



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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Des Moines, Iowa 50319-0006
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NEWS RELEASE

FOR RELEASE

September 17, 2024

Contact: Brian Brustkern
515/281-5834

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

FINANCIAL HIGHLIGHTS:

The Waterworks' receipts totaled \$5,654,073 for the year ended June 30, 2023, a 52.7% increase over the prior year. Disbursements for the year ended June 30, 2023 totaled \$4,296,092, a 41.5% increase over the prior year. The increase in receipts is attributable to higher water receipts due to a significant increase in usage from a local business and the increase in disbursements is primarily due to water main replacement projects and purchases of meters and equipment during fiscal year 2023.

AUDIT FINDINGS:

Sand reported four findings related to the receipt and disbursement of taxpayer funds. The findings are found on page 34 through 37 of this report. The findings address a lack of segregation of duties, bank reconciliation unresolved variances, and a lack of reconciliation of payroll withholdings. Sand provided the Waterworks with recommendations to address the findings.

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

A copy of the audit report is available for review on the Auditor of State's website at [Audit Reports – Auditor of State](#).

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PERRY MUNICIPAL WATERWORKS

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

JUNE 30, 2023

Perry Municipal Waterworks



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STATE OF IOWA

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Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

Rob Sand
Auditor of State

July 24, 2024

Officials of the Perry Municipal Waterworks
Perry, Iowa

Dear Board of Trustee Members:

I am pleased to submit to you the financial and compliance audit report for the Perry Municipal Waterworks for the year ended June 30, 2023. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

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

Sincerely,

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

Rob Sand
Auditor of State

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Perry Municipal Waterworks

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marcus Carris	Chairperson/Trustee	Apr 2025
Denise Levan	Trustee	Apr 2027
John Wuebker	Trustee	Apr 2029
Matthew Holmes	Superintendent	Indefinite
Pamela Ballard	Accounting and Billing Manager	Indefinite

Perry Municipal Waterworks



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Independent Auditor's Report

To the Board of Trustees of the Perry Municipal Waterworks:

Report on the Audit of the Financial Statement

Opinion

We have audited the accompanying financial statement of the Perry Municipal Waterworks, Perry, Iowa, as of and for the year ended June 30, 2023, and the related Notes to Financial Statement, which collectively comprise the Waterworks' basic financial statements as listed in the table of contents.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Perry Municipal Waterworks as of June 30, 2023, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statement section of our report. We are required to be independent of the Perry Municipal Waterworks, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Perry Municipal Waterworks' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Perry Municipal Waterworks' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Perry Municipal Waterworks' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Perry Municipal Waterworks' financial statement. The supplementary information included in Schedule 1, is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement, or to the basic financial statement itself and other additional procedures in accordance with GAAS. In our opinion, the supplementary information in Schedule 1 is fairly stated, in all material respects, in relation to the basic financial statement as a whole.

Other Information

Management is responsible for the other information included in this report. The other information comprises the Budgetary Comparison Information, the Schedule of the Waterworks' Proportionate Share of the Net Pension Liability (Asset) and the Schedule of Waterworks Contributions on pages 20 through 28 but does not include the basic financial statement and our auditor's report thereon. Our opinion on the basic financial statement does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statement, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statement, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 24, 2024 on our consideration of the Perry Municipal Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Perry Municipal Waterworks' internal control over financial reporting and compliance.



