	79.17%	43.33%	60.60%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

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

See accompanying accountant's compilation report.

Cincinnati Sewer Utility

Cincinnati Sewer Utility

Schedule of Sewer Utility Contributions

Iowa Public Employees' Retirement System
For the Last Five Years

Other Information

	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 1,747	1,114	1,478	1,866	646
Contributions in relation to the statutorily required contribution	<u>(1,747)</u>	<u>(1,114)</u>	<u>(1,478)</u>	<u>(1,866)</u>	<u>(646)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Utility's covered payroll	\$ 19,563	12,475	16,546	20,896	7,451
Contributions as a percentage of covered payroll	8.93%	8.93%	8.93%	8.93%	8.67%

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

See accompanying accountant's compilation report.

Cincinnati Sewer Utility

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

Legislation enacted 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.

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

Cincinnati Sewer Utility
Schedule of Indebtedness
Year ended June 30, 2017

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
Sewer revenue capital loan anticipation project notes	Dec 11, 2015	0.00	\$ 29,700

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

See accompanying accountant's compilation report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
90,604	-	4,826	85,778	4,530
154,000	-	7,000	147,000	4,620
29,700	-	-	29,700	-

Cincinnati Sewer Utility

Cincinnati Sewer Utility
 Bond and Note Maturities
 June 30, 2017

Sewer						
Year Ending June 30,	Revenue Bond			Revenue Notes		
	Issued Dec 15, 1988			Issued March 2, 2011		
	Interest			Interest		
Rates	Amount	Rates	Amount	Total		
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>\$ 85,778</u>		<u>\$ 147,000</u>	<u>232,778</u>	

See accompanying accountant's compilation report.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2017

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

(A) City Council Oversight

Criteria – The City Council has a fiduciary responsibility to provide oversight of the City’s operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity.

Condition – Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Cause – The City Council has not developed and implemented policies and procedures to ensure proper fiduciary oversight.

Effect – Lack of proper oversight could result in unauthorized or unsupported transactions and could increase the opportunity for errors or misappropriation going unnoticed.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort. In the future, the City Council should exercise due care and require and review pertinent information and documentation prior to making decisions affecting the Sewer Utility. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

Response – The City is working on updating written policies and procedures and the City Council is taking more care with oversight.

Conclusion – Response accepted.

(B) 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 Sewer Utility’s financial statements.

Condition – Generally, one individual in the Sewer Utility has control over each of the following areas for which no compensating controls exist:

- (1) Cash – handling, reconciling and recording.
- (2) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, reconciling and posting.
- (4) Disbursements – invoice processing, check writing, mailing, reconciling and recording.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2017

- (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.
- (9) Compensated absences – maintaining records and balances.

Cause – The Sewer Utility 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 Sewer Utility’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Sewer Utility should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

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 the Mayor Pro-Tem 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 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.

(C) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Sewer Utility’s financial statement.

Condition – During the compilation, we identified material amounts of disbursements not posted correctly. Adjustments were subsequently made by the Sewer Utility to properly report the amounts in the Utility’s financial statement.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2017

Cause – Sewer Utility policies do not require and procedures have not been established to require review of receipt, disbursement and transfer transactions to ensure they are properly posted.

Effect – Lack of policies and procedures resulted in Sewer Utility employees not detecting the errors in the normal course of performing their assigned functions and material adjustments to the Utility’s financial statement was necessary.

Recommendation – The Sewer Utility should implement procedures to ensure receipts, disbursements and transfers are properly recorded in the Utility’s financial statement.

Response – The City is working on updating its policies and procedures. The City Council is now more involved in monitoring the finances of the City.

Conclusion – Response accepted.

(D) 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.

Condition – The Enterprise, Sewer Fund activity is accounted for in a pooled bank account maintained by the City. A complete bank reconciliation, including all bank and investment accounts, is not prepared. At June 30, 2017, the bank balance was \$459 greater than the City’s general ledger balance.

Cause – Procedures have not been designed and implemented to ensure all accounts are reconciled and the amounts recorded in the books are complete, accurate and properly accounted for.

Effect – The lack of a complete bank to book reconciliation can result in unrecorded transactions, undetected errors and the opportunity for misappropriation.

Recommendation – To improve financial accountability and control, the City should prepare monthly bank reconciliations which include all bank and investment accounts and variances between book and bank balances should be investigated and resolved in a timely manner. The reconciliations should be reviewed by an independent person and the review should be documented by the signature or initials of the independent reviewer and the date of review.

Response – Due to a large turnover of City Clerks and a lack of training, the current City Clerk was not aware of all the required duties. The Mayor Pro-Tem reviews bank statements and will review reconciliations. The City is working on compiling a manual of job duties.

