



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

December 26, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on La Porte City Utilities, LaPorte City, Iowa.

FINANCIAL HIGHLIGHTS:

The Utilities' receipts totaled \$4,620,158 for the year ended June 30, 2019, a 86.4% increase over the prior year. Disbursements for the year ended June 30, 2019 totaled \$3,516,397, a 26.1% increase over the prior year. The significant increase in receipts and disbursements is primarily due to proceeds from the issuance of revenue notes for an electric utility project.

AUDIT FINDINGS:

Sand reported seven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 38 to 43 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility reconciliations and lack of Board approval of disbursements prior to payment. Sand provided the City with recommendations to address each of the findings.

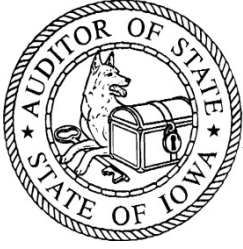
The Utility Board has a fiduciary responsibility to provide oversight of the Utilities operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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>.

###

LA PORTE CITY UTILITIES
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2019

La Porte City Utilities



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

December 13, 2019

Officials of the City of La Porte City Utilities
La Porte City, Iowa

Dear Board Members:

I am pleased to submit to you the financial and compliance audit report for City of La Porte City Utilities for the year ended June 30, 2019. 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 City of La Porte City Utilities 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 that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

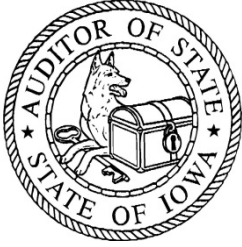
Table of Contents

		<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 (Cash Basis)		21
Notes to Other Information – Budgetary Reporting		22
Schedule of the Utilities’ Proportionate Share of the Net Pension Liability		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		38-43
Staff		44

La Porte City Utilities

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jonathan Barz	Trustee, Chair	Sep 2019
Tami Kenue	Trustee, Secretary	Sep 2024
Shawn Mehlert	Trustee	Sep 2021
William Matthes	Plant Manager	Indefinite
Robyn Oberhauser	Office Manager	Indefinite
Kevin Ahrenholz	Attorney	Indefinite



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

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

Report on the Financial Statement

We have audited the accompanying financial statement of the La Porte City Utilities Department as of and for the year ended June 30, 2019, and the related Notes to Financial Statement listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the La Porte City Utilities as of June 30, 2019, and the changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

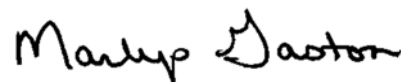
Our audit was conducted for the purpose of forming an opinion on the financial statement. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statement.

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 Utilities' Proportionate Share of the Net Pension Liability and the Schedule of Utilities' Contributions on pages 21 through 26, has not been subjected to the auditing procedures applied in the audit of the 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 December 13, 2019 on our consideration of the La Porte City Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the La Porte City Utilities' internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

December 13, 2019

La Porte City Utilities

Basic Financial Statement

La Porte City Utilities

La Porte City Utilities

Statement of Cash Receipts, Disbursements and
Changes in Cash Balances

As of and for the year ended June 30, 2019

	Enterprise		
	Electric Utility	Water Utility	Total
Operating receipts:			
Charges for service	\$ 1,897,157	536,428	2,433,585
Miscellaneous	89,055	32,845	121,900
Total operating receipts	<u>1,986,212</u>	<u>569,273</u>	<u>2,555,485</u>
Operating disbursements:			
Business type activities:			
Plant operation and maintenance	1,139,275	182,506	1,321,781
Administration	544,062	152,076	696,138
Total operating disbursements	<u>1,683,337</u>	<u>334,582</u>	<u>2,017,919</u>
Excess of operating receipts over operating disbursements	<u>302,875</u>	<u>234,691</u>	<u>537,566</u>
Non-operating receipts (disbursements):			
Interest on investments	3,760	12,192	15,952
Rental income	1,949	-	1,949
Note proceeds, including premium of \$71,772 and net of \$25,000 underwriter's discount	2,046,772	-	2,046,772
Debt service	(230,140)	(227,448)	(457,588)
Capital outlay	<u>(1,034,080)</u>	<u>(6,810)</u>	<u>(1,040,890)</u>
Net non-operating receipts (disbursements)	<u>788,261</u>	<u>(222,066)</u>	<u>566,195</u>
Excess of receipts over disbursements	1,091,136	12,625	1,103,761
Cash balance beginning of year	<u>1,290,335</u>	<u>1,056,505</u>	<u>2,346,840</u>
Cash balance end of year	<u>\$ 2,381,471</u>	<u>1,069,130</u>	<u>3,450,601</u>
Cash Basis Fund Balance			
Restricted for customer deposits	\$ 10,200	-	10,200
Restricted for capital projects	1,396,628	431,608	1,828,236
Restricted for debt service	330,490	209,000	539,490
Unrestricted	<u>644,153</u>	<u>428,522</u>	<u>1,072,675</u>
Total cash basis fund balance	<u>\$ 2,381,471</u>	<u>1,069,130</u>	<u>3,450,601</u>

