



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

March 25, 2021

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on the Perry Municipal Waterworks, Perry, Iowa.

FINANCIAL HIGHLIGHTS:

The Waterworks' receipts totaled \$3,270,666 for the year ended June 30, 2020, an 8.1% increase over the prior year. Disbursements for the year ended June 30, 2020 totaled \$3,237,037 an 11.7% increase over the prior year. The significant increase in disbursements is primarily due to payments for water main replacement projects and an increase in fees remitted to the City.

AUDIT FINDINGS:

Sand reported two findings related to the receipt and disbursement of taxpayer funds. The findings are found on pages 32 and 33 of this report. The findings address a lack of segregation of duties and the Waterworks exceeding the specified maximum deposit amount for one depository. Sand provided the Waterworks with recommendations to address the findings.

One of the two findings discussed above is repeated from the prior year. The Trustees have a fiduciary responsibility to provide oversight of the Waterworks' operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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PERRY MUNICIPAL WATERWORKS

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2020

Perry Municipal Waterworks



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Rob Sand
Auditor of State

March 11, 2021

Officials of the Perry Municipal Waterworks
Perry, Iowa

Dear Board of Trustee Members:

I am pleased to submit to you the financial and compliance audit report for the Perry Municipal Waterworks for the year ended June 30, 2020. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the Perry Municipal Waterworks throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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Perry Municipal Waterworks

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marcus Carris	Chairperson/Trustee	Apr 2025
Amy Rathje	Trustee	Apr 2021
John Wuebker	Trustee	Apr 2023
Matthew Holmes	Superintendent	Indefinite
Pamela Ballard	Accounting and Billing Manager	Indefinite



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Independent Auditor's Report

To the Board of Trustees of the Perry Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Perry Municipal Waterworks as of and for the year ended June 30, 2020, and the related Notes to Financial Statement.

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 Perry Municipal Waterworks' 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 Waterworks' 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 Perry Municipal Waterworks as of June 30, 2020, 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 described 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

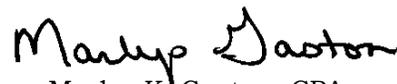
Supplementary and Other Information

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 financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the 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 financial statement taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the Waterworks' Proportionate Share of the Net Pension Liability and the Schedule of the Waterworks' Contributions on pages 18 through 26, 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 March 11, 2021 on our consideration of the Perry Municipal Waterworks' 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 Waterworks' 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 Perry Municipal Waterworks' internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

March 11, 2021

Perry Municipal Waterworks

Basic Financial Statement

Perry Municipal Waterworks

Perry Municipal Waterworks

Statement of Cash Receipts, Disbursements
and Changes in Cash Balance

As of and for the year ended June 30, 2020

Operating receipts:	
Charges for service	\$ 2,115,840
Miscellaneous	<u>160,060</u>
Total operating receipts	<u>2,275,900</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	588,044
Distribution operation and maintenance	307,180
Administration	<u>506,431</u>
Total operating disbursements	<u>1,401,655</u>
Excess of operating receipts over operating disbursements	<u>874,245</u>
Non-operating receipts (disbursements):	
Interest on investments	6,206
Rental income	31,238
Sewer and garbage fees collected for the City	957,322
Sewer and garbage fees remitted to the City	(957,322)
Capital outlay	<u>(878,060)</u>
Net non-operating receipts (disbursements)	<u>(840,616)</u>
Change in cash balance	33,629
Cash balance beginning of year	<u>1,411,323</u>
Cash balance end of year	<u>\$ 1,444,952</u>
Cash Basis Fund Balance	
Restricted for customer water deposits	\$ 160,220
Unrestricted	<u>1,284,732</u>
Total cash basis fund balance	<u>\$ 1,444,952</u>

See notes to financial statement.

Perry Municipal Waterworks
Notes to Financial Statements
June 30, 2020

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Perry Municipal Waterworks is a component unit of the City of Perry, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a three-member Board of Trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks 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.

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 Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks 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. Fund Balance

Funds set aside for customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The Waterworks' deposits at June 30, 2020 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 Waterworks 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 Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Compensated Absences

Waterworks’ employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks’ approximate liability for earned compensated absences payable to employees at June 30, 2020 is \$44,000. This liability has been computed based on rates of pay in effect at June 30, 2020.

