



# **Cedar Falls Utilities**

**Financial Statements of the Municipal  
Electric, Gas, Water, and Communications Utilities  
of the City of Cedar Falls, Iowa**

**Including Independent Auditors' Reports**

**For The Years Ended  
December 31, 2014 and 2013**





# **Cedar Falls Utilities**

**Financial Statements of the Municipal  
Electric Utility  
of the City of Cedar Falls, Iowa**

**Including Independent Auditors' Reports**

**For The Years Ended  
December 31, 2014 and 2013**



MUNICIPAL ELECTRIC UTILITY  
OF THE CITY OF CEDAR FALLS, IOWA  
(Component Unit of the City of Cedar Falls, Iowa)

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Cedar Falls Utilities – Municipal Electric Utility

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Municipal Electric Utility of the City of Cedar Falls, Iowa (Municipal Electric Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2014 and 2013, and the related notes to the 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 over financial reporting relevant to the Municipal Electric Utility'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 Municipal Electric Utility'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 Municipal Electric Utility as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Cedar Falls Utilities – Municipal Electric Utility

***Emphasis of Matters***

As discussed in Note 1, the financial statements present only the Municipal Electric Utility component unit and do not purport to, and do not, present fairly the financial position of the City of Cedar Falls, Iowa, as of December 31, 2014 and 2013 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is 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 and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 issued our report dated March 27, 2015 on our consideration of the Municipal Electric Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including those systems applicable to Municipal Electric Utility. 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 Municipal Electric Utility's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
March 27, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2014 and 2013  
Unaudited

The following discussion and analysis of the Municipal Electric Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2014 and 2013. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

Weather in 2014 was cooler than normal compared to 2013, including the summer cooling season, resulting in decreased retail usage of nearly 731,000 kWh or 0.1%. However, due to a strong wholesale market, wholesale sales increased nearly 24 million kWh or 2.6%. Due to the stronger wholesale market and a 0.5% overall rate increase, the Utility experienced a \$3.8 million or 7.0% increase in operating revenues. Operating expenses increased \$6.6 million or 14.1% due to a \$4.1 million, or 17.3% increase in fuel and purchased power costs from the higher wholesale market prices, and a \$1.6 million or 108.9% increase in the Payment In Lieu of Taxes expensed for the City of Cedar Falls. The Utility's net position continued to grow due to strong operating income and non-operating revenues.

**Overview of the Financial Statements**

Management's discussion and analysis (MDA) serves as an introduction to the financial statements, and the MDA represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

The statements of net position include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

The statements of revenues, expenses and changes in net position present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail rates to purchase electricity are based on rates established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. A fundamental objective of this rate model is to provide adequate revenue to cover all costs.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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**Condensed Financial Information & Analysis**

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

**Condensed Statement of Net Position**

	2014	2013	2012
Capital assets, net	\$155,670,376	\$142,466,988	\$133,559,906
Other noncurrent assets	21,346,665	13,804,392	3,858,308
Current assets	63,302,051	63,796,622	63,561,116
Deferred outflow of resources	266,371	295,968	325,565
Total assets and deferred outflow of resources	\$240,585,463	\$220,363,970	\$201,304,895
Long-term debt	\$ 42,830,805	\$ 46,224,434	\$ 48,361,300
Current liabilities	13,123,896	11,777,201	11,236,690
Noncurrent liabilities	23,382,662	15,911,603	5,426,494
Total liabilities	\$ 79,337,363	\$ 73,913,238	\$ 65,024,484
Net investment in capital assets	\$ 109,715,942	\$ 93,557,553	\$ 87,762,796
Restricted	7,031,590	6,623,104	6,803,487
Unrestricted	44,500,568	46,270,075	41,714,128
Total net position	\$161,248,100	\$146,450,732	\$136,280,411

