



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

March 4, 2021

Contact: Marlys Gaston
515/281-5834

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

AUDIT FINDINGS:

Sand reported eleven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 32 through 39 of this report. The findings address issues such as a lack of fiduciary oversight, lack of segregation of duties, lack of reconciliations of utility billings, collections and delinquent accounts, lack of certain policies and procedures and noncompliance with the net revenue requirements of the Utility's sewer revenue bond resolution. Sand provided the City with recommendations to address each of the findings.

Ten of the eleven findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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

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CINCINNATI SEWER UTILITY
AUDITOR OF STATE'S COMPILATION REPORT
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2020

Cincinnati Sewer Utility



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Des Moines, Iowa 50319-0006

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

February 22, 2021

Officials of Cincinnati Sewer Utility
Cincinnati, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the compilation report for the Cincinnati Sewer Utility for the year ended June 30, 2020. The compilation was performed in accordance with statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants.

I appreciate the cooperation and courtesy extended by the officials and employees of Cincinnati Sewer Utility throughout the compilation. 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", written in a cursive style.

Rob Sand
Auditor of State

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Cincinnati Sewer Utility

Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rebecca Clark	Mayor	Jan 2020
Jessica Lenik	Mayor Pro tem	Jan 2020
Bruce Clinkenbeard	Council Member	Jan 2020
William Rick Long	Council Member	Jan 2020
Angela Jones	Council Member	Jan 2022
Ronald Shady	Council Member	Jan 2022
Susan Graves	City Clerk	Indefinite
Mike Craver	Attorney	Indefinite

(After January 2020)

Jessica Lenik	Mayor	Jan 2022
Debra Tait	Mayor Pro tem	Jan 2024
Angela Jones	Council Member	Jan 2022
Ronald Shady	Council Member	Jan 2022
Michael Kincaid	Council Member	Jan 2024
William Rick Long	Council Member	Jan 2024
Susan Graves	City Clerk	Indefinite
Mike Craver	Attorney	Indefinite

Cincinnati Sewer Utility



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Auditor of State's Compilation Report

To the Honorable Mayor and
Members of the City Council:

Management is responsible for the accompanying financial statement of the Cincinnati Sewer Utility, which comprises the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Position as of and for the year ended June 30, 2020 in accordance with the cash basis of accounting described in Note 1, and for determining that the cash basis of accounting is an acceptable financial reporting framework. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any assurance on the financial statement.

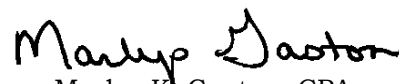
The financial statement is prepared in accordance with the cash basis of accounting which is a basis of accounting other than U.S. generally accepted accounting principles.

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

The other information, the Utility's Budgetary Comparison Information, the Schedule of the Sewer Utility's Proportionate Share of the Net Pension Liability and the Schedule of Sewer Utility Contributions on pages 20 through 26, was subject to our compilation engagement. However, we have not audited or reviewed the information and, accordingly, we do not express an opinion or provide any assurance on it.

We are not independent with respect to the Cincinnati Sewer Utility.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Cincinnati Sewer Utility and other parties to whom the Cincinnati Sewer Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.


Marlys K. Gaston, CPA
Deputy Auditor of State

February 22, 2021

Cincinnati Sewer Utility

Financial Statement

Cincinnati Sewer Utility

Cincinnati Sewer Utility

Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Net Position

As of and for the year ended June 30, 2020

Operating receipts:	
Charges for service	\$ 97,056
Operating disbursements:	
Business type activities	<u>90,577</u>
Excess of operating receipts over operating disbursements	<u>6,479</u>
Non-operating receipts (disbursements):	
Interest on investments	342
Miscellaneous	260
Debt service	<u>(21,613)</u>
Net non-operating receipts (disbursements)	<u>(21,011)</u>
Change in cash basis net position	(14,532)
Cash basis net position beginning of year	<u>114,523</u>
Cash basis net position end of year	<u>\$ 99,991</u>
Cash Basis Net Position	
Restricted for debt service	\$ 71,591
Unrestricted	<u>28,400</u>
Total cash basis net position	<u>\$ 99,991</u>

See accompanying notes to financial statement.

Cincinnati Sewer Utility

Notes to Financial Statement

June 30, 2020

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Cincinnati Sewer Utility is a department of the City of Cincinnati. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis.

