

**MARION WATER DEPARTMENT
A COMPONENT UNIT OF THE
CITY OF MARION, IOWA**

MARION, IOWA

JUNE 30, 2017

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Officials

Name	Title	Term Expires
(Before January 1, 2017)		
William A. Kling	Chairperson	December 31, 2020
Gregory O. Hapgood	Trustee	December 31, 2016
John C. Bender	Trustee	December 31, 2021
Mary Ann McComas	Trustee	December 31, 2018
John D. McIntosh	Trustee	December 31, 2017
Todd R. Steigerwaldt	General Manager	Indefinite
(After January 1, 2017)		
John C. Bender	Chairperson	December 31, 2021
William A. Kling	Trustee	December 31, 2020
Gregory O. Hapgood	Trustee	December 31, 2022
Mary Ann McComas	Trustee	December 31, 2018
John D. McIntosh	Trustee	December 31, 2017
Todd R. Steigerwaldt	General Manager	Indefinite

Independent Auditor's Report

Board of Trustees
Marion Water Department
Marion, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the Marion Water Department, a component unit of the City of Marion, Iowa, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Marion Water Department's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial statements 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 Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion Water Department as of June 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information - Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions and the schedule of funding progress for the retiree health plan on pages 4 through 8 and 29 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2017 on our consideration of the Marion Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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 Marion Water Department's internal control over financial reporting and compliance.

HOGAN - HANSEN

HOGAN - HANSEN

Cedar Rapids, Iowa
November 13, 2017

Management's Discussion and Analysis

As management of the Marion Water Department, we offer readers of the Department's financial statements this narrative and analysis of the financial statements of the Marion Water Department for the fiscal year ended June 30, 2017, with a comparison to the prior fiscal year's results. We encourage readers to consider this information in conjunction with the Department's financial statements which follow.

FINANCIAL HIGHLIGHTS

The assets of the Marion Water Department exceeded its liabilities at the close of June 30, 2017 by \$23,837,155 (net position). Of this amount, \$3,407,794 (unrestricted net position) may be used to meet the Department's ongoing obligations to citizens and creditors.

The Department's net position increased by \$1,632,257 for the year ended June 30, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Marion Water Department's basic financial statements. The Department is a single-purpose enterprise component unit of the City of Marion, Iowa. The Department provides water to its customers at rates designed to recover the cost of providing the water, including costs associated with installation and maintenance of water pumping, storage and transmission systems. The Department also bills customers for sanitary sewer, garbage, stormwater and urban forest charges for the City of Marion. The Department remits all sanitary sewer, garbage, stormwater and urban forest fees collected to the City of Marion and charges the City an administrative fee for performing this service. As a result, the Department prepares financial statements in a manner similar to a private-sector business.

The statement of net position presents information on all of the Department's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the Department's net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statement of revenue, expenses and changes in net position presents information showing how the Department's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of the related cash flows. Thus, revenue and expenses are reported in this statement for some transactions that will not result in cash flows until future years.

The statement of cash flows presents information showing major sources and uses of cash by four types of activities. The activities are operating; noncapital financing; capital and related financing; and investing. Also included is a schedule which reconciles operating income to net cash provided by operating activities.

The basic financial statements can be found on pages 9 through 12 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Notes are considered to be an integral part of financial statements prepared in accordance with generally accepted accounting principles. The notes to the financial statements can be found on pages 13 through 28 of this report.

Required supplementary information further explains and supports the financial statements and include the Department's share of the net pension liability and related contributions, as well as presenting the schedule of funding progress for the retiree health plan.

FINANCIAL ANALYSIS

Statements of Net Position

This section discusses and analyzes significant differences between this and the prior fiscal year. The following is a summary of the composition of net position as of June 30:

	2017	2016
Cash	\$ 4,590,561	\$ 4,431,282
Other current assets	1,035,698	792,252
Capital assets	<u>22,625,361</u>	<u>20,567,921</u>
Total Assets	<u>28,251,620</u>	<u>25,791,455</u>
Deferred Outflows of Resources	<u>212,609</u>	<u>104,027</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 28,464,229</u>	<u>\$ 25,895,482</u>
Current liabilities	\$ 1,634,183	\$ 662,066
Long-term liabilities	<u>2,952,091</u>	<u>2,968,117</u>
Total Liabilities	<u>4,586,274</u>	<u>3,630,183</u>
Deferred Inflows of Resources	<u>40,800</u>	<u>60,401</u>
Net Position		
Net investment in capital assets.....	20,429,361	18,249,921
Unrestricted	<u>3,407,794</u>	<u>3,954,977</u>
Total Net Position	<u>23,837,155</u>	<u>22,204,898</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 28,464,229</u>	<u>\$ 25,895,482</u>

Net investment in capital assets is the largest portion of the Department's net position, 86% as of June 30, 2017, and reflects its net investment in capital assets (e.g., land, water plant distribution system and equipment). The Department uses these capital assets to provide water and services to the citizens; consequently, these assets are not available for future spending.

Unrestricted net position may be used to meet the Department's ongoing obligations to citizens and creditors. It is the Department's intention to use these assets for future operating purposes and capital asset acquisition and improvements.