**2014 Compared to 2013**

- ❖ Total Assets and Deferred Outflows of Resources increased \$20.2 million or 9.2% primarily due to:
  - Net capital assets increasing \$13.2 million or 9.3% due to wind storm recovery capital projects, generation upgrade projects, and overhead to underground distribution system conversions. Net capital assets represent 64.8% of total assets for the Utility in 2014.
  - Increase in other noncurrent assets of \$7.5 million or 54.6% due to:
    - Increase in tax increment financing (TIF) receivable of \$7.3 million or 55.3% mainly due to the City of Cedar Falls adopting resolutions increasing TIF debt owed to the Electric Utility for certified expenditures.
    - Increase of noncurrent restricted investments of \$500,000.
    - Decrease in note receivable of \$185,000 or 50.3%.
  - Decrease in current assets of \$495,000 or 0.8% primarily due to:
    - Increase in customer accounts receivable of \$76,000 or 2.5% due to an increase in cost recoverable through fuel adjustment from an increase in market prices in 2014.
    - Decrease in cost recoverable through fuel adjustment due to writing off \$1.6 million of under recovery and deciding not to pass it through to customers.
    - Increase in cash and investments of \$2.2 million or 5.0%.
    - Increase in governmental grants receivable of \$554,000 or 16.5% due to additional revenue recognized and not yet reimbursed for grant projects.
    - Decrease in fuel inventory of oil, coal and allowances of \$1.3 million or 22.8%.
    - Decrease in materials and supplies inventory of \$288,000 or 14.9%.

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- Decrease in deferred outflows of resources of \$30,000 or 10.0% due to the annual amortization of the loss on reacquired debt.
- ❖ Total Liabilities increased \$5.4 million or 7.3% primarily due to:
  - Decrease of \$3.4 million or 7.3% in long-term debt less current installments.
    - Reduction in total long-term debt is due to principal payments of \$2,685,000 in 2014 plus amortization of debt discounts and premiums.
  - Increase in current liabilities of \$1.3 million or 11.4% as a result of:
    - Decrease in accounts payable of \$804,000 or 12.7% primarily due to a decrease in inventory.
    - Increase in reserve for surplus declaration, or PILOT, of \$1.6 million or 108.9%.
    - Increase of \$705,000 or 26.3% in current installments of long term debt.
  - Increase in noncurrent liabilities of \$7.5 million or 47.0% mainly due to the \$7.3 million or 55.3% increase of the Tax Increment Financing (TIF) liability as a result of the City of Cedar Falls adopting resolutions increasing TIF debt owed to the Electric Utility for certified expenditures.

*Additional detail on the change in capital assets and long-term obligation can be found in Notes 4 and 5, respectively.*

### **2013 Compared to 2012**

- ❖ Total Assets and Deferred Outflows of Resources increased \$19.1 million or 9.5% primarily due to:
  - Net capital assets increasing \$8.9 million or 6.7% due to wind storm recovery capital projects, overhead to underground distribution system conversion projects, the construction of the new flood wall, and other environmental and upgrade projects. Net capital assets represent 64.7% of total assets for the Utility in 2013.
  - Increase in other noncurrent assets of \$9.9 million or 257.8% due to:
    - Increase in tax increment financing (TIF) receivable of \$10.4 million or 382.6% mainly due to additional future TIF revenues as a result of the City of Cedar Falls adopting resolutions demonstrating TIF debt owed to the Electric Utility for certified expenditures.
    - Decrease in unamortized debt expense of \$224,000 or 100.0% due to the write off of all debt issuance costs per GASB 65 in 2013.
    - Decrease in note receivable of \$185,000 or 33.4% from a principal payment.
  - Increase in current assets of \$236,000 or 0.4% primarily due to:
    - Increase in customer accounts receivable of \$2.6 million or 68.0% due to an increase in cost recoverable through fuel adjustment due to an increase in December 2013 fuel costs not passed through to customers and due to an energy cost adjustment for a contract customer which will be recoverable from other retail customers.
    - Increase in cash and investments of \$1.8 million or 4.2%.
    - Decrease in governmental grants receivable of \$3.7 million or 52.5% due to the reimbursement for grant projects.
    - Decrease in fuel inventory of oil, coal and allowances of \$385,000 or 6.4%.
    - Decrease in materials and supplies inventory of \$182,000 or 8.6%.
  - Decrease in deferred outflows of resources of \$30,000 or 9.1% due to the annual amortization of the loss on reacquired debt.