(4) Intrafund Transfers

The detail of intrafund transfers for the year ended June 30, 2020 is as follows:

Transfer to	Transfer from	Amount
Enterprise: Self Insurance	Enterprise: Waterworks	<u>\$ 15,304</u>

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

(5) Risk Management

The Waterworks is included under the insurance for the City of Perry. The City of Perry 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 779 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 Waterworks' property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The Waterworks' contributions to the Pool for the year ended June 30, 2020 were \$16,611.

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 member's risk-sharing certificate. Property and automobile physical damage risk 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 member'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 exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a casualty claims, 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. As of June 30, 2020, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The Waterworks is also included under the City of Perry's commercial insurance purchased from other insurers for coverage associated with worker's compensation. 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.

(6) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Waterworks, except for those covered by another retirement system. Employees of the Waterworks 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 of the Code of Iowa 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 Waterworks contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Waterworks’ contributions to IPERS for the year ended June 30, 2020 totaled \$54,026.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2020, the Waterworks reported a liability of \$404,221 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 Waterworks’ proportion of the net pension liability was based on the Waterworks’ share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Waterworks’ proportion was 0.006981%, which was an increase of 0.000117% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Waterworks’ pension expense, deferred outflows of resources and deferred inflows of resources totaled \$74,357, \$63,528 and \$79,194, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2019 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, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Waterworks 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 Waterworks' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Waterworks' proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Waterworks' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Waterwork's proportionate share of the net pension liability	\$ 717,766	404,221	141,223

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.

(7) Water Tank Maintenance Contract

In August 2015, the Waterworks entered into an agreement with Utility Service Co. for the maintenance of the 500,000 gallon concrete water tank, including annual inspections of the tank, repair, cleaning and repainting the interior and exterior of the tank. The contract is for an indefinite period of time. Beginning July 30, 2017, the first four annual fees are \$98,620 per contract year. The annual fee for contract year 5 will be \$9,529 per contract year. Beginning in contract year six and each anniversary thereafter, the annual fee will be adjusted to reflect the current cost of service, with a maximum change of 5% per annum. The Waterworks was scheduled to pay quarterly installments of \$24,655 on the contract. Due to the timing of when work was completed on the project, the Waterworks made payments of \$197,240 for contract years one and two during the year ended June 30, 2017, \$98,620 for contract year three during the year ended June 30, 2018, \$98,620 for contract year four during the year ended June 30, 2019, and \$58,527 for contract year five during the year ended June 30, 2020.

(8) Construction Contracts/Commitments

The Waterworks entered into construction contracts totaling \$1,124,296 for water main replacement projects. As of June 30, 2020, approximately \$1,092,274 has been paid on the contracts. The remaining \$32,022 will be paid as work on the projects progress.

(9) COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the Perry Municipal Waterworks, remains uncertain.

The Iowa Utilities Board (IUB) issued an order on March 27, 2020, that restricted the disconnection of utility service to any customers by all electric, and natural gas utilities, including municipal, cooperative, and investor-owned, and all investor-owned water utilities. The order issued by the IUB on March 27 was tied to the Governor's proclamation and therefore, extended the winter moratorium until May 27, 2020. Accordingly, Perry Municipal Waterworks suspended late charges until after May 27, 2020. In connection with the May 27, 2020 expiration of Governor Kim Reynolds' proclamation that eases restrictions and permits the reopening of some businesses, the Iowa Utilities board (IUB), on May 20, 2020, issued an order that establishes requirements Iowa utilities must follow before they can resume disconnections of customers' utility service.

To date, the outbreak has not created a material disruption to the operations of Perry Municipal Waterworks. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to Perry Municipal Waterworks operations and finances.

Other Information

Perry Municipal Waterworks
 Budgetary Comparison Schedule
 of Receipts, Disbursements and Changes in Cash Balance –
 Budget and Actual

Other Information

Year ended June 30, 2020

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Use of money and property	\$ 37,444	-	37,444
Charges for service	3,073,162	957,322	2,115,840
Miscellaneous	160,060	-	160,060
Total receipts	3,270,666	957,322	2,313,344
Disbursements:			
Business type activities	3,237,037	957,322	2,279,715
Change in cash balance	33,629	-	33,629
Cash balance beginning of year	1,411,323	-	1,411,323
Cash balance end of year	\$ 1,444,952	-	1,444,952

See accompanying independent auditor's report.