Net position increased due to capital contributions of new subdivisions and water mains from developers totaling \$298,403 and operating and nonoperating income of \$1,333,854 for the fiscal year 2017. As of both June 30, 2017 and 2016, the Department reported positive balances in all categories of net position.

Governmental activities. Since the Department is a single-purpose enterprise, it has no activities classified as “governmental”.

Statement of Revenue, Expenses and Changes in Net Position

The following is a summary of the changes in net position for the years ended June 30:

	2017	2016
Operating revenue	\$ 4,259,915	\$ 4,011,514
Operating expenses.....	<u>2,926,895</u>	<u>2,886,448</u>
Operating Income.....	1,333,020	1,125,066
Net nonoperating revenue (expenses)	834	(16,986)
Net capital contributions.....	<u>298,403</u>	<u>591,411</u>
Change in Net Position	1,632,257	1,699,491
Net Position - Beginning of Year	<u>22,204,898</u>	<u>20,505,407</u>
Net Position - End of Year	<u>\$ 23,837,155</u>	<u>\$ 22,204,898</u>

Operating revenue is the Department’s primary source of revenue and is generated from water sales and other services to customers. For 2017, operating revenue increased \$248,401 from 2016.

Operating expenses totaled \$2,926,895 for 2017 a \$40,447 increase from 2016. These expenses represent the Department’s costs to provide water and services to customers. Operating expenses included depreciation expense of \$683,894 and \$641,440 for the years ended June 30, 2017 and 2016, respectively.

Net nonoperating revenue and expenses includes interest income, insurance recoveries, rent from leasing space, interest expense, debt service fees and loss on disposal of capital assets. Net nonoperating revenue increased by \$17,820 between 2017 and 2016. The increase was due mainly to an increase in interest income.

Capital contributions of \$298,403 were received from contractors due to subdivision development.

BUDGETARY HIGHLIGHTS

Each year, the City Council adopts a budget using the cash basis of accounting which differs from the accrual basis of accounting used for the accompanying financial statements. The Department’s budget is included in the total business-type activities budget of the City.

CAPITAL ASSETS AND LONG-TERM DEBT

The Department’s investment in capital assets amounted to approximately \$22.6 million and \$20.6 million as of June 30, 2017 and 2016, respectively, (net of accumulated depreciation of approximately \$6.4 million and \$5.8 million as of June 30, 2017 and 2016, respectively). This investment in capital assets includes land, construction in progress, land improvements, buildings, wells and towers, distribution system, equipment and vehicles.

The following is a summary of the capital assets, at cost, as of June 30:

	2017	2016
Land	\$ 474,126	\$ 474,126
Construction in progress	109,190	156,164
Land improvements	35,664	35,664
Building, wells and towers	7,033,818	5,946,438
Distribution system	20,150,216	18,577,426
Equipment and vehicles	1,245,964	1,130,690
Accumulated depreciation	<u>(6,423,617)</u>	<u>(5,752,587)</u>
Total	<u>\$ 22,625,361</u>	<u>\$ 20,567,921</u>

The following table reconciles the change in capital assets:

	2017	2016
Beginning balance	\$ 20,567,921	\$ 19,697,444
Additions	2,791,344	1,538,816
Deletions	(3,036)	(1,422)
Depreciation	(683,894)	(641,440)
Construction in progress, net	<u>(46,974)</u>	<u>(25,477)</u>
Ending Balance	<u>\$ 22,625,361</u>	<u>\$ 20,567,921</u>

Long-Term Debt

As of June 30, 2017, the Department had a \$2,196,000 bond outstanding, compared to \$2,318,000 last year, as shown below.

Outstanding Debt at Year End

	<u>June 30,</u>	
	2017	2016
SRF Bond Payable	<u>\$ 2,196,000</u>	<u>\$ 2,318,000</u>

Debt decreased as a result of principal payments made on the SRF construction bond.

ECONOMIC FACTORS

The unemployment rate for Linn County as of June 30, 2017 was 3.5%, which is 0.5% less than where it was the previous year and less than the national unemployment rate of 4.4%.

Retail sales are also reported on a fiscal year, July 1 to June 30, basis. For fiscal year 2015, retail sales were \$361.3 million for Marion and \$3.814 billion for Linn County. For fiscal year 2016, retail sales were \$364.4 million for Marion and \$3.8 billion for Linn County.

The total value of building permits for fiscal year 2017 was approximately \$68.8 million, which is up from the fiscal year 2016 amount of \$68.7 million.

NEXT YEAR'S BUDGET AND RATES

The Board of Trustees, under provisions of Section 388 of the Code of Iowa, establishes and approves the budget for the Department. As a component unit of the City of Marion, the Department's budget is filed for record as part of the City of Marion's budget.

FINANCIAL INFORMATION CONTACT

The Department's financial statements are designed to present users (citizens, customers and prospective customers) with a general overview of the Department's finances and to demonstrate the Department's accountability. If you have questions about the report or need additional financial information, please contact the Marion Water Department General Manager, City Hall, 1225 - 6th Avenue, Suite 150, Marion, Iowa 52302.