The financial statement of the Cincinnati Sewer Utility is intended to present the financial position and results of the cash transactions of only that portion of the City of Cincinnati attributable to the transactions of the Cincinnati Sewer Utility.

B. Basis of Presentation

The accounts of the Sewer Utility are classified as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

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

C. Measurement Focus and Basis of Accounting

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

D. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The Sewer Utility's deposits in banks at June 30, 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 insure there will be no loss of public funds.

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

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

(3) Bond and Notes Payable

A summary of changes in bonds and notes payable for the year ended June 30, 2020 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Business type activities:					
Sewer revenue bond	\$ 75,391	-	5,587	69,804	5,866
Sewer revenue notes	131,000	-	8,000	123,000	9,000
Sewer anticipation project note	34,440	9,670	-	44,110	-
Business-type activities total	\$ 240,831	9,670	13,587	236,914	14,866

Sewer Revenue Bond and Notes

A summary of the Utility's June 30, 2020 revenue bond and notes payable is as follows:

Year Ending June 30,	Sewer								
	Revenue Bond			Revenue Notes			Total		
	Issued Dec 15, 1988	Interest		Issued Mar 2, 2011	Interest		Principal	Interest	Total
	Rates	Principal	Interest	Rates	Principal	Interest			
2021	5.00%	\$ 5,866	3,490	3.00%	\$ 9,000	3,690	\$ 14,866	7,180	22,046
2022	5.00	6,159	3,197	3.00	9,000	3,420	15,159	6,617	21,776
2023	5.00	6,467	2,889	3.00	9,000	3,150	15,467	6,039	21,506
2024	5.00	6,791	2,566	3.00	9,000	2,880	15,791	5,446	21,237
2025	5.00	7,130	2,226	3.00	10,000	2,610	17,130	4,836	21,966
2026-2030	5.00	37,391	5,157	3.00	53,000	8,460	90,391	13,617	104,008
2031-2035		-	-	3.00	24,000	1,080	24,000	1,080	25,080
Total		\$ 69,804	19,525		\$ 123,000	25,290	\$ 192,804	44,815	237,619

Sewer Revenue Bond

In December 1998, the City issued a \$157,800 sewer revenue bond. The bond matures annually on July 1 and bears interest at 5.0% per annum, which is also due and payable every July 1. Proceeds from the bond provided financing for the construction of improvements to the sewer treatment plant. The bond is payable solely from sewer customer net receipts and is payable through 2029. During the year ended June 30, 2020, the City paid principal of \$5,587 and interest of \$3,769 on the bond.

The resolution providing for the issuance of the revenue bond includes the following provisions:

- (a) The bond will be only redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) The City shall make annual payments of \$9,356, including interest at 5.0% per annum, to Farmers Home Administration in the years 1991 through 2029, inclusive.
- (c) User rates shall be established at a level which produces and maintains net receipts at a level net less than 125% the amount of principal and interest on the bond falling due in the same year.
- (d) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (e) Additionally, monthly transfers to a sewer revenue reserve account shall be made until an amount equal to the principal and interest due in any subsequent year has been accumulated. This account is restricted for the purpose of paying principal and interest payments on the bond.
- (f) All users of the System, including the City, shall pay for usage.

At June 30, 2020, the City did not establish user rates sufficient to produce and maintain net receipts at a level not less than 125% of the amount of principal and interest on the bonds falling due in the current year

Sewer Revenue Capital Loan Notes

On March 2, 2011, the City entered into an agreement with the Iowa Finance Authority (IFA) for the issuance of up to \$193,000 of sewer revenue capital loan notes with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements, extensions and a new pump station for the sewer utility system. At June 30, 2020, the City had drawn \$181,656, the final loan amount. An initiation fee of 1% of the authorized borrowing for the sewer revenue capital loan notes was charged by the Iowa Finance Authority and withheld from the first proceeds of the sewer revenue capital loan notes drawn by the City. The notes are payable solely from sewer customer net receipts and are payable through 2032. During the year ended June 30, 2020, the city paid principal of \$8,000 and interest of \$3,931 on the notes.

