

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

**MARION, IOWA**

**JUNE 30, 2020**

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## Officials

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<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>(Before January 1, 2020)</b>		
William A. Kling	Chairperson	December 31, 2020
John C. Bender	Trustee	December 31, 2021
Gregory O. Hapgood	Trustee	December 31, 2022
John D. McIntosh	Trustee	December 31, 2023
Mary Ann McComas	Trustee	December 31, 2024
Todd R. Steigerwaldt	General Manager	Indefinite
<b>(After January 1, 2020)</b>		
Gregory O. Hapgood	Chairperson	December 31, 2022
William A. Kling	Trustee	December 31, 2020
John C. Bender	Trustee	December 31, 2021
John D. McIntosh	Trustee	December 31, 2023
Mary Ann McComas	Trustee	December 31, 2024
Todd R. Steigerwaldt	General Manager	Indefinite

## Independent Auditor's Report

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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, 2020, 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, 2020, 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 changes in the Department's total OPEB liability, related ratios and notes on pages 4 through 8 and 28 through 31 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 30, 2020 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

Cedar Rapids, Iowa  
November 30, 2020

## **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, 2020, 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, 2020 by \$30,332,216 (net position). Of this amount, \$5,613,797 (unrestricted net position) may be used to meet the Department's ongoing obligations to citizens and creditors.

The Department's net position increased by \$2,248,280 for the year ended June 30, 2020.

### **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 11 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 12 through 27 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:

	2020	2019
Cash and restricted cash .....	\$ 6,184,761	\$ 5,505,556
Other current assets .....	1,017,047	963,942
Capital assets .....	<u>26,523,419</u>	<u>25,679,462</u>
<b>Total Assets</b> .....	<b><u>33,725,227</u></b>	<b><u>32,148,960</u></b>
<b>Deferred Outflows of Resources</b> .....	<b><u>208,717</u></b>	<b><u>255,241</u></b>
<b>Total Assets and Deferred Outflows of Resources</b> .....	<b><u>\$ 33,933,944</u></b>	<b><u>\$ 32,404,201</u></b>
Current liabilities .....	\$ 933,167	\$ 1,510,213
Long-term liabilities .....	<u>2,524,516</u>	<u>2,751,546</u>
<b>Total Liabilities</b> .....	<b><u>3,457,683</u></b>	<b><u>4,261,759</u></b>
<b>Deferred Inflows of Resources</b> .....	<b><u>144,045</u></b>	<b><u>58,506</u></b>
<b>Net Position</b>		
Net investment in capital assets.....	24,718,419	23,739,462
Unrestricted .....	<u>5,613,797</u>	<u>4,344,474</u>
<b>Total Net Position</b> .....	<b><u>30,332,216</u></b>	<b><u>28,083,936</u></b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b> .....	<b><u>\$ 33,933,944</u></b>	<b><u>\$ 32,404,201</u></b>

**Net investment in capital assets** is the largest portion of the Department's net position, 81.5% as of June 30, 2020, 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**, 18.5% as of June 30, 2020, 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 \$346,118 and net operating and nonoperating income of \$1,902,162 for the fiscal year 2020. As of both June 30, 2020 and 2019, 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:

	<b>2020</b>	<b>2019</b>
Operating revenue .....	\$ 5,234,491	\$ 4,598,735
Operating expenses.....	<u>3,426,236</u>	<u>3,258,090</u>
Operating Income.....	1,808,255	1,340,645
Net nonoperating revenue.....	93,907	61,851
Net capital contributions.....	<u>346,118</u>	<u>643,784</u>
Change in Net Position .....	2,248,280	2,046,280
Net Position - Beginning of Year .....	<u>28,083,936</u>	<u>26,037,656</u>
<b>Net Position - End of Year .....</b>	<b><u>\$ 30,332,216</u></b>	<b><u>\$ 28,083,936</u></b>

**Operating revenue** is the Department’s primary source of revenue and is generated from water sales and other services to customers. For fiscal year 2020, operating revenue increased \$635,756 from fiscal year 2019 primarily due to increase in usage and rates.

**Operating expenses** totaled \$3,426,236 for fiscal year 2020 a \$168,146 increase from fiscal year 2019. 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 \$868,159 and \$808,641 for the years ended June 30, 2020 and 2019, respectively.

**Net nonoperating revenue and expenses** includes interest income, rent from leasing space, interest expense, bond servicing fee and loss on disposal of capital assets. Net nonoperating revenue increased by \$32,056 between fiscal year 2020 and fiscal year 2019. The increase was due mainly to an increase in interest income.