Brian R. Brustkern, CPA
Deputy Auditor of State

July 24, 2024

Perry Municipal Waterworks

Basic Financial Statement

Perry Municipal Waterworks

Perry Municipal Waterworks

Statement of Cash Receipts, Disbursements
and Changes in Cash Balance

As of and for the year ended June 30, 2023

Operating receipts:	
Charges for service	\$ 3,975,121
Miscellaneous	<u>169,527</u>
Total operating receipts	<u>4,144,648</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	1,022,046
Distribution operation and maintenance	351,381
Administration	<u>516,396</u>
Total operating disbursements	<u>1,889,823</u>
Excess of operating receipts over operating disbursements	<u>2,254,825</u>
Non-operating receipts (disbursements):	
Interest on investments	27,571
Rental income	40,951
Sewer and garbage fees collected for the City	1,440,903
Sewer and garbage fees remitted to the City	(1,440,903)
Capital outlay	<u>(965,366)</u>
Net non-operating receipts (disbursements)	<u>(896,844)</u>
Change in cash balance	1,357,981
Cash balance beginning of year	<u>2,774,389</u>
Cash balance end of year	<u>\$ 4,132,370</u>
Cash Basis Fund Balance	
Restricted for customer water deposits	\$ 201,480
Unrestricted	<u>3,930,890</u>
Total cash basis fund balance	<u>\$ 4,132,370</u>

See notes to financial statement.

Perry Municipal Waterworks

Notes to Financial Statements

June 30, 2023

(1) Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation

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

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

C. Basis of Accounting

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

D. Fund Balance

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

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The Waterworks' deposits at June 30, 2023 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Leases Payable

A summary of changes in long-term debt for the year ended June 30, 2023 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Lease agreements	\$ 9,146	-	8,179	967	967

Lease Agreements

On July 10, 2018, the Waterworks entered into a noncancelable lease agreement for a copier. The agreement requires monthly payments of \$243 over 63 months, with an implicit interest rate of 2.6% and a final payment on October 1, 2023.

Year Ending June 30,	Copier		
	Principal	Interest	Total
2024	\$ 967	5	972

(4) Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned compensated absences payable to employees at June 30, 2023 is \$54,000. This liability has been computed based on rates of pay in effect at June 30, 2023.

(5) Intrafund Transfers

The detail of intrafund transfers for the year ended June 30, 2023 is as follows:

Transfer to	Transfer from	Amount
Enterprise: Self Insurance	Enterprise: Waterworks	\$ 15,939

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

(6) Risk Management

The Waterworks is included under the insurance for the City of Perry. The City of Perry is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 800 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, employment practices liability, public officials liability, cyber liability and law enforcement liability. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Waterworks' property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The Waterworks' contributions to the Pool for the year ended June 30, 2023 were \$28,937.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, employment practices, law enforcement, cyber, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the member's risk-sharing certificate. Property and automobile physical damage 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 member's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the member'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, 2023, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The Waterworks is also included under the City of Perry's commercial insurance purchased from other insurers for coverage associated with worker's compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Pension Plan

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

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B 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 2023, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Waterworks contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Waterworks’ contributions to IPERS for the year ended June 30, 2023 totaled \$58,851.

Net Pension Liability, Pension Expense (Reduction), Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2023, the Waterworks reported a liability of \$278,717 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Waterworks’ proportion of the net pension liability was based on the Waterworks’ share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2022, the Waterworks’ proportion was 0.007377%, which was an increase of 0.010227% over its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the Waterworks’ pension expense (reduction), deferred outflows of resources and deferred inflows of resources totaled (\$4,002), \$282,452 and \$303,522, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

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, 2022 valuation were based on the results of a quadrennial experience study covering the period of July 1, 2017 through June 30, 2021.

Mortality rates used in the 2022 valuation were based on the PubG-2010 mortality tables with future mortality improvements modeled using Scale MP-2021.

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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	3.57%
International equity	17.5	4.79
Global smart beta equity	6.0	4.16
Core plus fixed income	20.0	1.66
Public credit	4.0	3.77
Cash	1.0	0.77
Private equity	13.0	7.57
Private real assets	8.5	3.55
Private credit	8.0	3.63
Total	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Waterworks will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Waterwork's proportionate share of the net pension liability	\$ 519,282	278,717	66,712

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.

(8) Water Tank Maintenance Contract

In August 2015, the Waterworks entered into an agreement with Utility Service Co. for the maintenance of the 500,000-gallon concrete water tank, including annual inspections of the tank, repair, cleaning and repainting the interior and exterior of the tank. The contract is for an indefinite period of time. Beginning July 30, 2017, the first four annual fees are \$98,620 per contract year. The annual fee for contract year 5 will be \$9,529 per contract year. Beginning in contract year six and each anniversary thereafter, the annual fee will be adjusted to reflect the current cost of service, with a maximum change of 5% per annum. During the year ended June 30, 2023 the Waterworks paid \$39,115 under the contract.