See notes to financial statements.

La Porte City Utilities

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation

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

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

The Utilities report the following major proprietary funds:

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

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

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

C. Basis of Accounting

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

D. Restricted Cash Basis Fund Balance

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

E. Budgets and Budgetary Accounting

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

During the year ended June 30, 2019, disbursements exceeded the amount budgeted.

(2) Cash and Pooled Investments

The Utilities' deposits in banks at June 30, 2019 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Notes Payable

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

Year Ending June 30,	Electric		Water		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 140,000	172,595	158,000	65,030	298,000	237,625
2021	170,000	162,040	162,000	60,502	332,000	222,542
2022	190,000	157,790	168,000	55,855	358,000	213,645
2023	210,000	152,750	173,000	51,040	383,000	203,790
2024	210,000	146,900	178,000	46,075	388,000	192,975
2025-2029	1,240,000	634,813	976,000	150,367	2,216,000	785,180
2030-2034	1,475,000	402,375	456,000	19,995	1,931,000	422,370
2035-2039	1,130,000	113,600	-	-	1,130,000	113,600
Total	\$ 4,765,000	1,942,863	2,271,000	448,864	7,036,000	2,391,727

Electric Revenue Notes

On April 25, 2019, the Utilities issued \$2,000,000 of electric revenue notes with interest rates ranging from 2.50% to 4.00% per annum. The notes were issued pursuant to the provisions of Chapter 384 of the Code of Iowa to pay the cost of constructing improvements and extensions to the Utility. No payments were made during fiscal year ended June 30, 2019.

The Utilities has pledged future electric customer receipts, net of specified operating disbursements, to repay \$2,000,000 of electric revenue notes issued April 25, 2019. The Utilities has also pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,100,000 and \$2,190,000 of electric revenue notes issued in July 2013 and December 2016, respectively. Proceeds from the notes provided financing for the construction of improvements to the electric utility including acquisition of a generator and upgrade of generators. The notes are payable solely from electric customer net receipts and are payable through 2039. Annual principal and interest payments on the notes required approximately 76% of net receipts. The total principal and interest remaining to be paid on the notes is \$6,707,863. For the current year, principal and interest paid and total customer net receipts were \$228,840 and \$302,875, respectively.

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

- (a) The notes will only be redeemed from the future earnings of the electric enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to electric revenue note sinking accounts for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to an electric revenue reserve account until specific minimum balances have been accumulated in the accounts. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

The Enterprise, Electric Fund does not maintain a sufficient amount in the reserve account and has an insufficient balance in the sinking fund as of June 30, 2019.

Water Revenue Notes

On August 25, 2010, the Utilities entered into a State Revolving Fund (SRF) loan and disbursement agreement with the Iowa Finance Authority for the issuance of up to \$3,000,000 of water revenue notes with interest at 3% per annum. The agreement also requires the Utilities to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of construction of certain improvements and extensions to the water treatment facility. The Utilities drew down funds from the Iowa Finance Authority upon request to reimburse the Utilities for costs as they are incurred. At June 30, 2019, the Utilities had drawn 100% of the \$3,000,000 authorized amount. An initiation fee of \$30,000 (1% of the authorized borrowing for the water revenue note) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the water revenue notes drawn by the Utilities during the year ended June 30, 2011. During the year ended June 30, 2019, the Utilities paid principal and interest of \$136,000 and \$64,770, respectively, on the note.

