

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

MARION, IOWA

JUNE 30, 2018

Table of Contents

Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-8
Basic Financial Statements	
Statement of Net Position	9-10
Statement of Revenue, Expenses and Changes in Net Position	11
Statement of Cash Flows	12
Notes to the Financial Statements	13-28
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability	29
Schedule of Contributions	30
Notes to Required Supplementary Information - Pension Liability	31
Schedule of Changes in the Department's Total OPEB Liability, Related Ratios and Notes	32
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	
	33-34
Schedule of Findings	35-37

Officials

Name	Title	Term Expires
(Before January 1, 2018)		
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
(After January 1, 2018)		
Gregory O. Hapgood	Chairperson	December 31, 2022
William A. Kling	Trustee	December 31, 2020
John C. Bender	Trustee	December 31, 2021
Mary Ann McComas	Trustee	December 31, 2018
John D. McIntosh	Trustee	December 31, 2023
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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note 15, the Marion Water Department adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. Our opinions are not modified with respect to this matter.

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 changes in the Department's total OPEB liability, related ratios and notes 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 December 13, 2018 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
December 13, 2018

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, 2018, 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 Department implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, during fiscal year 2018. The beginning net position was restated by \$30,485 to retroactively report the increase in the OPEB liability as of July 1, 2017. OPEB expense for fiscal year 2017 and deferred inflows of resources as of June 30, 2017 were not restated because the information needed to restate those amounts was not available.

The assets of the Marion Water Department exceeded its liabilities at the close of June 30, 2018 by \$26,037,656 (net position). Of this amount, \$4,056,215 (unrestricted net position) may be used to meet the Department's ongoing obligations to citizens and creditors.

The Department's net position increased by \$2,230,986 for the year ended June 30, 2018.

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 sewer, garbage and urban forest charges for the City of Marion. The Department remits all sewer, garbage 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 the schedule of changes in the Department's total OPEB liability, related ratios and notes.

FINANCIAL ANALYSIS

Statement of Net Position

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

	2018	2017 (Not Restated)
Cash and restricted cash	\$ 5,092,676	\$ 4,590,561
Other current assets	997,376	1,035,698
Capital assets	<u>24,051,441</u>	<u>22,625,361</u>
Total Assets	<u>30,141,493</u>	<u>28,251,620</u>
Deferred Outflows of Resources	<u>288,902</u>	<u>212,609</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 30,430,395</u>	<u>\$ 28,464,229</u>
Current liabilities	\$ 1,415,934	\$ 1,634,183
Long-term liabilities	<u>2,936,244</u>	<u>2,952,091</u>
Total Liabilities	<u>4,352,178</u>	<u>4,586,274</u>
Deferred Inflows of Resources	<u>40,561</u>	<u>40,800</u>
Net Position		
Net investment in capital assets.....	21,981,441	20,429,361
Unrestricted	<u>4,056,215</u>	<u>3,407,794</u>
Total Net Position	<u>26,037,656</u>	<u>23,837,155</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 30,430,395</u>	<u>\$ 28,464,229</u>

Net investment in capital assets is the largest portion of the Department's net position, 84.4% as of June 30, 2018, and reflects its net investment in capital assets (e.g., land, buildings, wells and towers, 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, 15.6% as of June 30, 2018, 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 primarily due to capital contributions of new subdivisions and water mains from developers totaling \$672,133 and net operating and nonoperating income of \$1,558,853 for the fiscal year 2018. As of both June 30, 2018 and 2017, the Department reported positive balances in all categories of net position.

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:

	2018	2017 (Not Restated)
Operating revenue	\$ 4,504,169	\$ 4,259,915
Operating expenses.....	<u>2,978,700</u>	<u>2,926,895</u>
Operating Income.....	1,525,469	1,333,020
Net nonoperating revenue (expenses)	33,384	834
Net capital contributions.....	<u>672,133</u>	<u>298,403</u>
Change in Net Position	2,230,986	1,632,257
Net Position - Beginning of Year, as restated	<u>23,806,670</u>	<u>22,204,898</u>
Net Position - End of Year	<u>\$ 26,037,656</u>	<u>\$ 23,837,155</u>

Operating revenue is the Department’s primary source of revenue and is generated from water sales and other services to customers. For fiscal year 2018, operating revenue increased \$244,254 from fiscal year 2017 primarily due to increases in usage and rates.