**Capital contributions** of \$346,118 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 \$26.5 million and \$25.7 million as of June 30, 2020 and 2019, respectively, (net of accumulated depreciation of approximately \$8.7 million and \$7.8 million as of June 30, 2020 and 2019, 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:

	2020	2019
Land .....	\$ 474,126	\$ 474,126
Construction in progress .....	337,558	232,169
Land improvements .....	35,664	35,664
Building, wells and towers .....	8,467,477	8,206,087
Distribution system .....	24,442,781	23,179,053
Equipment and vehicles .....	1,447,367	1,372,950
Accumulated depreciation .....	<u>(8,681,554)</u>	<u>(7,820,587)</u>
<b>Total .....</b>	<b><u>\$ 26,523,419</u></b>	<b><u>\$ 25,679,462</u></b>

The following table reconciles the change in capital assets:

	2020	2019
Beginning balance .....	\$ 25,679,462	\$ 24,051,441
Additions .....	1,621,110	2,808,555
Deletions .....	(14,383)	—
Depreciation .....	(868,159)	(808,641)
Construction in progress, net .....	<u>105,389</u>	<u>(371,893)</u>
<b>Ending Balance .....</b>	<b><u>\$ 26,523,419</u></b>	<b><u>\$ 25,679,462</u></b>

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, 2020, the Department had a \$1,805,000 bond outstanding, compared to \$1,940,000 as of June 30 2019, as shown below.

#### Outstanding Debt at Year End

	<u>June 30,</u>	
	2020	2019
<b>SRF Bond Payable .....</b>	<b><u>\$ 1,805,000</u></b>	<b><u>\$ 1,940,000</u></b>

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, 2020 was 9.5%, which is 6.7% more than where it was the previous year and less than the national unemployment rate of 11.2%.

Retail sales are also reported on a fiscal year, July 1 to June 30, basis. For fiscal year 2018, retail sales were \$374.6 million for Marion and \$3.9 billion for Linn County. For fiscal year 2019, retail sales were \$386.3 million for Marion and \$3.9 billion for Linn County.

The total value of building permits for fiscal year 2020 was approximately \$116.1 million, which is up from the fiscal year 2019 amount of \$67.7 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, 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, 3050 - 5<sup>th</sup> Avenue, Marion, Iowa 52302.

**Basic Financial Statements** 

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## Statement of Net Position

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As of June 30, 2020

### Assets and Deferred Outflows of Resources

#### Current Assets

Cash.....	\$ 6,036,680
Receivables	
Trade accounts .....	303,101
Unbilled revenue .....	480,198
Inventories.....	<u>233,748</u>
<b>Total Current Assets</b> .....	<b><u>7,053,727</u></b>

#### Capital Assets

Land .....	474,126
Construction in progress.....	337,558
Land improvements .....	35,664
Buildings, wells and towers.....	8,467,477
Distribution system .....	24,442,781
Equipment and vehicles .....	<u>1,447,367</u>
Totals .....	35,204,973
Less accumulated depreciation .....	<u>(8,681,554)</u>
<b>Total Capital Assets</b> .....	<b><u>26,523,419</u></b>

#### Other Asset

Restricted cash - customer deposits.....	<u>148,081</u>
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**Total Assets**..... **33,725,227**

#### Deferred Outflows of Resources

Pension-related deferred outflows .....	<u>208,717</u>
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**Total Assets and Deferred Outflows of Resources**..... **\$ 33,933,944**

See accompanying notes to the financial statements.

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**Liabilities, Deferred Inflows of Resources and Net Position****Current Liabilities**

Accounts payable .....	\$ 438,134
Due to primary government .....	26,083
Self-insured premiums and estimated claims.....	16,058
Accrued interest .....	2,893
Accrued expenses.....	46,236
Compensated absences.....	116,682
Current maturities of SRF bond payable.....	139,000
Payable from restricted assets - customer deposits.....	148,081
<b>Total Current Liabilities .....</b>	<b><u>933,167</u></b>

**Long-Term Liabilities**

SRF bond payable.....	1,666,000
Net pension liability.....	761,740
Total OPEB liability.....	96,776
<b>Total Long-Term Liabilities .....</b>	<b><u>2,524,516</u></b>

**Total Liabilities.....** **3,457,683**

**Deferred Inflows of Resources**

Pension-related deferred inflows .....	128,504
OPEB-related deferred inflows .....	15,541
<b>Total Deferred Inflows of Resources .....</b>	<b><u>144,045</u></b>