On July 11, 2012, the Utilities entered into a State Revolving Fund (SRF) loan and disbursement agreement with the Iowa Finance Authority for the issuance of up to \$600,000 of water revenue notes with interest at 1.75% per annum. The agreement also requires the Utilities to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of construction of certain improvements and extensions to the water treatment facility. The Utilities will draw down funds from the Iowa Finance Authority upon request to reimburse the Utilities for costs as they are incurred. At June 30, 2019, 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, 2019, the Utilities paid principal and interest of \$16,000 and \$4,620, 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 94% of net receipts. The total amount of principal and interest remaining to be paid on the notes at June 30, 2019 is \$2,719,864. For the current year, principal and interest paid and total customer water utility net receipts were \$221,390 and \$234,691, 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 2019, 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, 2019 totaled \$34,560.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the Utilities reported a liability of \$294,876 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the Utilities’ proportion was 0.004660%, which was an increase of 0.000378% over its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the Utilities’ pension expense, deferred outflows of resources and deferred inflows of resources totaled \$39,953, \$78,041 and \$49,125, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 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, 2018 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 on the 2018 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 pension plan 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%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core plus fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
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 Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS’ fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS’ investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utilities’ Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utilities’ proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Utilities’ proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Utilities' proportionate share of the net pension liability	\$ 500,464	294,876	122,418

IPERS’ Fiduciary Net Position – Detailed information about IPERS’ fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The La Porte City Utilities operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The La Porte City Utilities currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2019, the La Porte City Utilities contributed \$83,634 and plan members eligible for benefits contributed \$4,178 to the plan. At June 30, 2019, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the La Porte City Utilities and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	1
Active employees	<u>4</u>
Total	<u>5</u>

(6) Compensated Absences

Utilities’ 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 Utilities until used or paid. The Utilities’ approximate liability for earned vacation and sick leave payable to employees at June 30, 2019, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 11,700
Sick leave	<u>12,400</u>
Total	<u>\$ 24,100</u>

This liability has been computed based on rates of pay in effect at June 30, 2019.

(7) Construction Contracts

The Utility entered into a construction contract totaling \$85,000 for the Electric Utility’s 69KV transmission line. The unpaid contract commitment as of June 30, 2019 totaled \$50,310. The balance of the contract will be paid as the work on the project progresses.

(8) Intrafund Transfers

The detail of intrafund transfers for the year ended June 30, 2019 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise:	Enterprise:	
Electric	Electric Reserve	\$ 38,363
	Electric Bond Project	62,496
	Diesel Generator Improvement	10,000
	Diesel Engine Reserve	98,509
	Diesel Engine 2013	11,229
	Electric Debt Service	9,058
		<u>229,655</u>
Electric Reserve	Electric	<u>607,751</u>
Electric Bond Project	Electric	237,514
	Electric Reserve	182,420
		<u>419,934</u>
Diesel Engine 2013	Electric	24,613
	Electric Bond Project	387,585
		<u>412,198</u>
Electric Debt Service	Electric	38,362
	Electric Reserve	9,058
		<u>47,420</u>
	Total Enterprise: Electric	<u>\$ 1,716,958</u>
Enterprise:	Enterprise:	
Water	Water Capital Improvement Reserve	\$ 11,100
Water Capital Improvement Reserve	Water	644,239
Water Debt Service	Water Capital Improvement Reserve	436,448
		<u>1,091,787</u>
	Total Enterprise: Water	<u>\$ 1,091,787</u>

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

(9) Risk Management

The Utilities is exposed to various risks of loss related to torts, theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