Operating expenses totaled \$2,978,700 for fiscal year 2018 a \$51,805 increase from fiscal year 2017. These expenses represent the Department’s costs to provide water and other services to customers. The increase was primarily due to continued depreciation on capital assets. Operating expenses included depreciation expense of \$767,058 and \$683,894 for the years ended June 30, 2018 and 2017, respectively.

Net nonoperating revenue and expenses includes interest income, insurance recoveries, rent from leasing space, interest expense, bond servicing fee and loss on disposal of capital assets. Net nonoperating revenue increased by \$32,550 between fiscal year 2018 and fiscal year 2017. The increase was due mainly to an increase in interest income and lease and rental fees.

Capital contributions of \$672,133 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 \$24.1 million and \$22.6 million as of June 30, 2018 and 2017, respectively, (net of accumulated depreciation of approximately \$7.2 million and \$6.4 million as of June 30, 2018 and 2017, respectively). This investment in capital assets includes land, construction in progress, land improvements, buildings, wells and towers, distribution system and equipment and vehicles.

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

	2018	2017
Land	\$ 474,126	\$ 474,126
Construction in progress	604,062	109,190
Land improvements	35,664	35,664
Building, wells and towers	7,160,890	7,033,818
Distribution system	21,718,255	20,150,216
Equipment and vehicles	1,249,119	1,245,964
Accumulated depreciation	<u>(7,190,675)</u>	<u>(6,423,617)</u>
Total	<u>\$ 24,051,441</u>	<u>\$ 22,625,361</u>

The following table reconciles the change in capital assets:

	2018	2017
Beginning balance	\$ 22,625,361	\$ 20,567,921
Additions	1,698,266	2,791,344
Deletions	—	(3,036)
Depreciation	(767,058)	(683,894)
Construction in progress, net	<u>494,872</u>	<u>(46,974)</u>
Ending Balance	<u>\$ 24,051,441</u>	<u>\$ 22,625,361</u>

More detailed information about the Department's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

As of June 30, 2018, the Department had a \$2,070,000 bond outstanding, compared to \$2,196,000 as of June 30 2017, as shown below.

Outstanding Debt at Year End

	June 30,	
	2018	2017
SRF Bond Payable	<u>\$ 2,070,000</u>	<u>\$ 2,196,000</u>

Debt decreased as a result of principal payments made on the SRF construction bond. Additional information about the Department's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS

The unemployment rate for Linn County as of June 30, 2018 was 2.8%, which is 0.7% less than where it was the previous year and less than the national unemployment rate of 4.0%.

Retail sales are also reported on a fiscal year, July 1 to June 30, basis. For fiscal year 2016, retail sales were \$364.4 million for Marion and \$3.8 billion for Linn County. For fiscal year 2017, retail sales were \$371.2 million for Marion and \$3.9 billion for Linn County.

The total value of building permits for fiscal year 2018 was approximately \$71.8 million, which is up from the fiscal year 2017 amount of \$68.8 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, creditors 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, 2018

Assets and Deferred Outflows of Resources

Current Assets

Cash.....	\$ 4,923,653
Receivables	
Trade accounts	278,850
Unbilled revenue	406,956
Inventories.....	<u>311,570</u>
Total Current Assets	<u>5,921,029</u>

Capital Assets

Land	474,126
Construction in progress.....	604,062
Land improvements	35,664
Buildings, wells and towers.....	7,160,890
Distribution system	21,718,255
Equipment and vehicles	<u>1,249,119</u>
Totals	31,242,116
Less accumulated depreciation	<u>(7,190,675)</u>
Total Capital Assets	<u>24,051,441</u>

Other Asset

Restricted cash - customer deposits.....	<u>169,023</u>
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Total Assets

	<u>30,141,493</u>
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Deferred Outflows of Resources

Pension-related deferred outflows	<u>288,902</u>
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Total Assets and Deferred Outflows of Resources