The resolution providing for the issuance of the sewer revenue capital loan notes includes the following provisions:

- (1) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (2) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

At June 30, 2020, the City did not establish user rates sufficient to produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the notes falling due in the current year.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$181,656 sewer revenue capital loan notes issued March 2011 and \$157,800 of sewer revenue bond issued in December 1988. The notes and bond are payable solely from sewer customer net receipts. Annual principal and interest payments on the notes and bond are expected to require over 100% of net receipts. The total amount of principal and interest remaining to be paid on the notes and bond at June 30, 2020 is \$237,619. For the current year, \$21,287 of principal and interest was paid and total customer net receipts were \$6,479.

Sewer Revenue Capital Loan Anticipation Project Note

On December 11, 2015, the City entered into an agreement with the Iowa Finance Authority for the issuance of up to \$405,000 of a sewer revenue capital loan anticipation project note with no interest. The note was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of planning and design related to the acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping all or part of the municipal sewer system. The note is payable from the proceeds of an authorized loan agreement and a corresponding issuance of sewer revenue capital loan notes in an amount sufficient to repay the note. During the year ended June 30, 2020, the City drew down \$9,670 on the note. At June 30, 2020, the City had drawn \$44,110 against the anticipation note and \$44,110 remains outstanding at that date. This anticipation note matures on December 11, 2021.

(4) Pension Plan

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

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

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

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

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

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

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

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

In fiscal year 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Utility contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Utility's contributions to IPERS for the year ended June 30, 2020 totaled \$3,054.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2020, the Utility reported a liability of \$18,743 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 Utility's proportion of the net pension liability was based on the Utility's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Utility's proportion was 0.000324%, which was an increase of 0.000155% over its proportion measured as of June 30, 2018.

For the year ended June 30, 2020 the Utility's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$3,448, \$2,946 and \$3,672, 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 Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 33,282	18,743	6,548

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

(5) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 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 City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the pool. The City's contributions to the Pool for the year ended June 30, 2020 were \$8,335. The Sewer Utility's share of the City's contributions to the Pool for the year ended June 30, 2020 was paid by the City.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. 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 City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$40,000, respectively. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) 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 City of Cincinnati Sewer Utility, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the City of Cincinnati Sewer Utility. 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 can not reasonably estimate the potential impact to the City of Cincinnati Sewer Utility's operations and finances.

Cincinnati Sewer Utility

Other Information

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

Other Information

Year ended June 30, 2020

	Actual	Budgeted Amount <u>Original/Final</u>	Final to Actual Variance
Receipts:			
Intergovernmental	\$ -	500,000	(500,000)
Use of money and property	342	-	342
Charges for service	97,056	98,000	(944)
Miscellaneous	260	-	260
Total receipts	97,658	598,000	(500,342)
Disbursements:			
Business type activities	112,190	603,613	491,423
Change in cash balance	(14,532)	(5,613)	(8,919)
Cash balance beginning of year	114,523	199,785	(85,262)
Cash balance end of year	\$ 99,991	194,172	(94,181)

See accompanying accountant's compilation report.

Cincinnati Sewer Utility

Notes to Other Information – Budgetary Reporting

June 30, 2020

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

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Sewer Utility's disbursements are budgeted in the City's business type activities function. The Sewer Utility's budget is reflected in the original and final budgeted amount. The Sewer Utility's budget was not amended during the year.

During the year ended June 30, 2020, disbursements in the business type activities function, which includes the Sewer Utility, did not exceed the amount budgeted.

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

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

Other Information

	2020	2019	2018	2017
Utility's proportion of the net pension liability	0.000324%	0.000169%	0.000136%	0.000157%
Utility's proportionate share of the net pension liability	\$ 18,743	10,685	9,080	9,877
Utility's covered payroll	\$ 26,254	11,923	19,563	12,475
Utility's proportionate share of the net pension liability as a percentage of its covered payroll	71.39%	89.62%	46.41%	79.17%
Plan fiduciary net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%

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

See accompanying accountant's compilation report.

<u>2016</u>	<u>2015</u>
0.000145%	0.000190%
7,169	12,662
16,546	20,896
43.33%	60.60%
85.19%	87.61%

Cincinnati Sewer Utility

Schedule of Sewer Utility Contributions

Iowa Public Employees' Retirement System
For the Last Eight Years

Other Information

	2020	2019	2018	2017
Statutorily required contribution	\$ 3,054	2,345	1,065	1,747
Contributions in relation to the statutorily required contribution	(3,054)	(2,345)	(1,065)	(1,747)
Contribution deficiency (excess)	\$ -	-	-	-
Utility's covered payroll	\$ 32,355	26,254	11,923	19,563
Contributions as a percentage of covered payroll	9.44%	8.93%	8.93%	8.93%

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

See accompanying accountant's compilation report.