Conclusion – Response accepted.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2017

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

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

Condition – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Cause – Policies have not been established and procedures have not been implemented to require delinquent account listings or to reconcile utility billings, collections and delinquent accounts and 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 City Council or a Council-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 – The City is working on developing written policies and procedures to ensure utility billings, collections and delinquent accounts are reconciled monthly.

Conclusion – Response accepted.

(F) Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the Sewer Utility's computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and help ensure the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The Sewer Utility does not have written policies for:

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

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2017

Also, the Sewer Utility does not have a written disaster recovery plan and does not require the computer system to be backed up regularly.

Cause – Management has not required written policies for the above computer based controls or off site storage for back-up tapes.

Effect – Lack of written policies for the computer based system could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the Sewer Utility's inability to function in the event of a disaster or continue Utility business without interruption. Backing up the computer system regularly helps ensure financial and other information is readily available in the case of a disaster or emergency.

Recommendation – The Sewer Utility should develop written policies addressing the above items in order to improve the Utility's control over its computer system. A written disaster recovery plan should also be developed and back-up tapes should be stored off site daily in a fireproof vault or safe.

Response – The City is in the process of preparing a written computer usage policy addressing the concerns for passwords, privacy, confidentiality, internet usage, back-up tapes and disaster recovery.

Conclusion – Response accepted.

(G) Accounting Policies and Procedures Manual

Criteria – Accounting policies and procedures manuals 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.

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

Cause – The Sewer Utility has been unaware of the need for an accounting policies and procedures manual.

Effect – Lack of an accounting policies and procedures manual could result in the Sewer Utility's 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 for the Sewer Utility.

Response – The City is in the process of preparing an accounting policy and procedure manual.

Conclusion – Response accepted.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2017

(H) Credit Cards

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

Condition – The Sewer Utility has credit cards for use by various employees while on 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.

Cause – Adoption of a formal policy to regulate the use of credit cards has not been prioritized by the City Council.

Effect – Lack of written policies and procedures to regulate the use of credit cards could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

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 the 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.

(I) Salary Allocation

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

Condition – The City has no formal policy detailing how salaries should be allocated between the Governmental and Enterprise Funds.

Cause – The City has not established a written policy providing guidelines for proper and consistent allocation of salaries between funds.

Effect – The lack of a policy regarding allocation of salaries could result in inconsistent treatment of salaries.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2017

Recommendation – The City should establish written policies providing guidelines for proper and consistent allocation of salaries between funds.

Response – The City is in the process of preparing a written financial policy which will address the issues of consistent allocation of salaries.

Conclusion – Response accepted.

(J) Compensated Absences

Criteria – An effective internal control system provides for internal controls related to the processing and approval of payroll, including compensated absences, for employees of the Sewer Utility. Policies regarding compensated absence accruals use and payouts, as well as proper review of compensated absence accruals, use and balances can help ensure proper payment of payroll expenses.

Condition – Although the Sewer Utility has an established policy on sick leave, personal leave and vacation time accruals, the Sewer Utility has not established a formal policy for payout of each of these upon resignation. Historically, the Sewer Utility has paid out all accrued compensated absence balances.

Cause – Policies have not been established to determine what accrued compensated absence time, if any, shall be paid out upon resignation. In addition, the City Council does not review compensated absence accruals, use and balances on a regular basis.

Effect – The lack of a policy regarding compensated absences payouts as well as the lack of review of compensated absence accruals, use and balances could result in inaccurate payouts.

Recommendation – The Sewer Utility should adopt a formal policy regarding payout of compensated absences upon resignation. In addition, the City Council should review compensated absence accruals, use and balances to ensure their accuracy.

Response – The City is in the process of writing a formal policy and procedure manual for compensated absences upon resignation. The Mayor, Mayor Pro-Tem and/or a City Council Member review timesheets and pay stubs before signing checks which include sick and vacation time accrued and used.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2017

Findings Related to Statutory Matters:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the business type activities function. 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 – Due to a large turnover of City Clerks and a lack of training, the current City Clerk was not aware of all the required duties. Every effort will be made to ensure this is done correctly in the future.

Conclusion – Response accepted.

- (2) 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 Sewer Utility will work with the City to develop an investment policy in accordance with Chapter 12B.10B of the Code of Iowa.

Conclusion – Response accepted.

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

Insurer	Description	Amount	Expiration Date
Iowa Communities Assurance Pool	Property	\$ 908,648	Feb 15, 2018
	General liability	2,000,000	Feb 15, 2018
	Auto liability	2,000,000	Feb 15, 2018
	Wrongful acts official liability	2,000,000	Feb 15, 2018
	Law enforcement liability	2,000,000	Feb 15, 2018
	Auto physical damage	173,200	Feb 15, 2018
	Crime	5,000	Feb 15, 2018
Iowa Municipalities Workers Compensation Association	Workers' Compensation	1,000,000	Jul 1, 2017

Statistical Information

Description	Amount
Sewer customers served at June 30, 2017	176
Sewer rates in effect at June 30, 2017:	
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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