La Porte City Utilities

Other Information

La Porte City Utilities

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

Other Information

Year ended June 30, 2019

	Actual	Budgeted Amounts		Final to
		Original	Final	Net Variance
Receipts:				
Use of money and property	\$ 17,901	9,580	9,580	8,321
Charges for service	2,433,585	2,527,880	2,527,880	(94,295)
Miscellaneous	121,900	121,500	121,500	400
Total receipts	2,573,386	2,658,960	2,658,960	(85,574)
Disbursements:				
Business type activities	3,516,397	2,098,886	3,046,587	(469,810)
Excess (deficiency) of receipts over (under) disbursements	(943,011)	560,074	(387,627)	(555,384)
Other financing sources, net	2,046,772	(13,641)	2,033,131	13,641
Change in cash balance	1,103,761	546,433	1,645,504	(541,743)
Cash balance beginning of year	2,346,840	5,984,957	5,984,957	(3,638,117)
Cash balance end of year	<u>\$ 3,450,601</u>	<u>6,531,390</u>	<u>7,630,461</u>	<u>(4,179,860)</u>

See accompanying independent auditor's report.

La Porte City Utilities

Notes to Other Information – Budgetary Reporting

June 30, 2019

The La Porte City Utilities prepares a budget on the cash basis of accounting for all funds and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Utilities, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Utilities' disbursements are budgeted in the business type activities function. During the year the Utilities adopted one budget amendment, increasing budgeted disbursements by \$947,701.

During the year ending June 30, 2019, disbursements exceeded the amount budgeted.

La Porte City Utilities

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

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

Other Information

	2019	2018	2017	2016	2015
Utilities' proportion of the net pension liability	0.004660%	0.004282%	0.004563%	0.004620%	0.004741%
Utilities' proportionate share of the net pension liability	\$ 294,876	285,250	287,164	228,261	188,018
Utilities' covered payroll	\$ 350,218	320,349	327,459	316,413	310,222
Utilities' proportionate share of the net pension liability as a percentage of its covered payroll	84.20%	89.04%	87.69%	72.14%	60.61%
IPERS' net position as a percentage of the total pension liability	83.62%	82.21%	81.82%	85.19%	87.61%

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

See accompanying independent auditor's report.

La Porte City Utilities

Schedule of Utilities Contributions

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

Other Information

	2019	2018	2017	2016
Statutorily required contribution	\$ 34,560	31,275	28,545	29,242
Contributions in relation to the statutorily required contribution	<u>(34,560)</u>	<u>(31,275)</u>	<u>(28,545)</u>	<u>(29,242)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Utilites' covered payroll	\$ 366,097	350,218	320,349	327,459
Contributions as a percentage of covered payroll	9.44%	8.93%	8.93%	8.93%

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

See accompanying independent auditor's report.

<u>2015</u>	<u>2014</u>	<u>2013</u>
28,255	27,703	24,932
<u>(28,255)</u>	<u>(27,703)</u>	<u>(24,932)</u>
<u>-</u>	<u>-</u>	<u>-</u>
316,413	310,222	287,564
8.93%	8.93%	8.67%

La Porte City Utilities

Notes to Other Information – Pension Liability

Year ended June 30, 2019

Changes of benefit terms:

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

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.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

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

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

Supplementary Information

La Porte City Utilities

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

Year ended June 30, 2019

	Electric	Electric Reserve	Meter Deposits	Electric Bond Project
Operating receipts:				
Charges for service	\$ 1,897,157	-	-	-
Miscellaneous	89,055	-	-	-
Total operating receipts	<u>1,986,212</u>	-	-	-
Operating disbursements:				
Business type activities:				
Plant operation and maintenance	1,139,275	-	-	-
Administration	544,062	-	-	-
Total operating disbursements	<u>1,683,337</u>	-	-	-
Excess of operating receipts over operating disbursements	<u>302,875</u>	-	-	-
Non-operating receipts (disbursements):				
Interest on investments	3,388	-	200	-
Rental income	1,949	-	-	-
Note proceeds, including premium of \$71,772 and net of \$25,000 underwriter's discount	-	-	-	2,046,772
Debt service	-	(47,420)	-	(182,720)
Capital outlay	-	-	-	(1,034,080)
Total non-operating receipts (disbursements)	<u>5,337</u>	<u>(47,420)</u>	<u>200</u>	<u>829,972</u>
Excess (deficiency) of receipts over (under) disbursements	<u>308,212</u>	<u>(47,420)</u>	<u>200</u>	<u>829,972</u>
Transfers in	229,655	607,751	-	419,934
Transfers (out)	(908,240)	(229,841)	-	(450,081)
Total transfers in (out)	<u>(678,585)</u>	<u>377,910</u>	<u>-</u>	<u>(30,147)</u>
Change in cash balance	(370,373)	330,490	200	799,825
Cash balance beginning of year	1,014,431	-	10,000	596,803
Cash balance end of year	<u>\$ 644,058</u>	<u>330,490</u>	<u>10,200</u>	<u>1,396,628</u>
Cash Basis Fund Balances				
Restricted for:				
Customer deposits	\$ -	-	10,200	-
Capital projects	-	-	-	1,396,628
Debt service	-	330,490	-	-
Unrestricted	644,058	-	-	-
Total cash basis fund balance	<u>\$ 644,058</u>	<u>330,490</u>	<u>10,200</u>	<u>1,396,628</u>