	<u>\$ 30,430,395</u>
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Statement of Net Position

As of June 30, 2018

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities

Accounts payable	\$ 897,310
Due to primary government	67,171
Self-insured premiums and estimated claims.....	21,188
Accrued interest	3,318
Accrued expenses.....	34,621
Compensated absences.....	77,773
Early separation plan liability	15,530
Current maturities of SRF bond payable.....	130,000
Payable from restricted assets - customer deposits.....	169,023
Total Current Liabilities.....	<u>1,415,934</u>

Long-Term Liabilities

Early separation plan liability	9,059
SRF bond payable.....	1,940,000
Net pension liability.....	865,432
Total OPEB liability.....	121,753
Total Long-Term Liabilities.....	<u>2,936,244</u>

Total Liabilities **4,352,178**

Deferred Inflows of Resources

Pension-related deferred inflows	40,504
OPEB-related deferred inflows	57
Total Deferred Inflows of Resources.....	<u>40,561</u>

Net Position

Net investment in capital assets	21,981,441
Unrestricted.....	4,056,215
Total Net Position	<u>26,037,656</u>

Total Liabilities, Deferred Inflows of Resources and Net Position..... **\$ 30,430,395**

Statement of Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2018

Operating Revenue

Water sales	\$ 4,059,867
Billing and collection fees	115,720
Other sales and services	267,097
Miscellaneous.....	61,485
Total Operating Revenue.....	<u>4,504,169</u>

Operating Expenses

Salaries and benefits	1,272,163
Contractual services	833,807
Commodities	105,672
Depreciation	767,058
Total Operating Expenses	<u>2,978,700</u>

Operating Income	<u>1,525,469</u>
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Nonoperating Revenue (Expenses)

Interest income.....	48,520
Lease and rental fees, net of expense.....	28,881
Interest expense.....	(38,527)
Bond servicing fee.....	(5,490)
Total Nonoperating Revenue	<u>33,384</u>

Change in Net Position Before Capital Contributions	1,558,853
Capital contributions	<u>672,133</u>

Change in Net Position	2,230,986
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Net Position - Beginning of Year, as restated (Note 15).....	<u>23,806,670</u>
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Net Position - End of Year.....	<u>\$ 26,037,656</u>
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Statement of Cash Flows

Year Ended June 30, 2018

Cash Flows From Operating Activities	
Cash received from customers	\$ 4,552,211
Cash collected on behalf of primary government	7,837,615
Cash paid to primary government.....	(7,837,615)
Cash paid to employees for services	(1,271,643)
Cash paid to suppliers for goods and services.....	(276,482)
Net Cash Provided by Operating Activities.....	<u>3,004,086</u>
Cash Flows From Noncapital Financing Activities	
Lease and rental fees received.....	<u>28,881</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets.....	(2,409,153)
Principal paid on SRF bond.....	(126,000)
Interest paid on SRF bond.....	(38,729)
Bond servicing fee paid	(5,490)
Net Cash Used in Capital and Related Financing Activities	<u>(2,579,372)</u>
Cash Flows From Investing Activities	
Interest received.....	<u>48,520</u>
Net Increase in Cash	502,115
Cash - Beginning of Year	<u>4,590,561</u>
Cash - End of Year.....	<u>\$ 5,092,676</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 1,525,469
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	767,058
Changes in Assets and Liabilities	
Decrease in trade accounts and unbilled revenue receivable.....	37,742
Decrease in inventories	580
Increase in deferred outflows of resources.....	(76,293)
Increase in accounts payable, due to primary government and self-insured premiums and estimated claims.....	664,272
Increase in accrued expenses, compensated absences, early separation plan liability, net pension liability and total OPEB liability	77,052
Increase in liabilities payable from restricted assets.....	8,445
Decrease in deferred inflows of resources	(239)
Net Cash Provided by Operating Activities	<u>\$ 3,004,086</u>
Reconciliation of Cash to Specific Assets Included on the Statement of Net Position	
Cash.....	\$ 4,923,653
Restricted cash - customer deposits.....	<u>169,023</u>
	<u>\$ 5,092,676</u>

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).

Basis of Presentation

The accounts of the Department 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.