Basic Financial Statements

Statement of Net Position

As of June 30, 2017

Assets and Deferred Outflows of Resources

Current Assets

Cash.....	\$ 4,429,983
Receivables	
Trade accounts	303,093
Unbilled revenue	420,455
Inventories.....	<u>312,150</u>
Total Current Assets	<u>5,465,681</u>

Capital Assets

Land	474,126
Construction in progress.....	109,190
Land improvements	35,664
Buildings, wells and towers.....	7,033,818
Distribution system	20,150,216
Equipment and vehicles	<u>1,245,964</u>
Totals	29,048,978
Less accumulated depreciation	<u>(6,423,617)</u>
Total Capital Assets	<u>22,625,361</u>

Other Assets

Restricted cash - customer deposits.....	<u>160,578</u>
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Total Assets

	<u>28,251,620</u>
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Deferred Outflows of Resources

Pension-related deferred outflows	<u>212,609</u>
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Total Assets and Deferred Outflows of Resources

	<u>\$ 28,464,229</u>
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Statement of Net Position

As of June 30, 2017

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities

Accounts payable	\$ 1,115,567
Due to primary government	38,068
Self-insured premiums and estimated claims.....	55,910
Accrued interest	3,520
Accrued expenses.....	37,161
Compensated absences.....	81,849
Early separation plan liability	15,530
Current maturities of SRF bond payable.....	126,000
Payable from restricted assets - customer deposits.....	<u>160,578</u>
Total Current Liabilities.....	<u>1,634,183</u>

Long-Term Liabilities

Early separation plan liability	24,589
SRF loan payable	2,070,000
Net pension liability.....	756,502
Net OPEB liability	<u>101,000</u>
Total Long-Term Liabilities	<u>2,952,091</u>

Total Liabilities **4,586,274**

Deferred Inflows of Resources

Pension-related deferred inflows

40,800

Net Position

Net investment in capital assets	20,429,361
Unrestricted	<u>3,407,794</u>
Total Net Position	<u>23,837,155</u>

Total Liabilities, Deferred Inflows of Resources and Net Position..... **\$ 28,464,229**

Statement of Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2017

Operating Revenue

Water sales	\$ 3,849,706
Billing and collection fees	111,284
Other sales and services	232,832
Miscellaneous.....	66,093
Total Operating Revenue.....	<u>4,259,915</u>

Operating Expenses

Salaries and benefits	1,286,536
Contractual services	853,154
Commodities	89,558
Depreciation	683,894
Other	13,753
Total Operating Expenses	<u>2,926,895</u>

Operating Income **1,333,020**

Nonoperating Revenue (Expenses)

Interest income	30,312
Insurance recoveries	2,908
Lease and rental fees, net of expense	16,343
Interest expense	(41,748)
Bond servicing fee	(5,795)
Loss on disposal of fixed assets	(1,186)
Total Nonoperating Revenue	<u>834</u>

Change in Net Position Before Capital Contributions **1,333,854**
Capital contributions

Change in Net Position **1,632,257**

Net Position - Beginning of Year..... 22,204,898

Net Position - End of Year..... **\$ 23,837,155**

Statement of Cash Flows

Year Ended June 30, 2017

Cash Flows From Operating Activities

Cash received from customers	\$ 4,172,538
Cash collected on behalf of primary government	7,357,460
Cash paid to primary government	(7,357,460)
Cash paid to employees for services	(1,330,812)
Cash paid to suppliers for goods and services	(1,064,017)
Net Cash Provided by Operating Activities	<u>1,777,709</u>

Cash Flows From Noncapital Financing Activities

Lease and rental fees received	<u>16,343</u>
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Cash Flows From Capital and Related Financing Activities

Acquisition of capital assets	(1,500,507)
Insurance recoveries	2,908
Proceeds from sale of equipment	1,850
Principal paid on SRF bond	(122,000)
Interest paid on SRF bond	(41,943)
Bond servicing fee paid	(5,795)
Net Cash Used in Capital and Related Financing Activities	<u>(1,665,487)</u>

Cash Flows From Investing Activities

Interest received	<u>30,714</u>
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Net Increase in Cash **159,279**

Cash - Beginning of Year

	<u>4,431,282</u>
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Cash - End of Year **\$ 4,590,561**

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income	\$ 1,333,020
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	683,894
Changes in Assets and Liabilities	
Increase in trade accounts and unbilled revenue receivable	(98,317)
Increase in inventories	(145,531)
Increase in accounts payable due to primary government and self-insured premiums and estimated claims	37,979
Increase in accrued expenses, compensated absences, early separation plan liability, net pension liability and net OPEB liability	83,907
Increase in liabilities payable from restricted assets	10,940
Increase in pension-related deferred outflows	(108,582)
Decrease in pension-related deferred inflows	(19,601)

Net Cash Provided by Operating Activities **\$ 1,777,709**

Reconciliation of Cash to Specific Assets Included on the Statement of Net Position

Cash	\$ 4,429,983
Restricted cash - customer deposits	<u>160,578</u>

\$ 4,590,561

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Reporting Entity

The Marion Water Department (Department) is a municipal utility that is a political subdivision and component unit of the City of Marion, Iowa, located in Linn County. The Department provides water to customers within the City. The Department is governed by a Board of Trustees appointed by the City of Marion, Iowa, City Council and is managed by an administrator. All activities with which the Board has oversight responsibility are included in the financial statements. These financial statements of the Department are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Measurement Focus and Basis of Accounting

The Department is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when incurred.