(9) Subsequent Event

On August 10, 2023, the Waterworks entered into a contract with Midwest Injections, Inc. for an amount not to exceed \$400,000 for a water treatment plant residuals removal project. In October 2023, two change orders were approved which increased the contract amount by \$438,599 for the removal of additional residuals, bringing the total amount of the contract to \$838,599.

Other Information

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

Other Information

Year ended June 30, 2023

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Use of money and property	\$ 68,522	-	68,522
Charges for service	5,416,024	1,440,903	3,975,121
Miscellaneous	169,527	-	169,527
Total receipts	5,654,073	1,440,903	4,213,170
Disbursements:			
Business type activities	4,296,092	1,440,903	2,855,189
Change in cash balance	1,357,981	-	1,357,981
Cash balance beginning of year	2,774,389	-	2,774,389
Cash balance end of year	\$ 4,132,370	-	4,132,370

See accompanying independent auditor's report.

<u>Budgeted</u> <u>Amounts</u> <u>Original/Final</u>	<u>Final</u> <u>to Net</u> <u>Variance</u>
64,460	4,062
3,989,550	(14,429)
152,950	16,577
<hr/> 4,206,960	6,210
<hr/> 3,028,409	173,220
1,178,551	179,430
<hr/> 1,330,652	1,443,737
<hr/> 2,509,203	1,623,167

Perry Municipal Waterworks

Perry Municipal Waterworks

Notes to Other Information – Budgetary Reporting

June 30, 2023

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

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function.

During the year ended June 30, 2023, disbursements did not exceed the amount budgeted.

Perry Municipal Waterworks

Schedule of the Waterworks' Proportionate Share of the Net Pension Liability (Asset)

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

Other Information

	2023	2022	2021	2020
Waterworks' proportion of the net pension liability (asset)	0.007377%	(0.002850)% **	0.007211%	0.006981%
Waterworks' proportionate share of the net pension liability	\$ 279	10	507	404
Waterworks' covered payroll	\$ 594	570	572	531
Waterworks' proportionate share of the net pension liability as a percentage of its covered payroll	46.97%	1.75%	88.64%	76.08%
IPERS' net position as a percentage of the total pension liability (asset)	91.40%	100.81%	82.90%	85.45%

* 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.

** Overall plan net pension asset.

See accompanying independent auditor's report.

2019	2018	2017	2016	2015
0.006864%	0.006507%	0.006980%	0.007093%	0.007514%
434	434	439	350	298
516	486	501	486	495
84.11%	89.30%	87.62%	72.02%	60.20%
83.62%	82.21%	81.82%	85.19%	87.61%

Perry Municipal Waterworks

Schedule of Waterworks' Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years

Other Information

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Statutorily required contribution	\$ 58,851	56,088	53,767	54,026
Contributions in relation to the statutorily required contribution	<u>(58,851)</u>	<u>(56,088)</u>	<u>(53,767)</u>	<u>(54,026)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Waterworks' covered payroll	\$ 623,424	594,151	569,571	572,310
Contributions as a percentage of covered payroll	9.44%	9.44%	9.44%	9.44%

See accompanying independent auditor's report.

2019	2018	2017	2016	2015	2014
50,150	46,068	43,376	44,731	43,393	44,241
(50,150)	(46,068)	(43,376)	(44,731)	(43,393)	(44,241)
-	-	-	-	-	-
531,248	515,880	485,735	500,913	485,916	495,419
9.44%	8.93%	8.93%	8.93%	8.93%	8.93%

Perry Municipal Waterworks

Notes to Other Information – Pension Liability

Year ended June 30, 2023

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2022 valuation incorporated the following refinements after a quadrennial experience study:

- Changed mortality assumptions to the PubG-2010 mortality tables with mortality improvements modeled using Scale MP-2021.
- Adjusted retirement rates for Regular members.
- Lowered disability rates for Regular members.
- Adjusted termination rates for all membership groups.