2016	2015	2014	2013
1,114	1,478	1,866	646
(1,114)	(1,478)	(1,866)	(646)
-	-	-	-
12,475	16,546	20,896	7,451
8.93%	8.93%	8.93%	8.67%

Cincinnati Sewer Utility

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

Cincinnati Sewer Utility
Schedule of Indebtedness
Year ended June 30, 2020

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Farmer's Home Administration sewer revenue bond	Dec 15, 1988	5.00%	\$ 157,800
Sewer revenue capital loan notes	Mar 2, 2011 *	3.00	\$ 181,656
Sewer revenue capital loan anticipation project notes	Dec 11, 2015	0.00	\$ 44,110

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

See accompanying accountant's compilation report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
75,391	-	5,587	69,804	3,769
131,000	-	8,000	123,000	3,931
34,440	9,670	-	44,110	-

Cincinnati Sewer Utility

Cincinnati Sewer Utility
 Bond and Note Maturities
 June 30, 2020

Year Ending June 30,	Sewer					
	Revenue Bond			Revenue Notes		
	Issued Dec 15, 1988			Issued March 2, 2011		
	Interest		Interest			
	Rates	Amount	Rates	Amount	Total	
2021	5.00%	\$ 5,866	3.00%	\$ 9,000	14,866	
2022	5.00	6,159	3.00	9,000	15,159	
2023	5.00	6,467	3.00	9,000	15,467	
2024	5.00	6,791	3.00	9,000	15,791	
2025	5.00	7,130	3.00	10,000	17,130	
2026	5.00	7,486	3.00	10,000	17,486	
2027	5.00	7,861	3.00	10,000	17,861	
2028	5.00	8,254	3.00	11,000	19,254	
2029	5.00	13,790	3.00	11,000	24,790	
2030		-	3.00	11,000	11,000	
2031		-	3.00	12,000	12,000	
2032		-	3.00	12,000	12,000	
Total		<u>\$ 69,804</u>		<u>\$ 123,000</u>	<u>192,804</u>	

See accompanying accountant's compilation report.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2020

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

(A) City Council Oversight

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

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

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

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

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

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

Conclusion – Response accepted.

(B) Segregation of Duties

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

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

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

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2020

- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Computer system – performing all general accounting functions and controlling all data input and output.
- (9) Compensated absences – maintaining records and balances.

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

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

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

Response – The City (including the Sewer Utility) has implemented as many control procedures as is possible with the limited staff available. The designated signatories and the City Council review the disbursements and the Mayor reviews the bank statement reconciliations. A monthly financial packet is presented for the Council’s approval and includes a balance sheet of all financial assets, an income and expenditures statement along with a profit and loss statement and a budget versus actual report for comparing year to date totals. The City continues to use the initial receipts register implemented for utility payments. The City has implemented new accounting software for a more accurate capture and reporting of receipts and disbursements. The City will continue to review procedures to see if additional oversight and control can be achieved.

Conclusion – Response accepted.

(C) Monthly City Clerk’s Report

Criteria – An effective internal control system provides for internal controls related to accurate and complete financial reporting and monitoring of actual to budgeted disbursements.

Condition – There was no evidence that comparisons of total disbursements by function to the certified budget were provided to the City Council.

Cause – City policies and procedures have not been established to require the City Council be provided with a comparison of actual to budgeted disbursements.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2020

Effect – The City Council is not provided with comparisons of total disbursements by function to the certified budget, which is needed to make informed decisions regarding the City.

Recommendation – Comparison of total disbursements for all funds to the certified budget by function should be included in the monthly financial reports to provide better control over budgeted disbursements and provide the opportunity for timely amendments to the budget.

Response – The City is working to develop a process to prepare monthly comparisons of total disbursements by function to the certified budget for the City Council.

Conclusion – Response accepted.

(D) Bank Reconciliations

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

Condition – The Enterprise, Sewer Fund activity is accounted for in a pooled bank account maintained by the City. A complete bank reconciliation, including all bank and investment accounts, is not prepared. At June 30, 2020, the bank balance was \$395 less than the City's general ledger balance.

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

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

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

Response – The City is working with its accounting system provider to develop and improve its bank reconciliation process. The Mayor reviews bank statements and reconciliations. The City is working on compiling a manual of job duties.