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- ❖ Total Liabilities increased \$8.9 million or 13.7% primarily due to:
  - Decrease of \$2.1 million or 4.4% in long-term debt less current installments.
    - Reduction in total long-term debt is due to principal payments of \$2,590,000 in 2013 plus amortization of debt discounts and premiums.
  - Increase in current liabilities of \$541,000 or 4.8% as a result of an increase in accounts payable due to an energy cost adjustment for a contract customer which will be recoverable from other retail customers and an increase in current installments of long term debt.
  - Increase in noncurrent liabilities of \$10.5 million or 205.4% mainly due to the \$10.4 million increase of the Tax Increment Financing (TIF) liability for future TIF revenues as a result of the City of Cedar Falls adopting resolutions demonstrating TIF debt owed to the Electric Utility for certified expenditures.

*Additional detail on the change in capital assets and long-term obligation can be found in Notes 4 and 5, respectively.*

**Condensed Revenues, Expenses and Changes in Net Position**

	2014	2013	2012
Sales of electricity	\$ 56,165,288	\$ 52,473,648	\$ 47,097,125
Other	2,787,207	2,646,820	2,274,564
Total operating revenues	<u>58,952,495</u>	<u>55,120,468</u>	<u>49,371,689</u>
Fuel and purchased power	27,917,524	23,790,442	20,146,886
Other, Transmission and Distribution	11,027,624	10,225,877	9,832,051
Depreciation and amortization	4,183,539	3,530,577	4,225,356
Services and administrative	10,418,499	9,386,352	8,691,070
Total operating expenses	<u>53,547,186</u>	<u>46,933,248</u>	<u>42,895,363</u>
Operating Income	<u>5,405,309</u>	<u>8,187,220</u>	<u>6,476,326</u>
Interest income	69,605	122,424	208,467
Other, net	9,322,454	1,860,677	5,541,662
Total non-operating revenues (expenses)	<u>9,392,059</u>	<u>1,983,101</u>	<u>5,750,129</u>
Change in net position	14,797,368	10,170,321	12,226,455
Net position, beginning of year	<u>146,450,732</u>	<u>136,280,411</u>	<u>124,053,956</u>
Net position, end of year	<u>\$161,248,100</u>	<u>\$146,450,732</u>	<u>\$136,280,411</u>

**2014 Compared to 2013**

- ❖ Total Operating Revenues increased \$3.8 million or 7.0% due to:
  - Increase in electric sales revenues of \$3.7 million or 7.0% due to higher energy prices from an increase of \$4.1 million or 17.3% in the energy costs adjustment (ECA) which are passed through to revenue, an overall 0.5% rate increase and a decrease in retail kWh usage of 730,637 or 0.1%.

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- Increase in wholesale revenues of \$831,000 or 6.6% due to increased market prices and an increase of 24,044,416 kWh in wholesale sales.
- Increase in other operating revenues of \$140,000 or 5.3% as a result of an increase of \$235,000 in transmission revenues.
  
- ❖ Total Operating Expenses increased \$6.6 million or 14.1% due to:
  - Increase in fuel and purchased power costs of \$4.1 million or 17.3%.
    - Fuel costs increased \$2.8 million or 44.1% due to Streeter Station and the Western Units generating more plus higher fuel costs.
    - Increase of \$1.3 million or 7.6% in purchased power costs due to higher MISO market costs. The Electric Utility purchases all its power needs from MISO, except when conditions in the wholesale market are favorable to generating power at Streeter Station.
  - Increase of \$802,000 or 7.8% in other, transmission and distribution due to an increase in MISO transmission allocations and new build projects and other production maintenance costs of rebuilding the gas turbine partially offset by a decrease in distribution costs from a reduction in meter socket replacements for the overhead to underground conversion project.
  - Increase of \$653,000 or 18.5% in depreciation & amortization expense due to the completion of capital asset projects placed into service in 2014.
  - Increase in services and administrative expenses of \$1 million or 11.0% due to:
    - Increase in administrative & general expenses of \$1 million or 14.6% due to:
      - Decrease in outside services of \$305,000 or 38.4% mostly due to a decrease in legal fees related to arbitration costs of the bag house litigation that was settled in 2014.
      - Increase in employee insurance & benefits of \$310,000 or 13.6% due to a decrease in medical claims.
      - Increase in operating transfers out (PILOT) of \$1.6 million or 108.9%.
  