See accompanying independent auditor's report.

Diesel Generator Improvement	Diesel Engine Reserve	Diesel Engine 2013	Electric Debt Service	Total
-	-	-	-	1,897,157
-	-	-	-	89,055
-	-	-	-	1,986,212
-	-	-	-	1,139,275
-	-	-	-	544,062
-	-	-	-	1,683,337
-	-	-	-	302,875
-	43	129	-	3,760
-	-	-	-	1,949
-	-	-	-	2,046,772
-	-	-	-	(230,140)
-	-	-	-	(1,034,080)
-	43	129	-	788,261
-	43	129	-	1,091,136
-	-	412,198	47,420	1,716,958
(10,000)	(98,509)	(11,229)	(9,058)	(1,716,958)
(10,000)	(98,509)	400,969	38,362	-
(10,000)	(98,466)	401,098	38,362	1,091,136
10,000	98,509	(401,046)	(38,362)	1,290,335
-	43	52	-	2,381,471
-	-	-	-	10,200
-	-	-	-	1,396,628
-	-	-	-	330,490
-	43	52	-	644,153
-	43	52	-	2,381,471

La Porte City Utilities

La Porte City Utilities

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

Year ended June 30, 2019

	Water	Water Capital Improvement Reserve	Water Debt Service	Total
Operating receipts:				
Charges for service	\$ 536,428	-	-	536,428
Miscellaneous	32,845	-	-	32,845
Total operating receipts	569,273	-	-	569,273
Operating disbursements:				
Business type activities:				
Plant operation and maintenance	182,506	-	-	182,506
Administration	152,076	-	-	152,076
Total operating disbursements	334,582	-	-	334,582
Excess of operating receipts over operating disbursements	234,691	-	-	234,691
Non-operating receipts (disbursements):				
Interest on investments	7,836	4,356	-	12,192
Debt service	-	-	(227,448)	(227,448)
Capital outlay	(6,810)	-	-	(6,810)
Total non-operating receipts (disbursements)	1,026	4,356	(227,448)	(222,066)
Excess (deficiency) of receipts over (under) disbursements	235,717	4,356	(227,448)	12,625
Transfers in	11,100	644,239	436,448	1,091,787
Transfers (out)	(644,239)	(447,548)	-	(1,091,787)
Total transfers in (out)	(633,139)	196,691	436,448	-
Change in cash balance	(397,422)	201,047	209,000	12,625
Cash balance beginning of year	825,944	230,561	-	1,056,505
Cash balance end of year	\$ 428,522	431,608	209,000	1,069,130
Cash Basis Fund Balances				
Restricted for:				
Capital projects	\$ -	431,608	-	431,608
Debt service	-	-	209,000	209,000
Unrestricted	428,522	-	-	428,522
Total cash basis fund balance	\$ 428,522	431,608	209,000	1,069,130

See accompanying independent auditor's report.