The Department applies all applicable GASB pronouncements, as well as the following pronouncements unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Department distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the Department's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Department maintains its financial records on the cash basis. The financial statements of the Department are prepared by making memorandum adjusting entries to the cash basis financial records.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses.

The following accounting policies are followed in preparing the financial statements:

Cash - For purposes of the statement of cash flows, the Department considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Trade Accounts Receivable - Utility sales are billed bimonthly. Payment is due within 20 days of billing. After proper notice, unless other arrangements are made by the customer, service may be discontinued to customers with unpaid bills 30 days or more past due. Uncollected accounts are normally written off against water sales after 90 days. Historically, account balances written off have not been material. Department management estimates that all trade accounts receivable as shown on the balance sheet will be collectible.

Unbilled Revenue Receivable - Sales of water used from the time of the last meter reading prior to June 30 that have not been billed and the resulting receivable is not included in trade receivables. The Department estimates unbilled revenue based on the proportion of unbilled days in June to the number of days in the billing period times the amount billed in July. The result is reported as unbilled revenue receivable.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Inventories - Inventories are valued at cost using the first-in/first-out method and consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Capital Assets - Capital assets consist of property, equipment and vehicles and infrastructure assets (e.g. buildings, wells, towers and distribution system which are immovable and of value only to the Department). Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the Department as assets with initial, individual costs in excess of \$5,000.

Capital assets of the Department are depreciated using the straight-line method over the following estimated useful lives.

Asset Class	Estimated Useful Lives
Land improvements.....	50 Years
Buildings, wells and towers	5 - 50 Years
Distribution system.....	10 - 100 Years
Equipment and vehicles	6 - 50 Years

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Compensated Absences and Early Separation Plan - Department employees accumulate a limited amount of earned but unused vacation hours and compensatory time off for subsequent use or for payment upon termination, death or retirement. In addition, Department employees who elect an early separation agreement at retirement may receive the benefits outlined as follows: three and one-half months of salary as well as the equivalent of two years of health insurance coverage paid by the Department; however, with Trustee approval the benefit formula could vary. As of June 30, 2017, the Department had an estimated liability of \$40,119 under the early separation agreement.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Although certain revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Operating Revenue - The Department defines operating revenue as revenue derived from the sale of water billing and collection fees and other sales and services provided to customers. Nonoperating revenue is defined as anything other than revenue from the sale of water.

Budgeting - The Department's budget is included as part of the City's budget and is prepared on the cash basis of accounting. Disbursements are for legal budget compliance, combined for all City proprietary activities. Budget amounts for capital outlay, debt service and transfers out are presented on a combined basis only. The Utility's budget and comparison to cash basis activity is as follows:

Business-Type Activity - Water

Actual disbursements.....	\$ 2,975,624
Budgeted disbursements.....	<u>5,671,470</u>
Actual Disbursements Under Budget	<u>\$ (2,695,846)</u>

Restricted Resources - The Department first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Unrestricted resources are used once the restricted resources have been depleted.

(2) Cash Flow Statement Supplementary Information

Schedule of Noncash Investing and Financing Activities

Cost of capital asset acquisitions.....	\$ 2,744,370
Amounts Payable	
Current year	(975,668)
Prior year.....	30,208
Contributed capital.....	<u>(298,403)</u>
Cash Paid for Acquisition of Capital Assets	<u>\$ 1,500,507</u>

(3) Cash and Investments

The Department's deposits are 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.

Notes to the Financial Statements

(3) Cash and Investments

The Department 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 and the Treasurer of the State of Iowa; 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 Department had no investments meeting the disclosure requirements of GASB Statement No. 72.

(4) Restricted Assets

Restricted assets represent monies set aside to provide security for customer deposits and advances. As of June 30, 2017, \$160,578 of cash was restricted for application to unpaid customer accounts or for refunds to customers.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 474,126	\$ —	\$ —	\$ 474,126
Construction in progress	<u>156,164</u>	<u>1,580,888</u>	<u>1,627,862</u>	<u>109,190</u>
Total Capital Assets Not Being Depreciated.....	<u>630,290</u>	<u>1,580,888</u>	<u>1,627,862</u>	<u>583,316</u>
Capital Assets Being Depreciated				
Land improvements.....	35,664	—	—	35,664
Buildings, wells and towers	5,946,438	1,087,380	—	7,033,818
Distribution system.....	18,577,426	1,572,790	—	20,150,216
Equipment and vehicles	<u>1,130,690</u>	<u>131,174</u>	<u>15,900</u>	<u>1,245,964</u>
Total Capital Assets Being Depreciated.....	<u>25,690,218</u>	<u>2,791,344</u>	<u>15,900</u>	<u>28,465,662</u>
Less Accumulated Depreciation for				
Land improvements.....	1,724	713	—	2,437
Buildings, wells and towers	1,005,840	163,521	—	1,169,361
Distribution system.....	4,351,259	454,702	—	4,805,961
Equipment and vehicles	<u>393,764</u>	<u>64,958</u>	<u>12,864</u>	<u>445,858</u>
Total Accumulated Depreciation	<u>5,752,587</u>	<u>683,894</u>	<u>12,864</u>	<u>6,423,617</u>
Net Capital Assets Being Depreciated.....	<u>19,937,631</u>	<u>2,107,450</u>	<u>3,036</u>	<u>22,042,045</u>
Net Capital Assets	<u>\$ 20,567,921</u>	<u>\$ 3,688,338</u>	<u>\$ 1,630,898</u>	<u>\$ 22,625,361</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2017 is as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year	Due Within One Year	Interest Rate
Business-Type Activities						
Early separation plan liability	\$ 55,648	\$ —	\$ 15,529	\$ 40,119	\$ 15,530	N/A
SRF bond payable.....	2,318,000	—	122,000	2,196,000	126,000	3.0%
Net pension liability....	632,999	123,503	—	756,502	—	N/A
Net OPEB liability	99,000	2,000	—	101,000	—	N/A
Total	<u>\$ 3,105,647</u>	<u>\$ 125,503</u>	<u>\$ 137,529</u>	<u>\$ 3,093,621</u>	<u>\$ 141,530</u>	