Conclusion – Response acknowledged. The City should also establish procedures to ensure monthly bank reconciliations that include all bank and investment accounts are prepared and independently reviewed on a timely basis.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2020

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

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

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

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

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

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

Response – The City is working on developing written policies and procedures to ensure utility billings, collections and delinquent accounts are reconciled monthly.

Conclusion – Response accepted.

(F) Computer System

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

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

Cause – Management has not required written policies for a disaster recovery plan and policies do not require regular backups of the computer system.

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

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2020

Recommendation – A written disaster recovery plan should be developed, and regular backups of the computer system should be performed.

Response – The City is in the process of preparing a written back-up tapes and disaster recovery plan.

Conclusion – Response accepted. Regular backups of the computer system should be performed.

(G) Accounting Policies and Procedures Manual

Criteria – Accounting policies and procedures manuals provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

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

Cause – Procedures have not been designed and implemented to ensure an accounting manual exists to aid staff in their duties.

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

Recommendation – An accounting policies and procedures manual should be developed for the Sewer Utility.

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

Conclusion – Response accepted.

(H) Compensated Absences

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

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

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2020

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

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

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

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

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2020

Findings Related to Statutory Matters:

- (1) Deposit and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

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

Response – The Sewer Utility is researching how to write an investment policy and will work with the City to develop an investment policy in accordance with Chapter 12B.10B of the Code of Iowa.

Conclusion – Response accepted.

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

Insurer	Description	Amount	Expiration Date
Iowa Communities Assurance Pool	Property	\$ 2,608,592	Feb 15, 2021
	General liability	2,000,000	Feb 15, 2021
	Auto liability	2,000,000	Feb 15, 2021
	Wrongful acts official liability	2,000,000	Feb 15, 2021
	Law enforcement liability	2,000,000	Feb 15, 2021
	Auto physical damage	231,546	Feb 15, 2021
	Crime	10,000	Feb 15, 2021
Iowa Municipalities Workers Compensation Association	Workers' Compensation	1,000,000	Jul 1, 2020

Statistical Information

Description	Amount
Sewer customers served at June 30, 2020	169
Sewer rates in effect at June 30, 2020	
First 1,000 gallons or less per month	\$ 29.36
All over 1,000 gallons, per month, per 1,000 gallons	\$ 11.91

- (3) Revenue Bonds/Notes – Section 7 of the March 2, 2011 sewer revenue capital loan and disbursement agreement with the Iowa Finance Authority requires the City to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue notes and any other obligations secured by a pledge of the net revenues falling due in the same year. The City has not established sewer rates to produce net operating revenues equal to at least 110% of the principal and interest coming due each year as required by the sewer revenue capital loan notes. The City's fiscal year 2020 operating receipts over operating disbursements (net revenues) of \$6,479 for the Cincinnati Sewer Utility are less than the required debt service payments for the sewer revenue capital loan notes of \$13,124.

Cincinnati Sewer Utility

Schedule of Findings

Year ended June 30, 2020

Recommendation – The City should ensure net operating receipts for the Sewer Utility are sufficient to make required debt service payments and comply with the revenue capital loan and disbursement agreement.

Response – The City increased water/sewer rates effective January 1, 2021.

Conclusion – Response accepted.

- (4) Revenue Bonds/Notes – Section 14 of the December 15, 1988 Farmer’s Home Administration Sewer Revenue Bond and disbursement agreement with the Farmers Home Administration, United States Department of Agriculture requires the City to produce and maintain net revenues at a level not less than 125% of the amount of principal and interest on the revenue notes and any other obligations secured by a pledge of the net revenues falling due in the same year. The City has not established sewer rates to produce net operating revenues equal to at least 125% of the principal and interest coming due each year as required by the sewer revenue capital loan notes. The City’s fiscal year 2020 operating receipts over operating disbursements (net revenues) of \$6,479 for the Cincinnati Sewer Utility are less than the required debt service payments for the sewer revenue capital loan notes of \$11,695.

Recommendation – The City should ensure net operating receipts for the Sewer Utility are sufficient to make required debt service payments and comply with the revenue capital loan and disbursement agreement.

Response – The City increased water/sewer rates effective January 1, 2021.

Conclusion – Response accepted.

Cincinnati Sewer Utility

Staff

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