- ❖ Interest Income decreased \$53,000 or 43.1% due to a reduction in the amount of investments held throughout 2014.
  
- ❖ Other, net increased \$7.5 million or 401.% primarily due to:
  - Increase in miscellaneous net revenues of \$3.3 million or 161.2% resulting from receipt of a \$3.6 million award in settlement of litigation over the design of Streeter Station's bag house.
  - Increase in intergovernmental grant revenues (FEMA reimbursements) of \$3.4 million or 153.5% due to the significant completion of the wind mitigation project replacing some overhead distribution lines which is to be completed in 2015.
  - Decrease in interest expense on long term debt of \$872,000 or 30.9% due to the write off of \$728,000 in debt issuance costs per GASB 65 in 2013.
  - Decrease in the allowance for funds used during construction (AFUDC) of \$156,000 or 33.8%.

### 2013 Compared to 2012

- ❖ Total Operating Revenues increased \$5.7 million or 11.6% due to:
  - Increase in electric sales revenues of \$5.4 million or 11.4% due to higher energy prices from an increase \$3.6 million or 18.1% in the energy costs adjustment (ECA) which are passed through to revenue and an increase in retail kWh usage of 7,153,849 or 1.5%.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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- Increase in wholesale revenues of \$1.7 million or 15.5% due to increased market prices despite a decrease of 34,784,865 kWh in wholesale sales.
  - Increase in other operating revenues of \$372,000 or 16.4% as a result of an increase of \$383,000 in transmission revenues.
- ❖ Total Operating Expenses increased \$4.0 million or 9.4% due to:
- Increase in fuel and purchased power costs of \$3.6 million or 18.1%.
    - Fuel costs increased \$370,000 or 6.2% due to Streeter Station generating more plus higher fuel costs at the Western Units costs.
    - Increase of \$3.3 million or 23.1% in purchased power costs due to higher MISO market costs. The Electric Utility purchases all its power needs from MISO, except when conditions in the wholesale market are favorable to generating power at Streeter Station.
  - Increase of \$394,000 or 4.0% in other, transmission and distribution due to an increase in MISO transmission allocations and new build projects partially offset by a decrease in other production and generation costs.
  - Decrease of \$695,000 or 16.4% in depreciation & amortization expense due to the full depreciation of software assets.
  - Increase in services and administrative expenses of \$695,000 or 8.0% due to:
    - Increase in administrative & general expenses of \$749,000 or 11.9% due to:
      - Increase in outside services of \$228,000 or 40.2% mostly due to an increase in legal fees related to arbitration costs of the bag house litigation.
      - Increase in employee insurance & benefits of \$345,000 or 17.7% due to an increase in medical claims and about a 51% increase in stop-loss premiums in the new medical plan year.
- ❖ Interest Income decreased \$86,000 or 41.3% due to full expenditure of the invested 2010 debt proceeds.
- ❖ Other, net decreased \$ 3.7 million or 65.5% primarily due to:
- Decrease in miscellaneous net revenues of \$937,000 or 31.7% caused by a reduction in miscellaneous non-operating income and tax increment financing (TIF) revenues.
  - Decrease in intergovernmental grant revenues (FEMA reimbursements) of \$2.3 million or 50.5% due to the completion of repairs to damaged capital assets caused during the 2008 flood and the 2009 wind storm events.
  - Increase in interest expense on long term debt of \$630,000 or 28.8% due to the write off of \$728,000 in debt issuance costs per GASB 65 in 2013.
  - Increase in the allowance for funds used during construction (AFUDC) of \$111,000 or 31.7%.