In October, 2010, the Department, through the City of Marion, issued water revenue bonds (Build America Bonds) in the amount of \$3.5 million to repay the planning loan and fund the remaining costs of the planning and designing and constructing improvements and extensions to the Municipal Waterworks System. In December, 2010, the Build America Bond agreement was to draw all remaining funds and place them in the custody of an escrow agent. In February, 2013, the bond was finalized for \$2,898,000 after the Department returned \$602,000 of unspent funds which were applied to the principal of the bond.

The bond bears interest at 3%, of which 1.05% is reimbursed to the Department through the Build America Bond program. The agreement also requires the Department to annually pay a 0.25% servicing fee on the outstanding principal balance.

The bond is payable in semiannual installments and is payable in full in June, 2031. Annual principal and interest payments on the bonds are expected to be paid from net receipts of the system. Total principal and net interest remaining to be paid on the bonds is \$2,539,473. For the current year, principal paid, interest paid and total customer net receipts were \$122,000, \$41,943 and \$2,016,914, respectively.

The resolution providing for the issuance of the water revenue bonds (Build America Bonds) includes the following provisions:

- The bond is payable from the net revenue of the Utility.
- Produce and maintain net revenue at a level not less than 110% of the amount of principal and interest due during the fiscal year.
- Sufficient monthly transfers shall be made to the water revenue bond sinking fund for the purpose of making principal and interest payments when due.

During the year ended June 30, 2017, the Department was in compliance with the bond provisions.

Notes to the Financial Statements

(6) Long-Term Liabilities

Annual debt service requirements to maturity for the water revenue bonds as of June 30, 2017 are as follows:

Year Ending June 30,	Principal	Net Interest (After Build America Bond Reimbursement - 1.05%)
2018	\$ 126,000	\$ 42,822
2019	130,000	40,365
2020	135,000	37,830
2021	139,000	35,198
2022	144,000	32,487
2023-2027	791,000	118,560
2028-2031	731,000	36,211
Total	<u>\$ 2,196,000</u>	<u>\$ 343,473</u>

(7) Pension and Retirement Benefits

Plan Description

IPERS membership is mandatory for employees of the Department. Employees of the Department are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. 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, anytime 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. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Notes to the Financial Statements

(7) Pension and Retirement Benefits

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 that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that 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. Statute limits the amount rates can increase or decrease each year to one percentage point. IPERS' Contribution Rate Funding Policy requires that 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 2017, pursuant to the required rate, regular members contributed 5.95% of covered payroll and the Department contributed 8.93% for a total rate of 14.88%.

The Department contributions to IPERS for the year ended June 30, 2017 were \$86,603.

Net Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2017, the Department reported a liability of \$756,502 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the net pension liability was based on the Department's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. As of June 30, 2016, the Department's proportion was 0.012021% which was a decrease of 0.000792% from its proportion measured as of June 30, 2015.

Notes to the Financial Statements

(7) Pension and Retirement Benefits

For the year ended June 30, 2017, the Department recognized pension expense of \$81,923. As of June 30, 2017, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,686	\$ 9,029
Changes of assumptions	11,542	—
Net difference between projected and actual earnings on IPERS' investments.....	107,778	—
Changes in proportion and differences between Department contributions and Department's proportionate share of contributions	—	31,771
Department contributions subsequent to the measurement date	<u>86,603</u>	<u>—</u>
Total	<u>\$ 212,609</u>	<u>\$ 40,800</u>

\$86,603 reported as deferred outflows of resources related to pensions resulting from the Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,

2018	\$ 6,773
2019	6,773
2020	49,056
2021	25,190
2022	<u>(2,586)</u>
Total	<u>\$ 85,206</u>

There were no nonemployer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3% per annum.
Salary increases (effective June 30, 2010)	4% to 17%, average, including inflation. Rates vary by membership group.
Investment rate of return (effective June 30, 1996)	7.5% per annum, compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4% per annum, based on 3% inflation assumption and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Notes to the Financial Statements

(7) Pension and Retirement Benefits

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

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:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core Plus Fixed Income	28%	1.90%
Domestic Equity	24	5.85
International Equity	16	6.32
Private Equity/Debt	11	10.31
Real Estate	8	3.87
Credit Opportunities	5	4.48
U.S. TIPS	5	1.36
Other Real Assets	2	6.42
Cash	1	(0.26)
Total	<u><u>100%</u></u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Department 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 Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Department's proportionate share of the net pension liability	\$1,223,918	\$756,502	\$361,997

Notes to the Financial Statements

(7) Pension and Retirement Benefits

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

All legally required employer contributions and legally required employee contributions which had been withheld from employee wages were remitted by the Department to IPERS by June 30, 2017.