<u>Budgeted Amounts</u>	Final
<u>Original/Final</u>	<u>to Net</u>
	<u>Variance</u>
31,160	6,284
2,018,200	97,640
<u>190,284</u>	<u>(30,224)</u>
2,239,644	73,700
<u>2,412,973</u>	<u>133,258</u>
(173,329)	206,958
<u>946,010</u>	<u>465,313</u>
<u>772,681</u>	<u>672,271</u>

Perry Municipal Waterworks

Perry Municipal Waterworks

Notes to Other Information – Budgetary Reporting

June 30, 2020

The Perry Municipal Waterworks 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 on the cash basis following required public notice and hearing for all funds. 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 Waterworks' disbursements are budgeted in the business type activities function.

During the year ended June 30, 2020, disbursements did not exceed the amount budgeted.

Perry Municipal Waterworks

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

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

Other Information

	2020	2019	2018	2017
Waterworks' proportion of the net pension liability	0.006981%	0.006864%	0.006507%	0.006980%
Waterworks' proportionate share of the net pension liability	\$ 404	434	434	439
Waterworks' covered payroll	\$ 531	516	486	501
Waterworks' proportionate share of the net pension liability as a percentage of its covered payroll	76.08%	84.11%	89.30%	87.62%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%

* 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.

2016	2015
0.007093%	0.007514%
350	298
486	495
72.02%	60.20%
85.19%	87.61%

Perry Municipal Waterworks
 Schedule of Waterworks' Contributions
 Iowa Public Employees' Retirement System
 For the Last Ten Years

Other Information

	2020	2019	2018	2017
Statutorily required contribution	\$ 54,026	50,150	46,068	43,376
Contributions in relation to the statutorily required contribution	<u>(54,026)</u>	<u>(50,150)</u>	<u>(46,068)</u>	<u>(43,376)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Waterworks' covered payroll	\$ 572,310	531,248	515,880	485,735
Contributions as a percentage of covered payroll	9.44%	9.44%	8.93%	8.93%

See accompanying independent auditor's report.

2016	2015	2014	2013	2012	2011
44,731	43,393	44,241	42,555	39,234	32,992
(44,731)	(43,393)	(44,241)	(42,555)	(39,234)	(32,992)
-	-	-	-	-	-
500,913	485,916	495,419	490,830	486,171	474,705
8.93%	8.93%	8.93%	8.67%	8.07%	6.95%

Perry Municipal Waterworks

Notes to Other Information – Pension Liability

Year ended June 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

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

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

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

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.
- 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.

Supplementary Information

Schedule 1

Perry Municipal Waterworks

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

As of and for the year ended June 30, 2020

	<u>2011 Revenue Bonds</u>					Total
	Water Works	Customer Deposit	Sinking Account	Reserve Account	Self Insurance	
Operating receipts:						
Charges for service:						
Sale of water	\$ 2,070,162	-	-	-	-	2,070,162
Other charges for service	44,721	-	-	-	-	44,721
Installations and connections	957	-	-	-	-	957
	<u>2,115,840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,115,840</u>
Miscellaneous:						
Sales tax	92,749	-	-	-	-	92,749
Customer deposits	-	49,610	-	-	-	49,610
Miscellaneous	17,701	-	-	-	-	17,701
	<u>110,450</u>	<u>49,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>160,060</u>
Total operating receipts	<u>2,226,290</u>	<u>49,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,275,900</u>
Operating disbursements:						
Business type activities:						
Plant operation and maintenance:						
Salaries	205,453	-	-	-	-	205,453
Employee benefits	105,383	-	-	-	-	105,383
Contractual services	150,925	-	-	-	-	150,925
Commodities	126,283	-	-	-	-	126,283
	<u>588,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>588,044</u>
Distribution operation and maintenance:						
Salaries	173,726	-	-	-	-	173,726
Employee benefits	77,324	-	-	-	-	77,324
Contractual services	42,918	-	-	-	-	42,918
Commodities	13,212	-	-	-	-	13,212
	<u>307,180</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>307,180</u>
Administration:						
Salaries	193,131	-	-	-	-	193,131
Employee benefits	81,244	-	-	-	12,192	93,436
Contractual services	66,958	29,225	-	-	-	96,183
Sales tax remitted	100,982	-	-	-	-	100,982
Commodities	22,699	-	-	-	-	22,699
	<u>465,014</u>	<u>29,225</u>	<u>-</u>	<u>-</u>	<u>12,192</u>	<u>506,431</u>
Total operating disbursements	<u>1,360,238</u>	<u>29,225</u>	<u>-</u>	<u>-</u>	<u>12,192</u>	<u>1,401,655</u>