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

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

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

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

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

Supplementary Information

Schedule 1

Perry Municipal Waterworks

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

As of and for the year ended June 30, 2023

	Water Works	Customer Deposit	Water Improvement	Self Insurance	Total
Operating receipts:					
Charges for service:					
Sale of water	\$ 3,929,348	-	-	-	3,929,348
Other charges for service	45,281	-	-	-	45,281
Installations and connections	492	-	-	-	492
	<u>3,975,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,975,121</u>
Miscellaneous:					
Water excise tax	103,575	-	-	-	103,575
Customer deposits	-	41,106	-	-	41,106
Miscellaneous	24,846	-	-	-	24,846
	<u>128,421</u>	<u>41,106</u>	<u>-</u>	<u>-</u>	<u>169,527</u>
Total operating receipts	<u>4,103,542</u>	<u>41,106</u>	<u>-</u>	<u>-</u>	<u>4,144,648</u>
Operating disbursements:					
Business type activities:					
Plant operation and maintenance:					
Salaries	221,723	-	-	-	221,723
Employee benefits	106,368	-	-	-	106,368
Contractual services	233,075	-	-	-	233,075
Commodities	460,880	-	-	-	460,880
	<u>1,022,046</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,022,046</u>
Distribution operation and maintenance:					
Salaries	195,260	-	-	-	195,260
Employee benefits	89,194	-	-	-	89,194
Contractual services	54,531	-	-	-	54,531
Commodities	12,396	-	-	-	12,396
	<u>351,381</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>351,381</u>
Administration:					
Salaries	208,078	-	-	-	208,078
Employee benefits	86,537	-	-	15,949	102,486
Contractual services	83,013	25,726	-	-	108,739
Sales tax remitted	72,310	-	-	-	72,310
Commodities	24,783	-	-	-	24,783
	<u>474,721</u>	<u>25,726</u>	<u>-</u>	<u>15,949</u>	<u>516,396</u>
Total operating disbursements	<u>1,848,148</u>	<u>25,726</u>	<u>-</u>	<u>15,949</u>	<u>1,889,823</u>

	Water Works	Customer Deposit	Water Improvement	Self Insurance	Total
Excess (deficiency) of operating receipts over (under) operating disbursements	2,255,394	15,380	-	(15,949)	2,254,825
Non-operating receipts (disbursements):					
Interest on investments	24,320	-	3,239	12	27,571
Rental income	40,951	-	-	-	40,951
Sewer and garbage fees collected for the City	1,440,903	-	-	-	1,440,903
Sewer and garbage fees remitted to the City	(1,440,903)	-	-	-	(1,440,903)
Capital outlay	(965,366)	-	-	-	(965,366)
Total non-operating receipts (disbursements)	(900,095)	-	3,239	12	(896,844)
Excess (deficiency) of receipts over (under) disbursements	1,355,299	15,380	3,239	(15,937)	1,357,981
Transfers in (out):					
Transfers in	-	-	-	15,939	15,939
Transfers out	(15,939)	-	-	-	(15,939)
Total transfers in (out)	(15,939)	-	-	15,939	-
Change in cash balances	1,339,360	15,380	3,239	2	1,357,981
Cash balances beginning of year	2,226,493	186,100	339,037	22,759	2,774,389
Cash balances end of year	\$ 3,565,853	201,480	342,276	22,761	4,132,370

See accompanying independent auditor's report.



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of the Perry Municipal Waterworks:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statement of the Perry Municipal Waterworks as of and for the year ended June 30, 2023, and the related Notes to Financial Statement, which collectively comprise the Waterworks' basic financial statement, and have issued our report thereon dated July 24, 2024. 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Perry Municipal Waterworks' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Perry Municipal Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Perry Municipal Waterworks' internal control.