Deferred Compensation Plan

The Department offers its employees a deferred compensation plan under Internal Revenue Code Section 457. The plan allows Department employees to defer a portion of their current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The Department deposits all amounts of compensation deferred under the plan to the fiduciary designated by the employee.

(8) Other Postemployment Benefits (OPEB)

Plan Description

The Department operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses in combination with the City of Marion. There are 13 active and 1 retired Department members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Department. The Department currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The Department's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Notes to the Financial Statements

(8) Other Postemployment Benefits (OPEB)

The following table shows the components of the Department's share of annual OPEB cost for June 30, 2017, the amount actually contributed to the plan and changes in the Department's share of net OPEB obligation:

Annual required contribution.....	\$ 29,089
Interest on net OPEB obligation.....	2,451
Adjustment to annual required contribution.....	<u>(12,478)</u>
Annual OPEB Cost	19,062
Contributions made	<u>(17,062)</u>
Increase in Net OPEB Obligation	2,000
Net OPEB Obligation - Beginning of Year.....	<u>99,000</u>
Net OPEB Obligation - End of Year	<u>\$ 101,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2017.

For the year ended June 30, 2017, the Department or plan members eligible for benefits did not contribute to the medical plan.

The Department's share of the annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 7,000	0.0%	\$ 91,000
2016	8,000	0.0	99,000
2017	19,062	89.5	101,000

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date for the period of July 1, 2016 through June 30, 2017, the actuarial accrued liability was \$195,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$195,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$978,000, and the ratio of the UAAL to the covered payroll was 19.9%. As of June 30, 2017, there were no trust fund assets.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress for the retiree health plan, presented as required supplementary information in the section following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Notes to the Financial Statements

(8) Other Postemployment Benefits (OPEB)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2016 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the Department's funding policy. The ultimate medical trend rate is 6%. An inflation rate of 0% is assumed for this computation.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement was assumed at the rate of retirement by attained age after becoming eligible to retire and continue health coverage and termination probabilities were assumed at a modest rate for active employees while no turnover was assumed after the benefit start date.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Compensated Absences

Department employees accumulate vacation, compensatory time and sick leave hours for subsequent use or, in the case of the accumulated vacation pay and compensatory time, for payment upon termination, retirement or death. The accumulations are not recognized as disbursements by the Department until used or paid in its cash basis records. The Department's liability for earned compensated absences payable to employees as accrued to the GAAP basis financial statements as of June 30, 2017 was as follows:

Type of Benefit	Amount
Vacation and Compensatory Time.....	<u>\$ 81,849</u>

This liability has been computed based on rates of pay and rates for payroll taxes and IPERS as of June 30, 2017.

Sick leave is payable when used. No amounts of sick leave were accrued as of June 30, 2017.

Notes to the Financial Statements

(10) Related Party Transactions

The Department bills and collects for sewer and garbage services provided for the City of Marion to its residents. During the year ended June 30, 2017, the Department collected and remitted to the City of Marion \$5,127,152 for sewer, \$1,863,351 for garbage service and \$366,957 for urban forest. Fees earned by the Department from the City of Marion during the year for this service totaled \$111,284, of which \$9,176 was receivable as of June 30, 2017.

A total of \$38,068 was payable to the City of Marion by the Department as of June 30, 2017 for various items.

(11) Local Government Risk Pool

Health Insurance

The Department has chosen to participate in the City of Marion's risk financing program for risks associated with the employee's health insurance plan. The Department self-funds health insurance claims arising from the Department's employees to a stop-loss insured amount of \$30,000 per participant and a 125% aggregate stop-loss amount based on the "pure premiums" amount multiplied by the number of single and family contracts covered during the contract year. The total cost of these benefits is transferred from the Water Fund based upon the number of employees and the type of plan (single or family) chosen by the employee. Amounts charged are approximately \$415 per month single and \$1,093.45 per month family which is an amount based on past claim history. Employees pay between \$70 per month single and between \$60 - \$120 per month family depending on participation in a wellness program and tobacco usage. The amount transferred will be adjusted over a reasonable period of time so that the Medical Benefits Fund receipts and disbursements are approximately equal. Claims paid totaled \$105,831 during the year ended June 30, 2017. As of June 30, 2017, the Department's share of estimated claims incurred but unpaid was approximately \$22,000 based upon an actuarial determination.

Iowa Municipalities Workers' Compensation Association

The Department obtains its workers' compensation coverage through the City of Marion, which is a member in the Iowa Municipal Workers' Compensation Association (IMWCA). The Association is a local government risk-sharing pool whose approximately 500 members include various municipal and county governments throughout the State of Iowa. The Pool was formed in July, 1981 to formulate, develop and administer, on behalf of the member governments, a program of joint self-insurance to stabilize costs related to members' workers' compensation liabilities. Program components include claims management, member education and loss control services. There have been no reductions in insurance coverage from prior years.