The statement of net position presents the Department's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Unrestricted net position consists of net position not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when incurred, regardless of the timing of the related cash flows.

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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

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 statement of net position 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 accounts receivable. 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.

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 if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend 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 Department after the measurement date but before the end of the Department's reporting period.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Early Separation Plan - Department employees who elect an early separation agreement at retirement may receive the benefits outlined as follows: for agreements prior to December 31, 2017 - three and one-half months of salary as well as the equivalent of two years of health insurance coverage paid by the Department; and for agreements after December 31, 2017 - 2% of the employee's present base salary for each year of continuous full-time service up to a maximum of 50% of employee's present base salary. However, with Trustee approval the benefit formula could vary. As of June 30, 2018, the Department had an estimated liability of \$24,589 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.

Total OPEB Liability

For purposes of measuring the total OPEB liability, deferred inflows of resources related to OPEB and OPEB expense, information has been determined based on the Department's actuary report. For the purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) which 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 unrecognized items not yet charged to pension or OPEB expense.

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 Department's budget and comparison to cash basis activity is as follows:

Business-Type Activity - Water

Actual disbursements.....	\$ 3,999,438
Budgeted disbursements.....	5,020,295
Actual Disbursements Under Budget	<u>\$ (1,020,857)</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.

Notes to the Financial Statements

(2) Cash Flow Statement Supplementary Information

Schedule of Noncash Investing and Financing Activities

Cost of capital asset acquisitions.....	\$ 2,193,138
Amounts Payable	
Current year	(87,520)
Prior year.....	975,668
Contributed capital.....	<u>(672,133)</u>
Cash Paid for Acquisition of Capital Assets	<u>\$ 2,409,153</u>

(3) Cash and Investments

The Department's deposits in bank as of June 30, 2018 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 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, 2018, \$169,023 of cash was restricted for application to unpaid customer accounts or for refunds to customers.

Notes to the Financial Statements

(5) Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Capital Assets Not Being Depreciated				
Land.....	\$ 474,126	\$ —	\$ —	\$ 474,126
Construction in progress	109,190	1,242,671	747,799	604,062
Total Capital Assets Not Being Depreciated.....	<u>583,316</u>	<u>1,242,671</u>	<u>747,799</u>	<u>1,078,188</u>
Capital Assets Being Depreciated				
Land improvements.....	35,664	—	—	35,664
Buildings, wells and towers	7,033,818	127,072	—	7,160,890
Distribution system.....	20,150,216	1,568,039	—	21,718,255
Equipment and vehicles	1,245,964	3,155	—	1,249,119
Total Capital Assets Being Depreciated.....	<u>28,465,662</u>	<u>1,698,266</u>	<u>—</u>	<u>30,163,928</u>
Less Accumulated Depreciation for				
Land improvements.....	2,437	713	—	3,150
Buildings, wells and towers	1,169,361	177,138	—	1,346,499
Distribution system.....	4,805,961	518,955	—	5,324,916
Equipment and vehicles	445,858	70,252	—	516,110
Total Accumulated Depreciation	<u>6,423,617</u>	<u>767,058</u>	<u>—</u>	<u>7,190,675</u>
Total Capital Assets Being Depreciated, Net	<u>22,042,045</u>	<u>931,208</u>	<u>—</u>	<u>22,973,253</u>
Total Capital Assets, Net.....	<u>\$ 22,625,361</u>	<u>\$ 2,173,879</u>	<u>\$ 747,799</u>	<u>\$ 24,051,441</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	Balance - Beginning of Year, as Restated	Increases	Decreases	Balance - End of Year	Due Within One Year	Interest Rate
Early separation						
plan liability	\$ 40,119	\$ —	\$ 15,530	\$ 24,589	\$ 15,530	N/A
SRF bond payable.....	2,196,000	—	126,000	2,070,000	130,000	3.0%
Net pension liability....	756,502	108,930	—	865,432	—	N/A
Total OPEB liability....	131,485	—	9,732	121,753	—	N/A
Total	<u>\$ 3,124,106</u>	<u>\$ 108,930</u>	<u>\$ 151,262</u>	<u>\$ 3,081,774</u>	<u>\$ 145,530</u>	

Notes to the Financial Statements

(6) Long-Term Liabilities

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 \$2,370,651. For the current year, principal paid, interest paid and total customer net receipts were \$126,000, \$38,729 and \$2,292,527, respectively.