**Net Position**

Net investment in capital assets .....	24,718,419
Unrestricted.....	5,613,797
<b>Total Net Position .....</b>	<b><u>30,332,216</u></b>

**Total Liabilities, Deferred Inflows of Resources and Net Position.....** **\$ 33,933,944**

## Statement of Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2020

### Operating Revenue

Water sales .....	\$ 4,674,232
Billing and collection fees .....	144,857
Other sales and services .....	225,449
Miscellaneous.....	<u>189,953</u>
<b>Total Operating Revenue.....</b>	<b><u>5,234,491</u></b>

### Operating Expenses

Salaries and benefits .....	1,484,766
Contractual services .....	969,084
Commodities .....	104,227
Depreciation .....	<u>868,159</u>
<b>Total Operating Expenses .....</b>	<b><u>3,426,236</u></b>

**Operating Income .....** **1,808,255**

### Nonoperating Revenue (Expenses)

Interest income.....	114,186
Lease and rental fees, net of expense.....	21,369
Interest expense.....	(34,565)
Bond servicing fee.....	(4,850)
Loss on disposal of capital assets .....	<u>(2,233)</u>
<b>Total Nonoperating Revenue .....</b>	<b><u>93,907</u></b>

**Change in Net Position Before Capital Contributions .....** **1,902,162**

Capital contributions .....

	<u>346,118</u>
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**Change in Net Position .....** **2,248,280**

Net Position - Beginning of Year..... 28,083,936

**Net Position - End of Year.....** **\$ 30,332,216**

## Statement of Cash Flows

Year Ended June 30, 2020

### Cash Flows From Operating Activities

Cash received from customers .....	\$ 5,130,343
Cash collected on behalf of primary government .....	8,742,508
Cash paid to primary government .....	(8,742,508)
Cash paid to employees for services .....	(1,412,196)
Cash paid to suppliers for goods and services .....	(1,476,930)
<b>Net Cash Provided by Operating Activities .....</b>	<b><u>2,241,217</u></b>

### Cash Flows From Noncapital Financing Activities

Lease and rental fees received .....	<u>21,369</u>
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### Cash Flows From Capital and Related Financing Activities

Acquisition of capital assets .....	(1,535,085)
Proceeds from sale of equipment .....	12,150
Principal paid on SRF bond .....	(135,000)
Interest paid on SRF bond .....	(34,782)
Bond servicing fee paid .....	(4,850)
<b>Net Cash Used in Capital and Related Financing Activities .....</b>	<b><u>(1,697,567)</u></b>

### Cash Flows From Investing Activities

Interest received .....	<u>114,186</u>
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**Net Increase in Cash .....** **679,205**

Cash - Beginning of Year .....

	<u>5,505,556</u>
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**Cash - End of Year .....** **\$ 6,184,761**

### Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income .....	\$ 1,808,255
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation .....	868,159
Changes in Assets and Liabilities	
Increase in trade accounts and unbilled revenue receivable .....	(76,170)
Decrease in inventories .....	23,065
Decrease in deferred outflows of resources .....	46,524
Decrease in accounts payable, due to primary government and self-insured premiums and estimated claims .....	(426,684)
Decrease in accrued expenses, compensated absences, early separation plan liability, net pension liability and total OPEB liability .....	(59,493)
Decrease in liabilities payable from restricted assets .....	(27,978)
Increase in deferred inflows of resources .....	85,539

**Net Cash Provided by Operating Activities .....** **\$ 2,241,217**

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

Cash .....	\$ 6,036,680
Restricted cash - customer deposits .....	<u>148,081</u>

**\$ 6,184,761**

# Notes to the Financial Statements

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## (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

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## (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.

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

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## (1) Summary of Significant Accounting Policies and Other Matters

**Early Separation Plan** - Department employees who elect an early separation agreement at retirement may receive benefits outlined as follows: 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, 2020, the Department had no estimated liability 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.....	\$ 4,432,764
Budgeted disbursements.....	5,331,240
<b>Actual Disbursements Under Budget.....</b>	<b><u>\$ (898,476)</u></b>

**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

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### (2) Cash Flow Statement Supplementary Information

#### Schedule of Noncash Investing and Financing Activities

Cost of capital asset acquisitions.....	\$ 1,726,499
Amounts Payable	
Current year .....	(40,918)
Prior year.....	195,622
Contributed capital.....	<u>(346,118)</u>
<b>Cash Paid for Acquisition of Capital Assets .....</b>	<b><u>\$ 1,535,085</u></b>