La Porte City Utilities
 Schedule of Indebtedness
 Year ended June 30, 2019

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes:			
Electric	Jul 10, 2013	1.25-2.90%	\$ 1,100,000
Electric	Dec 27, 2016	2.75-4.00	2,190,000
Electric	Apr 25, 2019	2.50-4.00	2,000,000
Total			
Water	Aug 25, 2010	3.00% *	\$ 3,000,000
Water	Jul 11, 2012	1.75 *	377,426
Total			

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
710,000	-	135,000	575,000	17,615
2,190,000	-	-	2,190,000	76,225
-	2,000,000	-	2,000,000	-
\$ 2,900,000	2,000,000	135,000	4,765,000	93,840
2,159,000	-	136,000	2,023,000	64,770
264,000	-	16,000	248,000	4,620
\$ 2,423,000	-	152,000	2,271,000	69,390

La Porte City Utilities

Note Maturities

Year ended June 30, 2019

Year Ending June 30,	Revenue					
	Electric		Electric		Electric	
	Issued Jul 10, 2013		Issued Dec 27, 2016		Issued Apr 25, 2019	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2020	2.25%	\$ 140,000	2.75%	\$ -	2.50%	\$ -
2021	2.50	140,000	2.75	-	2.50	30,000
2022	2.70	145,000	2.75	-	2.50	45,000
2023	2.90	150,000	2.75	-	2.50	60,000
2024		-	2.75	135,000	2.50	75,000
2025		-	2.75	145,000	3.00	90,000
2026		-	2.75	145,000	3.00	95,000
2027		-	2.75	150,000	3.00	95,000
2028		-	3.25	155,000	4.00	100,000
2029		-	3.25	160,000	4.00	105,000
2030		-	3.50	165,000	4.00	110,000
2031		-	3.50	170,000	4.00	110,000
2032		-	3.50	180,000	4.00	115,000
2033		-	3.50	185,000	4.00	120,000
2034		-	4.00	190,000	4.00	130,000
2035		-	4.00	200,000	4.00	130,000
2036		-	4.00	210,000	4.00	140,000
2037		-		-	4.00	145,000
2038		-		-	4.00	150,000
2039		-		-	4.00	155,000
Total		<u>\$ 575,000</u>		<u>\$ 2,190,000</u>		<u>\$ 2,000,000</u>

See accompanying independent auditor's report.

Notes				
Water		Water		
Issued Aug 25, 2010		Issued Jul 11, 2012		
Interest		Interest		
Rates	Amount	Rates	Amount	Total
3.00%	\$ 141,000	1.75%	\$ 17,000	298,000
3.00	145,000	1.75	17,000	332,000
3.00	150,000	1.75	18,000	358,000
3.00	155,000	1.75	18,000	383,000
3.00	160,000	1.75	18,000	388,000
3.00	165,000	1.75	19,000	419,000
3.00	170,000	1.75	19,000	429,000
3.00	176,000	1.75	19,000	440,000
3.00	181,000	1.75	20,000	456,000
3.00	187,000	1.75	20,000	472,000
3.00	193,000	1.75	21,000	489,000
3.00	200,000	1.75	21,000	501,000
	-	1.75	21,000	316,000
	-		-	305,000
	-		-	320,000
	-		-	330,000
	-		-	350,000
	-		-	145,000
	-		-	150,000
	-		-	155,000
	<u>\$ 2,023,000</u>		<u>\$ 248,000</u>	<u>\$ 7,036,000</u>



**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 La Porte City Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statement of the La Porte City Utilities as of and for the year ended June 30, 2019, and the related Notes to Financial Statement, and have issued our report thereon dated December 13, 2019. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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 La Porte City Utilities' 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 which 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. However, we identified deficiencies in internal control, described in the accompanying Schedule of Findings as items (A) through (D) we consider to be material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

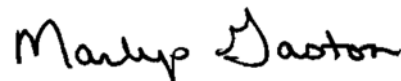
The La Porte City Utilities' Response to the Findings

The La Porte City Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The La Porte City Utilities'; 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 Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



Marlys K. Gaston, CPA
Deputy Auditor of State

December 13, 2019

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

Schedule of Findings

Year ended June 30, 2019

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

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

Conclusion – Response accepted.