	2011 Revenue Bonds					Total
	Water Works	Customer Deposit	Sinking Account	Reserve Account	Self Insurance	
Excess (deficiency) of operating receipts over (under) operating disbursements	866,052	20,385	-	-	(12,192)	874,245
Non-operating receipts (disbursements):						
Interest on investments	5,984	-	-	210	12	6,206
Rental income	31,238	-	-	-	-	31,238
Sewer and garbage fees collected for the City	957,322	-	-	-	-	957,322
Sewer and garbage fees remitted to the City	(957,322)	-	-	-	-	(957,322)
Capital outlay	(878,060)	-	-	-	-	(878,060)
Total non-operating receipts (disbursements)	(840,838)	-	-	210	12	(840,616)
Excess (deficiency) of receipts over (under) disbursements	25,214	20,385	-	210	(12,180)	33,629
Transfers in (out):						
Transfers in	-	-	-	-	15,304	15,304
Transfers out	(15,304)	-	-	-	-	(15,304)
Total transfers in (out)	(15,304)	-	-	-	15,304	-
Change in cash balances	9,910	20,385	-	210	3,124	33,629
Cash balances beginning of year	909,981	139,835	-	338,335	23,172	1,411,323
Cash balances end of year	\$ 919,891	160,220	-	338,545	26,296	1,444,952

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

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 Perry Municipal Waterworks:

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 Perry Municipal Waterworks as of and for the year ended June 30, 2020, and the related Notes to Financial Statement, and have issued our report thereon dated March 11, 2021. 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 Perry Municipal Waterworks' 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 Perry Municipal Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Perry Municipal Waterworks' internal control.

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

Our consideration of internal control was for the limited purpose described in the 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. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Perry Municipal Waterworks' 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 an immaterial instance of non-compliance or other matters which is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. 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.

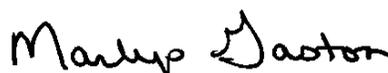
The Perry Municipal Waterworks' Response to the Findings

The Perry Municipal Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Perry Municipal Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

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 Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' 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 Perry Municipal Waterworks 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.


Marlys K. Gaston, CPA
Deputy Auditor of State

March 11, 2021

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2020

Finding Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCY:

(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 Waterworks' financial statement.

Condition – Water utility billings, collections, deposits, posting to customer accounts and the cash receipts journal, posting journal entries and reconciling billings to collections and delinquent accounts are all performed by the same person. Also, bank accounts are not reconciled by an individual who does not sign checks, handle or record cash.

Cause – The Waterworks 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 Waterworks' 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 – We realize segregation of duties is difficult with a limited number of office employees. However, the Waterworks should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including Waterworks' officials. Independent reviews of reconciliations and journal entries should be documented by the signature or initials of the reviewer and the date of the review.

Response – The Perry Waterworks will continue to monitor and revise operating procedures to ensure the Waterworks is, to the best of our ability, using the practice on the segregation of duties.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2020

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – The budget certified by the City of Perry includes an amount budgeted for the Waterworks. Disbursements during the year ended June 30, 2020 did not exceed the amount budgeted for the Waterworks.
- (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 Waterworks’ money for travel expenses of spouses of Waterworks’ officials or employees were noted.
- (4) Business Transactions – No business transactions between the Waterworks, Waterworks’ officials or employees were noted.
- (5) Restricted Donor Activity – No transactions were noted between Perry Waterworks, Waterworks’ officials and employees, and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- (6) Bond Coverage – Surety bond coverage of Waterworks’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure coverage is adequate for current operations.
- (7) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (8) Deposits and Investments – Deposits and investments were in compliance with the provisions of Chapter 12B and 12C of the Code of Iowa and the Waterworks’ investment policy, except for the following:

A resolution naming official depositories has been approved by the Waterworks. However, the maximum deposits amount stated in the resolution of \$500,000 for one of the depositories was exceeded by \$614,352 at June 30, 2020.

Recommendation – The entity should adopt a new depository resolution which establishes a maximum deposit amount as required by Chapter 12C.2 of the Code of Iowa or implement policies and procedures to ensure the maximums set by the depository resolution are not exceeded.

Response – The Perry Waterworks will review and revise our “Designation of Depositories” resolution to ensure all balances remain within the maximum deposit amounts. This document will be taken to the February 11th, 2021 Board meeting for approval.

Conclusion – Response accepted.

Perry Municipal Waterworks

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Lesley R. Geary, CPA, Manager
Molly N. Kalkwarf, Staff Auditor
Mason R. Brown, Assistant Auditor