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

- a. The bond is payable from the net revenue of the Utility.
- b. Produce and maintain net revenue at a level not less than 110% of the amount of principal and interest due during the fiscal year.
- c. 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, 2018, the Department was in compliance with the bond provisions.

Annual debt service requirements to maturity for the water revenue bonds as of June 30, 2018 are as follows:

Year Ending June 30,	Principal	Net Interest (After Build America Bond Reimbursement - 1.05%)
2019	\$ 130,000	\$ 40,365
2020	135,000	37,830
2021	139,000	35,198
2022	144,000	32,487
2023	148,000	29,679
2024-2028	817,000	103,135
2029-2031	557,000	21,957
Total	<u>\$ 2,070,000</u>	<u>\$ 300,651</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 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.)

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.

Notes to the Financial Statements

(7) Pension and Retirement Benefits

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 2018, 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, 2018 were \$88,671.

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

As of June 30, 2018, the Department reported a liability of \$865,432 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the Department's proportion was 0.012992% which was an increase of 0.000971% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Department recognized pension expense of \$121,012. As of June 30, 2018, 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	\$ 7,945	\$ 7,498
Changes of assumptions	150,372	—
Net difference between projected and actual earnings on IPERS' investments.....	—	9,040
Changes in proportion and differences between Department contributions and proportionate share of contributions	41,914	23,966
Department contributions subsequent to the measurement date	88,671	—
Total	<u>\$ 288,902</u>	<u>\$ 40,504</u>

\$88,671 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Notes to the Financial Statements

(7) Pension and Retirement Benefits

Year Ending June 30,	
2019	\$ 22,917
2020	68,607
2021	42,714
2022	12,328
2023	13,161
Total	<u>\$ 159,727</u>

There were no nonemployer contributing entities to IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2017 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.
Rate 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, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

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
Domestic Equity	24.0%	6.25%
International Equity	16.0	6.71
Core Plus Fixed Income	27.0	2.25
Public Credit	3.5	3.46
Public Real Assets	7.0	3.27
Cash	1.0	(0.31)
Private Equity	11.0	11.15
Private Real Assets	7.5	4.18
Private Credit	3.0	4.25
Total	<u>100.0%</u>	

Notes to the Financial Statements

(7) Pension and Retirement Benefits

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 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 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	\$ 1,425,886	\$ 865,432	\$ 394,544

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, 2018.

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.

Notes to the Financial Statements

(8) Other Postemployment Benefits (OPEB)

Plan Description

The Department operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees, spouses and their dependents. Group insurance benefits are established under Iowa Code Chapter 509A.13. As of June 30, 2018, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits

Individuals who are employed by the Marion Water Department and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical and prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Retired participants must be age 55 or older at retirement. As of June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	1
Active employees	<u>12</u>
Total	<u><u>13</u></u>

Total OPEB Liability

The Department's total OPEB liability of \$121,753 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurements.

Rate of inflation (effective June 30, 2018)	3.00% per year.
Rates of salary increase (effective June 30, 2018)	0.00% per year.
Discount rate (effective June 30, 2018)	3.72% compounded annually.
Healthcare cost trend rate (effective June 30, 2018)	6.00% per year.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.72% which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

Mortality rates are from the RP 2014 Annuity Mortality Table, applied on a gender specific basis. Annual retirement probabilities are based on varying rates by age and turnover probabilities are based on Department estimates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Notes to the Financial Statements

(8) Other Postemployment Benefits (OPEB)

Changes in Total OPEB Liability

	Total OPEB Liability
Total OPEB Liability - Beginning of Year, as Restated.....	\$ <u>131,485</u>
Changes for the Year	
Service cost	3,077
Interest.....	4,743
Differences between expected and actual experience.....	(61)
Changes of assumptions.....	—
Benefit payments	<u>(17,491)</u>
Net Changes	<u>(9,732)</u>
Total OPEB Liability - End of Year	<u>\$ 121,753</u>

Sensitivity of the Department's Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Department, as well as what the Department's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.72%) or one percentage point higher (4.72%) than the current discount rate.