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 were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 that a material misstatement of the Waterworks' financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2023-001 and 2023-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item 2023-003 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Perry Municipal Waterworks' financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 noncompliance or other matters which are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of noncompliance or other matters which is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2023 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Perry Municipal Waterworks' Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Perry Municipal Waterworks' responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Perry Municipal Waterworks' responses were not subjected to the other auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



Brian R. Brustkern, CPA
Deputy Auditor of State

July 24, 2024

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2023

Finding Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

2023-001 Segregation of Duties

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

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

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

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

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

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

Conclusion – Response accepted.

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2023

2023-002 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 – In January 2023, the Waterworks changed software for collecting online payments. They have been unable to reconcile their main operating bank accounts since this transition. The June 2023 reconciliation for the operating account has an unresolved variance of \$2,819. In addition, the water deposit fund has an unresolved variance of \$239 as of June 30, 2023.

Cause – Procedures have not been implemented to ensure all accounts are reconciled to the bank balance and are complete and accurate to ensure proper accounting for all funds.

Effect – The lack of complete and accurate bank reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – The Waterworks should establish procedures to ensure bank account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved immediately to improve financial accountability and control.

Response – We have contracted with Clifton Larson Allen to go back through all of the bank reconciliations to find the issues and find out why the issues are happening. Through this work it was identified that the timing of the collection of daily payments in our general ledger was different than the bank's causing our general ledger batch deposits to not agree to the bank statement batch deposits. We have since found a way to turn off the automatic closing and are able to close both batches at the same time. We will work to make sure any future variances are resolved timely.

Conclusion – Response accepted.

2023-003 Payroll Withholding

Criteria – Payroll withholdings should be reconciled to actual state and federal tax payments and IPERS payments.

Condition – Payroll withholdings are not reconciled to actual state and federal tax payments and IPERS payments that are automatically withdrawn from the Waterworks' bank account.

Cause – The Waterworks policies do not require, and procedures have not been established to ensure payroll withholdings recorded in the general ledger agree to the amounts withdrawn from the bank account.

Effect – Lack of policies and procedures could allow errors in payroll withholdings to remain undetected or not be corrected timely.

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2023

Recommendation – Policies and procedures should be developed to ensure payroll withholdings are reconciled to actual payments. Reconciliations should be reviewed by an independent person. The review should be documented by the signature or initials of the reviewer and the date of the review.

Response – We will implement procedures to ensure payroll withholdings agree to what is being paid and that this reconciliation is reviewed by an independent person.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Perry Municipal Waterworks

Schedule of Findings

Year ended June 30, 2023

Other Findings Related to Required Statutory Reporting:

- 2023-A Certified Budget – The budget certified by the City of Perry includes an amount budgeted for the Waterworks. Disbursements during the year ended June 30, 2023 did not exceed the amount budgeted for the Waterworks.
- 2023-B 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.
- 2023-C Travel Expense – No disbursements of Waterworks’ money for travel expenses of spouses of Waterworks’ officials or employees were noted.
- 2023-D Business Transactions – No business transactions between the Waterworks, Waterworks’ officials or employees were noted.
- 2023-E Restricted Donor Activity – No transactions were noted between Perry Waterworks, Waterworks’ officials and employees, and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- 2023-F Bond Coverage – Surety bond coverage of Waterworks’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure coverage is adequate for current operations.
- 2023-G Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

The Board of Trustees went into closed session on June 8, 2023. However, the minutes record did not document the reason for holding the closed session by reference to a specific exemption under Chapter 21.5 of the Code of Iowa, as required by Chapter 21.5(2) of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – The Waterworks should ensure when going into closed session, the minutes document the specific exemption under Chapter 21.5 of the Code of Iowa.

Response – Going forward we will document the specific exemption to enter a closed session as required by Chapter 21.5 of the Code of Iowa.

Conclusion – Response accepted.

- 2023-H Deposits and Investments – Deposits and investments were in compliance with the provisions of Chapter 12B and 12C of the Code of Iowa and the Waterworks’ investment policy.

Perry Municipal Waterworks

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Deputy
Lesley R. Geary, CPA, Manager
Taylor A. Hepp, Senior Auditor
Jared A. Marshall, Staff Auditor