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

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

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

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

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

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

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

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2019

Conclusion – Response acknowledged. The amounts in the software generated utility reconciliation, including reconciling items, should be compared to supporting records by an independent person to ensure the accuracy of the recorded collections and accounts receivable.

(C) Disbursements

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

Condition – The Utilities' Board approved disbursements after payment. The listing of approved disbursements is not signed or dated.

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

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

Recommendation – The Board should adopt a written disbursements policy to allow payment of certain bills prior to Board approval. All disbursements should be approved by the Board prior to payment with the exception of those specifically allowed by policy. For those disbursements paid prior to Board approval, a listing should be provided to the Board at the next Board meeting for review and approval as evidenced with signature and date of the Board members, and the total amount of the disbursements approved should be indicated in the Board Minutes. The amounts approved should be reconciled with the amounts paid by an independent person.

Response – Disbursements are dated and signed by the Board as of September 2018.

Conclusion – Response acknowledged. A written policy allowing payment of certain bills prior to approval should be adopted. All disbursements should be approved prior to payment except those specified in the policy.

(D) Transfer Journal Entries

Criteria – An effective internal control system provides for internal controls related to entering transfers between funds are properly authorized and recorded. Properly designed procedures help provide reasonable assurance financial information is reliable and accurate and in compliance with applicable laws and regulations.

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2019

Condition – Several journal entries to record transfers, including those required by bond resolutions, were not made to the proper fund(s) in accordance with transfer resolutions authorized by the Board. In addition, several transfer journal entries were improperly coded to disbursements, were made backwards or were run through the balance sheet rather than the general ledger.

Cause – Policies and procedures have not been developed to require review of the accounting records to ensure transfers authorized by the Board or required by bond resolutions are properly entered and recorded.

Effect – Failure to record transfers properly in the accounting records could result in non-compliance with bond requirements and could negatively affect the Board’s decision making ability related to spending, amending the budget and fund balances.

Recommendation – Policies and procedures should be established to ensure transfers authorized by the Board or required by bond resolution are recorded accurately and on a timely basis. An independent person should review required transfer journal entries to ensure the entries are complete, accurate and timely. The review should be documented by signature or initials of the reviewer and date of the review.

Response – The Utilities will work to implement a policy for review of transfers.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2019

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements at June 30, 2019 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 – The Budget was amended once in May. The disbursements exceeded the amount budgeted because we started a project, Series 2016. We were not aware we needed to prepare another amendment. We will be more aware of this type of situation in the next year’s amendments and budget.

Conclusion – Response accepted.

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

Interest rates on certificates of deposit that renewed in February 2019 were below the statutory rates established by the state Rate Setting Committee.

Recommendation – Certificate of deposit rates should be reviewed and appropriate steps taken to ensure compliance with the statutory rates established by the State Rate Setting Committee.

Response – This was brought to our attention during the audit and was corrected with the bank.

Conclusion – Response accepted.

La Porte City Utilities

Schedule of Findings

Year ended June 30, 2019

- (8) Electric Revenue Notes – La Porte City Utilities has established the Electric Reserve Account for purposes of maintaining a note reserve and a sinking account in accordance with the note resolution. During the fiscal year ended June 30, 2019, the required reserve account balance of \$382,000 was transferred into the Electric Reserve Account and monthly transfers required for the sinking account were made into the Electric Reserve Account. However, at June 30, 2019, the \$330,490 balance in the account was insufficient to meet the debt reserve fund required balance of \$382,000, plus the required sinking fund balance of \$38,171.

Recommendation – The Utilities should take steps to ensure the balance of the Electric Reserve Account is sufficient to meet the reserve and sinking requirements of the note resolution.

Response – Going forward, in order to more clearly track the required balances, we will transfer debt service payments to the Electric Debt Service Account rather than the Electric Reserve Account. We will monitor the Electric Reserve and Electric Debt Service Accounts to make sure they do not go below the required balances.

Conclusion – Response accepted.

La Porte City Utilities

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Gwen D. Fangman, CPA, Manager
Anthony J. T. Mallie, CPA, Staff Auditor
Matthew A. Miller, Staff Auditor
Nathan A. Dewitt, Assistant Auditor