

LA PORTE CITY UTILITIES
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2020

La Porte City Utilities

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		4-5
Basic Financial Statement:	<u>Exhibit</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	A	9
Notes to Financial Statement		10-17
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual		20
Notes to Other Information – Budgetary Reporting		21
Schedule of the Utilities’ Proportionate Share of the Net Pension Liability		22-23
Schedule of Utilities’ Contributions		24-25
Notes to Other Information – Pension Liability		26
Supplementary Information:	<u>Schedule</u>	
Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Electric Enterprise Fund Accounts	1	28-29
Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Water Enterprise Fund Accounts	2	31
Schedule of Indebtedness	3	32-33
Note Maturities	4	34-35
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>		36-37
Schedule of Findings		38-42
Staff		43

La Porte City Utilities

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Shawn Mehlert	Trustee, Chair	Sep 2021
Tami Kenue	Trustee	Sep 2024
Gregory Pipho	Trustee	Sep 2026
William Matthes	Plant Manager	Indefinite
Robyn Oberhauser	Office Manager	Indefinite
Laura Folkerts	Attorney	Indefinite

La Porte City Utilities

Basic Financial Statement

La Porte City Utilities

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. At June 30, 2020, the Utilities had drawn \$377,426 of the \$600,000 authorized amount. An initiation fee of \$3,000 (.5% 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, 2020, the Utilities paid principal and interest of \$17,000 and \$4,340, respectively, 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, 2020 is \$2,496,834. For the current year, principal and interest paid and total customer water utility net receipts were \$223,030 and \$292,641, 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.

(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 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 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Utilities contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Utilities' contributions to IPERS for the year ended June 30, 2020 totaled \$30,101.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2020, the Utilities reported a liability of \$278,559 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the Utilities' proportion was 0.004811%, which was an increase of 0.000151% over its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Utilities' pension expense, deferred outflows of resources and deferred inflows of resources totaled \$51,241, \$43,778 and \$54,575, respectively.

There were no non-employer contributing entities to IPERS.

2016	2015
0.004620%	0.004741%
228,261	188,018
316,413	310,222
72.14%	60.61%
85.19%	87.61%

La Porte City Utilities

Schedule of Utilities Contributions

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

Other Information

	2020	2019	2018	2017
Statutorily required contribution	\$ 30,101	34,560	31,275	28,545
Contributions in relation to the statutorily required contribution	(30,101)	(34,560)	(31,275)	(28,545)
Contribution deficiency (excess)	\$ -	-	-	-
Utilites' covered payroll	\$ 318,867	366,097	350,218	320,349
Contributions as a percentage of covered payroll	9.44%	9.44%	8.93%	8.93%

* 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.

2016	2015	2014	2013
29,242	28,255	27,703	24,932
(29,242)	(28,255)	(27,703)	(24,932)
-	-	-	-
327,459	316,413	310,222	287,564
8.93%	8.93%	8.93%	8.67%

Supplementary Information

La Porte City Utilities

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2020

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) Compensated absences – no review by an independent person.
- (9) Journal entries – preparing and recording. In addition, there is no independent review of journal entries.
- (10) Incoming mail is not opened by an employee who is not authorized to make entries to accounting records.
- (11) Financial reporting – preparing, recording and reconciling.

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

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Gwen D. Fangman, CPA, Manager
Matthew A. Miller, Senior Auditor
Jesse K. Villalobos, Assistant Auditor