Each member pays annual premiums determined by using applicable standard rates for the exposure to risk and applicable experience modification factors of the National Council on Compensation Insurance. Each member may be subject to additional premiums to pay its pro rata share of claims which exceeds the Association's resources available to pay such claims. A distribution to members may also be made if the Association has excess monies remaining after payment of claims and expenses.

Notes to the Financial Statements

(11) Local Government Risk Pool

The Department's premium contributions to the Association are recorded as expenditures from its operating funds at the time of payment to the risk pool. Premiums paid to the Association for the year ended June 30, 2017 were \$13,221.

The Association uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. Claims exceeding \$750,000 are reinsured in an amount not to exceed \$2,000,000 per occurrence.

Members may withdraw from the Association at any time provided they provide assets for settlement of all pending claims.

(12) Risk Management

The Department 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 753 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 the prior year.

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 Department's property and casualty contributions to the risk pool are recorded as expenses at the time of payment to the risk pool. The Department's contributions to the Pool for the year ended June 30, 2017 were \$30,425.

Notes to the Financial Statements

(12) Risk Management

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 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 Department'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 Department'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.

The Department does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, as of June 30, 2017, no liability has been recorded in the Department's financial statements. As of June 30, 2017, 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.

Settled claims resulting from these risks exceeded insurance coverage during the year ended June 30, 2017. See Note 14.

(13) Commitments

Construction

The Department is involved in construction of capital assets and agreements to purchase capital assets. As of June 30, 2017, the Department was committed to approximately \$200,000 in construction and purchase agreements.

Notes to the Financial Statements

(14) Insurance Recovery

In June of 2015, the Department experienced hail damage to its shop, warehouse, storage shed and generator. The cost to repair the damages was approximately \$31,959 of which \$12,465 was received from the insurance company during the year ended June 30, 2016. The proceeds were used to offset the repair costs within the financial statements. During the year ended June 30, 2017, the Department received an additional \$2,908, which has been reported as nonoperating revenue.

(15) Subsequent Events

Management has evaluated subsequent events through November 13, 2017, the date which the financial statements were available to be issued.

Subsequent to June 30, 2017, the Department entered into various agreements to purchase and construct capital assets totaling approximately \$35,000.

(16) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information. In addition, the statement of net position is expected to include a significant liability for the government's other postemployment benefits.

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability ————— Iowa Public Employees' Retirement System

Last Three Years*

	2017	2016	2015
Department's proportion of the net pension liability ..	0.012021%	0.012813%	0.012913%
Department's proportionate share of the net pension liability	\$756,502	\$632,999	\$522,591
Department's covered-employee payroll.....	\$862,651	\$877,771	\$862,253
Department's proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.70%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

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

Schedule of Contributions
Iowa Public Employees' Retirement System

Last Ten Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statutorily required contribution	\$ 86,603	\$ 77,035	\$ 78,385	\$ 76,999	\$ 72,410	\$ 60,101	\$ 52,456	\$ 49,471	\$ 46,573	\$ 39,856
Contributions in relation to the statutorily required contribution	<u>(86,603)</u>	<u>(77,035)</u>	<u>(78,385)</u>	<u>(76,999)</u>	<u>(72,410)</u>	<u>(60,101)</u>	<u>(52,456)</u>	<u>(49,471)</u>	<u>(46,573)</u>	<u>(39,856)</u>
Contribution Deficiency (Excess)	<u>\$ —</u>									
Department's covered-employee payroll.....	\$ 969,793	\$ 862,651	\$ 877,771	\$ 862,253	\$ 864,596	\$ 749,298	\$ 777,042	\$ 751,706	\$ 770,976	\$ 672,835
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%	8.38%	8.02%	6.75%	6.58%	6.04%	5.92%

Notes to Required Supplementary Information - Pension Liability ---

Year Ended June 30, 2017

Changes of Benefit Terms

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

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from regular membership to the protection occupation group for future service only.

Changes of Assumptions

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.

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

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

Schedule of Funding Progress for the Retiree Health Plan ---

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	\$ —	\$ 293,077	\$ 293,077	0%	\$ 771,000	38.0%
2010	7-1-08	—	293,077	293,077	0	752,000	39.0
2011	7-1-10	—	309,000	309,000	0	777,000	39.8
2012	7-1-10	—	309,000	309,000	0	745,000	41.5
2013	7-1-12	—	115,000	115,000	0	860,000	13.4
2014	7-1-12	—	117,000	117,000	0	865,000	13.5
2015	7-1-14	—	123,000	123,000	0	884,000	13.9
2016	7-1-14	—	125,000	125,000	0	881,000	14.2
2017	7-1-16	—	195,000	195,000	0	978,000	19.9

See Note 8 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

HOGAN • HANSEN

A Professional Corporation

Certified Public Accountants and Consultants

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

Board of Trustees
Marion Water Department
Marion, Iowa

We have audited, in accordance with the 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 statements of the Marion Water Department, a component unit of the City of Marion, Iowa, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Marion Water Department's basic financial statements, and have issued our report thereon dated November 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Marion Water Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marion Water Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marion Water Department's 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 over financial reporting 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 we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Marion Water Department's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying schedule of findings as Items 17-I-R-1, 17-I-R-2 and 17-I-R-3 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying schedule of findings as item 17-I-R-4 to be a significant deficiency.