	1% Decrease (2.72%)	Discount Rate (3.72%)	1% Increase (4.72%)
Total OPEB Liability.....	\$ 115,564	\$ 121,753	\$ 129,281

Sensitivity of the Department's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Department, as well as what the Department's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (5.00%) or one percentage point higher (7.00%) than the current healthcare cost trend rate.

	1% Decrease (5.00%)	Healthcare Cost Trend Rate (6.00%)	1% Increase (7.00%)
Total OPEB Liability.....	\$ 127,585	\$ 121,753	\$ 116,418

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Department recognized OPEB expense of \$7,816. As of June 30, 2018, the Department reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 57
Changes of assumptions	—
Total	<u>\$ 57</u>

Notes to the Financial Statements

(8) Other Postemployment Benefits (OPEB)

The amount reported as deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$ 4
2020	4
2021	4
2022	4
2023	4
Thereafter.....	<u>37</u>
Total	<u>\$ 57</u>

(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, 2018 was as follows:

Type of Benefit	Amount
Vacation and Compensatory Time.....	<u>\$ 77,773</u>

This liability has been computed based on rates of pay and rates for payroll taxes and IPERS as of June 30, 2018.

Sick leave is payable when used. No amounts of sick leave were accrued as of June 30, 2018.

(10) Related Party Transactions

The Department bills and collects for sewer, garbage and urban forest services provided for the City of Marion to its residents. During the year ended June 30, 2018, the Department collected and remitted to the City of Marion \$5,395,843 for sewer, \$2,059,404 for garbage and \$382,368 for urban forest services. Fees earned by the Department from the City of Marion during the year for this service totaled \$115,720, of which \$9,002 was receivable as of June 30, 2018.

A total of \$67,171 was payable to the City of Marion by the Department as of June 30, 2018 for various items.

Notes to the Financial Statements

(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 \$443 per month single and \$1,163 per month family which is an amount based on past claim history. Employees pay between \$70 per month single and between \$90 - \$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 \$90,089 during the year ended June 30, 2018. As of June 30, 2018, the Department's share of estimated claims incurred but unpaid was \$21,188 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.

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, 2018 were \$12,831.

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.

Notes to the Financial Statements

(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 775 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The Department's property and casualty contributions to the Pool are recorded as expenses at the time of payment to the Pool. The Department's contributions to the Pool for the year ended June 30, 2018 were \$30,881.

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, 2018, no liability has been recorded in the Department's financial statements. As of June 30, 2018, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Notes to the Financial Statements

(12) Risk Management

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 have not exceeded insurance coverage in any of the past three fiscal years.

(13) Construction Commitments

The Department is involved in construction of capital assets and agreements to purchase capital assets. As of June 30, 2018, the Department was committed to approximately \$700,000 in construction and purchase agreements.

(14) Subsequent Events

Management has evaluated subsequent events through December 13, 2018, the date which the financial statements were available to be issued.

Subsequent to June 30, 2018, the Department entered into various agreements to purchase and construct capital assets totaling approximately \$174,000.

(15) Accounting Change/Restatement

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. During this transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported. Beginning net position was restated to retroactively report the change in valuation of the beginning total OPEB liability, as follows:

Net position June 30, 2017, as previously reported	\$ 23,837,155
Net OPEB obligation measured under previous standards	101,000
Total OPEB liability as of June 30, 2017	(131,485)
Net Position July 1, 2017, as Restated	<u>\$ 23,806,670</u>