### (3) Cash and Investments

The Department's deposits in bank as of June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to 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, 2020, \$148,081 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, 2020 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Capital Assets Not Being Depreciated</b>				
Land.....	\$ 474,126	\$ —	\$ —	\$ 474,126
Construction in progress .....	<u>232,169</u>	<u>739,941</u>	<u>634,552</u>	<u>337,558</u>
Total Capital Assets Not Being Depreciated.....	<u>706,295</u>	<u>739,941</u>	<u>634,552</u>	<u>811,684</u>
<b>Capital Assets Being Depreciated</b>				
Land improvements.....	35,664	—	—	35,664
Buildings, wells and towers .....	8,206,087	282,965	21,575	8,467,477
Distribution system.....	23,179,053	1,263,728	—	24,442,781
Equipment and vehicles .....	<u>1,372,950</u>	<u>74,417</u>	<u>—</u>	<u>1,447,367</u>
Total Capital Assets Being Depreciated.....	<u>32,793,754</u>	<u>1,621,110</u>	<u>21,575</u>	<u>34,393,289</u>
<b>Less Accumulated Depreciation for</b>				
Land improvements.....	3,864	713	—	4,577
Buildings, wells and towers .....	1,525,726	199,151	7,192	1,717,685
Distribution system.....	5,771,768	578,818	—	6,350,586
Equipment and vehicles .....	<u>519,229</u>	<u>89,477</u>	<u>—</u>	<u>608,706</u>
Total Accumulated Depreciation	<u>7,820,587</u>	<u>868,159</u>	<u>7,192</u>	<u>8,681,554</u>
Total Capital Assets Being Depreciated, Net .....	<u>24,973,167</u>	<u>752,951</u>	<u>14,383</u>	<u>25,711,735</u>
<b>Total Capital Assets, Net.....</b>	<b><u>\$ 25,679,462</u></b>	<b><u>\$ 1,492,892</u></b>	<b><u>\$ 648,935</u></b>	<b><u>\$ 26,523,419</u></b>

### (6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2020 is as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year	Due Within One Year	Interest Rate
Early separation plan liability .....	\$ 9,059	\$ —	\$ 9,059	\$ —	\$ —	N/A
SRF bond payable.....	1,940,000	—	135,000	1,805,000	139,000	3.0%
Net pension liability....	836,047	—	74,307	761,740	—	N/A
Total OPEB liability....	<u>110,499</u>	<u>—</u>	<u>13,723</u>	<u>96,776</u>	<u>—</u>	N/A
<b>Total .....</b>	<b><u>\$ 2,895,605</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 232,089</u></b>	<b><u>\$ 2,663,516</u></b>	<b><u>\$ 139,000</u></b>	

## 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 \$2,027,456. For the current year, principal paid, interest paid and total customer net receipts were \$135,000, \$34,782 and \$2,676,414, 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, 2020, the Department was in compliance with the bond provisions.

Annual debt service requirements to maturity for the water revenue bonds as of June 30, 2020 are as follows:

Year Ending June 30,	Principal	Net Interest (After Build America Bond Reimbursement - 1.05%)
2021 .....	\$ 139,000	\$ 35,198
2022 .....	144,000	32,487
2023 .....	148,000	29,679
2024 .....	153,000	26,793
2025 .....	158,000	23,809
2026-2030 .....	871,000	70,746
2031 .....	192,000	3,744
<b>Total .....</b>	<b><u>\$ 1,805,000</u></b>	<b><u>\$ 222,456</u></b>

### (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](http://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 2020, pursuant to the required rate, regular members contributed 6.29% of covered payroll and the Department contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Department contributions to IPERS for the year ended June 30, 2020 were \$98,977.

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

As of June 30, 2020, the Department reported a liability of \$761,740 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2019, the Department's proportion was 0.013155% which was a decrease of 0.000056% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Department recognized pension expense of \$141,669. As of June 30, 2020, 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 .....	\$ 2,112	\$ 27,388
Changes of assumptions .....	81,593	—
Net difference between projected and actual earnings on IPERS' investments.....	—	85,839
Changes in proportion and differences between Department contributions and proportionate share of contributions .....	26,035	15,277
Department contributions subsequent to the measurement date .....	98,977	—
<b>Total .....</b>	<b><u>\$ 208,717</u></b>	<b><u>\$ 128,504</u></b>

\$98,977 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, 2021. 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,	
2021 .....	\$ 19,347
2022 .....	(10,924)
2023 .....	(10,111)
2024 .....	(14,744)
2025 .....	(2,332)
<b>Total</b> .....	<b><u>\$ (18,764)</u></b>

There were no nonemployer contributing entities to IPERS.

#### Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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, 2020 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
<b>Total</b>	<b><u>100.0%</u></b>	



## Notes to the Financial Statements

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### (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	\$1,352,605	\$761,740	\$266,130

#### 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](http://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, 2020.

#### 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

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### (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, 2020, 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, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments .....	1
Active employees .....	<u>14</u>
<b>Total</b> .....	<u><u>15</u></u>

#### Total OPEB Liability

The Department's total OPEB liability of \$96,776 was measured as of June 30, 2020 and was determined by an actuarial valuation as of that date.

#### Actuarial Assumptions

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions and the entry age normal level percentage of pay actuarial cost method, applied to all periods included in the measurements.

Rate of inflation (effective June 30, 2020)	2.50% per year.
Rates of salary increase (effective June 30, 2020)	3.00% per year.
Discount rate (effective June 30, 2020)	3.50% compounded annually.
Healthcare cost trend rate (effective June 30, 2020)	7.00% per year.

#### Discount Rate

The discount rate used to measure the total OPEB liability was 3.50% which reflects the bond buyer 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 annuitant distinct mortality table adjusted to 2006 with MP 2019 generational projection of future mortality improvement. 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, 2020 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

	<b>Total OPEB Liability</b>
Total OPEB Liability - Beginning of Year .....	\$ 110,499
Changes for the Year	
Service cost .....	4,302
Interest.....	3,360
Differences between expected and actual experience.....	(10,118)
Changes of assumptions.....	(6,094)
Benefit payments .....	(5,173)
Net Changes .....	<u>(13,723)</u>
<b>Total OPEB Liability - End of Year .....</b>	<b><u>\$ 96,776</u></b>

#### 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 (2.50%) or one percentage point higher (4.50%) than the current discount rate.

	<b>1% Decrease (2.50%)</b>	<b>Discount Rate (3.50%)</b>	<b>1% Increase (4.50%)</b>
Total OPEB Liability.....	\$104,928	\$96,776	\$89,322

#### 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 (6.00%) or one percentage point higher (8.00%) than the current healthcare cost trend rate.

	<b>1% Decrease (6.00%)</b>	<b>Healthcare Cost Trend Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Total OPEB Liability.....	\$87,107	\$96,776	\$108,125

#### OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the Department recognized OPEB expense of \$6,514. As of June 30, 2020, the Department reported deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience .....	\$ 9,864
Changes of assumptions .....	<u>5,677</u>
<b>Total .....</b>	<b><u>\$ 15,541</u></b>

# 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
2021 .....	\$ 1,148
2022 .....	1,148
2023 .....	1,148
2024 .....	1,148
2025 .....	1,148
Thereafter.....	<u>9,801</u>
<b>Total</b> .....	<b><u>\$ 15,541</u></b>

## (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, 2020 was as follows:

Type of Benefit	Amount
Vacation and Compensatory Time.....	<b><u>\$ 116,682</u></b>

This liability has been computed based on rates of pay and rates for payroll taxes and IPERS as of June 30, 2020.

Sick leave is payable when used. No amounts of sick leave were accrued as of June 30, 2020.

## (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, 2020, the Department collected and remitted to the City of Marion \$6,114,591 for sewer, \$2,239,102 for garbage and \$388,815 for urban forest services. Fees earned by the Department from the City of Marion during the year for this service totaled \$144,857, of which \$10,667 was receivable as of June 30, 2020.

A total of \$26,083 was payable to the City of Marion by the Department as of June 30, 2020 for various items.

## Notes to the Financial Statements

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### (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 \$477 per month single and \$1,277 per month family which is an amount based on past claim history. Employees pay between \$70 - \$90 per month single and between \$95 - \$180 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 \$123,150 during the year ended June 30, 2020. As of June 30, 2020, the Department's share of estimated claims incurred but unpaid was \$16,058 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, 2020 were \$10,220.

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

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

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

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

The 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, 2020 were \$30,505.

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, 2020, no liability has been recorded in the Department's financial statements. As of June 30, 2020, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

## Notes to the Financial Statements

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### **(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, 2020, the Department was committed to approximately \$300,000 in construction and purchase agreements.