Compliance and Other Matters

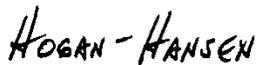
As part of obtaining reasonable assurance about whether the Marion Water Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Marion Water Department's Responses to Findings

The Marion Water Department's responses to the findings identified in our audit are described in the accompanying schedule of findings. While we have expressed our conclusions on the Department's responses, we did not audit the Marion Water Department's responses and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report, a public record by law, 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 Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HOGAN - HANSEN

Cedar Rapids, Iowa
November 13, 2017

Schedule of Findings

Year Ended June 30, 2017

Part I: Findings Related to the Financial Statements

17-I-R-1 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 Department's financial statements.

Condition - Incompatible duties are being preformed by the same person.

Cause - The Department 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 or Potential Effect - Inadequate segregation of duties could adversely affect the Department'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.

Identification of Repeat Finding - 16-I-R-1.

Auditor's Recommendation - The Department should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Views of Responsible Officials and Planned Corrective Action - The Department is aware of the lack of segregation of duties and has considered alternatives to improve this situation.

Auditor's Conclusion - Response accepted.

17-I-R-2 Financial Statement Preparation

Criteria - A properly designed system of internal control over financial reporting includes the preparation of the Department's financial statements and accompanying notes to the financial statements by internal personnel of the Department.

Condition - The Department does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with generally accepted accounting principles.

Cause - As is inherent in many organizations of this size, the Department has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply generally accepted accounting principles in preparing the financial statements and the related disclosures.

Schedule of Findings

Year Ended June 30, 2017

Effect or Potential Effect - The financial statements and related disclosures may not be prepared in accordance with generally accepted accounting principles.

Identification of Repeat Finding - 16-I-R-2.

Auditor's Recommendation - The Department should obtain additional knowledge through reading relevant accounting literature and attending local professional education courses.

Views of Responsible Officials and Planned Corrective Action - The Department is aware of the condition and will consider obtaining additional knowledge where cost effective but will continue to rely on its audit firm for assistance with drafting the financial statements and disclosures.

Auditor's Conclusion - Response accepted.

17-I-R-3 Inventory Valuation

Criteria - The inventory listing should be updated throughout the year as items are used and ordered in order to accurately value inventory.

Condition - During our testing of inventory, we noted that the Department had not updated the price of units on hand thus understating the inventory balance.

Cause - The Department's inventory spreadsheet is not being updated throughout the year.

Effect or Potential Effect - Inventory could be materially misstated.

Context - We sampled four items and found this occurring three times.

Identification of Repeat Finding - 16-I-R-3.

Auditor's Recommendation - The Department should update the inventory spreadsheet throughout the year as items are used and ordered. The spreadsheet should be reviewed by a second person annually.

Views of Responsible Officials and Planned Corrective Action - The Department will consider a process to update the inventory spreadsheet as items are purchased and to use the lower of actual cost or market to value the items.

Auditor's Conclusion - Response accepted.

17-I-R-4 Reimbursements

Criteria - The Department's personnel policy states that when travel involves less than a full day, or in such situations where meals are provided, the per-diem rate for reimbursement of meals will be adjusted accordingly.

Condition - The full per-diem rate for meals reimbursed should have been adjusted for breakfast provided by a hotel.

Schedule of Findings

Year Ended June 30, 2017

Cause - Department oversight when reviewing reimbursements.

Effect or Potential Effect - Travel reimbursements could be overpaid.

Context - We sampled eight travel reimbursements and found this occurring two times.

Identification of Repeat Finding - 16-I-R-4.

Auditor's Recommendation - We recommend that the Department review the receipts and other supporting documentation accompanying the travel reimbursement requests to ensure that any meals provided by hotels, conferences, etc. have been adjusted from the per-diem rate.

Views of Responsible Officials and Planned Corrective Action - The Department will review future travel reimbursement requests and adjust for any meals provided by hotels, conferences, etc.

Auditor's Conclusion - Response accepted.

Part II: Findings Related to Statutory Reporting

- 17-II-A Certified Budget** - Operating cash disbursements during the year ended June 30, 2017 did not exceed the amounts budgeted.
- 17-II-B Questionable Disbursements** - We noted no disbursements which did not appear to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 17-II-C Travel Expense** - No disbursements of Department money for travel expenses of spouses of the Department officials or employees were noted.
- 17-II-D Business Transactions** - No business transactions between the Department's officials or employees and the Department were noted.
- 17-II-E Bond Coverage** - Surety bond coverage of Department officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 17-II-F Board of Trustee Minutes** - No transactions were found that we believe should have been approved in the Trustee minutes that were not.
- 17-II-G Deposits and Investments** - We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Department's investment policy.
- 17-II-H Revenue Bonds** - No instances of noncompliance with the water revenue bonds (Build America Bonds) provisions were noted.