Required Supplementary Information

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

Last Four Years*

	2018	2017	2016	2015
Department's proportion of the net pension liability	0.012992%	0.012021%	0.012813%	0.012913%
Department's proportionate share of the net pension liability	\$ 865,432	\$ 756,502	\$ 632,999	\$ 522,591
Department's covered-employee payroll	\$ 969,793	\$ 862,651	\$ 877,771	\$ 862,253
Department's proportionate share of the net pension liability as a percentage of its covered-employee payroll	89.24%	87.70%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	82.21%	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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statorily required contribution	\$ 88,671	\$ 86,603	\$ 77,035	\$ 78,385	\$ 76,999	\$ 72,410	\$ 60,101	\$ 52,456	\$ 49,471	\$ 46,573
Contributions in relation to the statorily required contribution	<u>(88,671)</u>	<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>
Contribution Deficiency (Excess)	<u>\$ —</u>									
Department's covered-employee payroll.....	\$ 992,957	\$ 969,793	\$ 862,651	\$ 877,771	\$ 862,253	\$ 864,596	\$ 749,298	\$ 777,042	\$ 751,706	\$ 770,976
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%	8.93%	8.38%	8.02%	6.75%	6.58%	6.04%

Notes to Required Supplementary Information - Pension Liability ---

Year Ended June 30, 2018

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.

Changes of Assumptions

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 unfunded actuarial liability (UAL) 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 Changes in the Department's Total OPEB Liability, Related Ratios and Notes

For the Current Year

	2018
Service cost.....	\$ 3,077
Interest.....	4,743
Differences between expected and actual experience.....	(61)
Changes of assumptions.....	—
Benefit payments.....	<u>(17,491)</u>
Net Change in Total OPEB Liability.....	(9,732)
Total OPEB Liability - Beginning of Year, as Restated.....	<u>131,485</u>
Total OPEB Liability - End of Year	<u>\$ 121,753</u>
Covered-Employee Payroll	\$ 980,906
Total OPEB Liability as a Percentage of Covered-Employee Payroll	12.41%

Notes to Schedule of Changes in the Department's Total OPEB Liability and Related Ratios

Changes of Benefit Terms

There were no significant changes in benefit terms.

Changes of Assumptions

There were no significant changes in assumptions.

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, 2018, 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, and have issued our report thereon dated December 13, 2018.

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.

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 Marion Water Department's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first 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. We did identify certain deficiencies in internal control described in Part I of the accompanying schedule of findings as items 18-I-R-1, 18-I-R-2 and 18-I-R-3 that we consider to be material weaknesses.

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*.

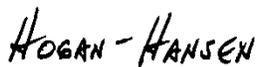
Comments involving statutory and other legal matters about the Department's operations for the year ended June 30, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Marion Water Department. Since our audit was based on tests 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.

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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



HOGAN - HANSEN

Cedar Rapids, Iowa
December 13, 2018

Schedule of Findings

Year Ended June 30, 2018

Part I: Findings Related to the Financial Statements

18-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 - 17-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.

18-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, 2018

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 - 17-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.

18-I-R-3 Inventory Valuation

Criteria - The inventory listing should be updated throughout the year as items are used and ordered so that the value of inventory is being accurately calculated.

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 two times.

Identification of Repeat Finding - 17-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.

Schedule of Findings

Year Ended June 30, 2018

Part II: Findings Related to Statutory Reporting

- 18-II-A Certified Budget** - Operating cash disbursements during the year ended June 30, 2018 did not exceed the amounts budgeted.
- 18-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.
- 18-II-C Travel Expense** - No disbursements of Department money for travel expenses of spouses of the Department officials or employees were noted.
- 18-II-D Business Transactions** - No business transactions between the Department's officials or employees and the Department were noted.
- 18-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.
- 18-II-F Board of Trustee Minutes** - No transactions were found that we believe should have been approved in the Trustee minutes that were not.
- 18-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.
- 18-II-H Revenue Bonds** - No instances of noncompliance with the water revenue bonds (Build America Bonds) provisions were noted.
- 18-II-I Collected Rates** - During our testing of utility billings we noted the published rates included preferential rates for low-income elderly or totally disabled persons, which are billed on the behalf of the City of Marion. Preferential rates are not allowable under Section 388.6 of the Code of Iowa.

Auditor's Recommendation - We recommend that the Department discontinue collecting discriminatory rates on behalf of the City of Marion.

Department's Response - The Department is making a recommendation to the Board to eliminate the preferential rates at the end of this fiscal year. Once the affected customers are notified by letter, the discriminatory rates will be eliminated.

Auditor's Conclusion - Response accepted.