### **(14) Subsequent Events**

Management has evaluated subsequent events through November 30, 2020, the date which the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus pandemic, economic uncertainties have arisen which are likely to negatively impact revenue, expenses, net income and cash flows. Other financial impacts could occur as well. The potential impacts that the pandemic will have on the Department are unknown at this time.

Subsequent to June 30, 2020, the Department entered into various agreements to purchase and construct capital assets totaling approximately \$100,000.

**Required Supplementary Information**

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

Last Six Years\*

	2020	2019	2018	2017	2016	2015
Department's proportion of the net pension liability ..	0.013155%	0.013211%	0.012992%	0.012021%	0.012813%	0.012913%
Department's proportionate share of the net pension liability .....	\$761,740	\$836,047	\$865,432	\$756,502	\$632,999	\$522,591
Department's covered-employee payroll.....	\$1,001,117	\$992,957	\$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.....	76.09%	84.20%	89.24%	87.70%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability ..	85.45%	83.62%	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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily required contribution .....	\$ 98,977	\$ 94,506	\$ 88,671	\$ 86,603	\$ 77,035	\$ 78,385	\$ 76,999	\$ 72,410	\$ 60,101	\$ 52,456
Contributions in relation to the statutorily required contribution .....	<u>(98,977)</u>	<u>(94,506)</u>	<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>
Contribution Deficiency (Excess) .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Department's covered-employee payroll.....	\$ 1,048,489	\$ 1,001,117	\$ 992,957	\$ 969,793	\$ 862,651	\$ 877,771	\$ 862,253	\$ 864,596	\$ 749,298	\$ 777,042
Contributions as a percentage of covered-employee payroll .....	9.44%	9.44%	8.93%	8.93%	8.93%	8.93%	8.93%	8.38%	8.02%	6.75%

## Notes to Required Supplementary Information - Pension Liability ---

Year Ended June 30, 2020

### Changes of Benefit Terms

There were no significant changes in benefit terms.

### Changes of Assumptions

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

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

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

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

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the 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.

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

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For the Last Three Years

	2020	2019	2018
Service cost.....	\$ 4,302	\$ 3,077	\$ 3,077
Interest .....	3,360	4,357	4,743
Differences between expected and actual experience .....	(10,118)	(515)	(61)
Changes of assumptions .....	(6,094)	—	—
Benefit payments.....	<u>(5,173)</u>	<u>(18,173)</u>	<u>(17,491)</u>
Net Change in Total OPEB Liability.....	(13,723)	(11,254)	(9,732)
Total OPEB Liability - Beginning of Year .....	<u>110,499</u>	<u>121,753</u>	<u>131,485</u>
<b>Total OPEB Liability - End of Year .....</b>	<b><u>\$ 96,776</u></b>	<b><u>\$ 110,499</u></b>	<b><u>\$ 121,753</u></b>
<b>Covered-Employee Payroll .....</b>	<b>\$ 1,088,530</b>	<b>\$ 1,016,514</b>	<b>\$ 980,906</b>
<b>Total OPEB Liability as a Percentage of Covered-Employee Payroll.....</b>	<b>8.89%</b>	<b>10.87%</b>	<b>12.41%</b>

### 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***

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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, 2020, 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 November 30, 2020.

**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 that 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 20-I-R-1, 20-I-R-2 and 20-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, 2020 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 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*

HOGAN - HANSEN

Cedar Rapids, Iowa  
November 30, 2020

# Schedule of Findings

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Year Ended June 30, 2020

## **Part I: Findings Related to the Financial Statements**

### **20-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** - 19-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.

### **20-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

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Year Ended June 30, 2020

**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** - 19-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.

### 20-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 three items and found this occurring two times.

**Identification of Repeat Finding** - 19-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

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Year Ended June 30, 2020

### Part II: Findings Related to Statutory Reporting

- 20-II-A Certified Budget** - Operating cash disbursements during the year ended June 30, 2020 did not exceed the amounts budgeted.
- 20-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.
- 20-II-C Travel Expense** - No disbursements of Department money for travel expenses of spouses of the Department officials or employees were noted.
- 20-II-D Business Transactions** - No business transactions between the Department's officials or employees and the Department were noted.
- 20-II-E Restricted Donor Activity** - No transactions were noted between the Department, Department officials, Department employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- 20-II-F 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.
- 20-II-G Board of Trustee Minutes** - No transactions were found that we believe should have been approved in the Trustee minutes that were not.
- 20-II-H 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.
- 20-II-I Revenue Bonds** - No instances of noncompliance with the water revenue bonds (Build America Bonds) provisions were noted.