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**Condensed Statement of Cash Flows**

	2014	2013	2012
Cash Flows from Operating Activities	\$13,350,001	\$10,385,413	\$11,242,551
Cash Flows from Noncapital Financing Activities	(204)	(602)	(4,527)
Cash Flows from Capital and Related Financing Activities	(10,887,831)	(8,880,970)	(13,916,648)
Cash Flows from Investing Activities	932,931	5,354,539	(4,027,401)
Net Change in Cash and Cash Equivalents	3,394,897	6,858,380	1,348,777
Cash and Cash Equivalents-Beginning of Year	35,414,865	28,556,485	27,207,708
<b>Cash and Cash Equivalents-End of Year</b>	<b>\$38,809,762</b>	<b>\$35,414,865</b>	<b>\$28,556,485</b>

**2014 Compared to 2013**

- ❖ Cash inflows from operations increased by \$3.0 million or 28.5% primarily due to:
  - Increase in cash received from customer of \$4.9 million or 9.0%.
  - Increase in cash paid to suppliers of \$1.4 million or 3.6%.
  - Increase in cash paid to employees of \$360,000 or 10.0%.
- ❖ Cash outflows from capital and related financing activities increased by \$2.0 million or 22.6% due to:
  - Increase in capital expenditures of \$4.1 million or 34.1%.
  - Increase in receipts for reimbursement of utility construction costs of \$3.0 million or 163.1%.
  - Decrease in receipts from intergovernmental grants of \$833,000 or 14.0%.
- ❖ Cash inflows from investing activities decreased \$4.4 million or 82.6% due to the lower funds available in 2014 for reinvestment (purchase) of investment securities.

**2013 Compared to 2012**

- ❖ Cash inflows from operations decreased by \$857,000 or 7.6% primarily due to:
  - Decrease in cash paid to suppliers of \$6.1 million or 18.7%.
  - Increase in retail sales and wholesale sales revenues of \$5.0 million or 10.2%.
- ❖ Cash outflows from capital and related financing activities decreased by \$5.0 million or 36.2% due to:
  - Decrease in capital expenditures of \$3.6 million or 22.7%.
  - Decrease in receipts for reimbursement of utility construction costs of \$1.1 million or 37.6%.
  - Increase in receipts from intergovernmental grants of \$1.6 million or 36.4%.
- ❖ Cash inflows from investing activities increased \$1.3 million or 33.0% due to the lower reinvestment (purchase) of investment securities.



## **FINANCIAL STATEMENTS**



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MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Statements of Net Position  
December 31, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 225,598,620	\$ 213,548,933
Less accumulated depreciation	<u>80,133,418</u>	<u>78,136,608</u>
Capital assets, net	145,465,202	135,412,325
Construction work in progress	<u>10,205,174</u>	<u>7,054,663</u>
Total capital assets, net	<u>155,670,376</u>	<u>142,466,988</u>
Noncurrent assets:		
Investments - restricted (note 2 and 3)	500,000	-
Note receivable (note 9)	183,090	368,090
Loans receivable	111,200	164,660
Other (note 9)	20,442,918	13,162,185
Prepayments and other	<u>109,457</u>	<u>109,457</u>
Total noncurrent assets	<u>21,346,665</u>	<u>13,804,392</u>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	36,864,207	33,320,510
Cash and cash equivalents - restricted (note 2 and 3)	1,945,555	2,094,355
Investments - unrestricted (note 3)	2,500,000	3,690,000
Investments - restricted (note 2 and 3)	5,590,000	5,580,000
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$34,485 in 2014 and \$38,767 in 2013	4,855,623	6,407,004
Loans receivable	49,757	57,665
Interest (note 9)	18,221	16,547
Current installment of note receivable (note 9)	185,000	185,000
Government grants (note 12 and 13)	3,920,507	3,366,622
Trade	1,031,145	1,211,757
Inventories:		
Fuel	4,373,266	5,662,584
Material and supplies	1,648,566	1,936,235
Prepayments and other	<u>320,204</u>	<u>268,343</u>
Total current assets	<u>63,302,051</u>	<u>63,796,622</u>
Total assets	<u>240,319,092</u>	<u>220,068,002</u>
Deferred Outflows of Resources:		
Unamortized loss on reacquired debt	<u>266,371</u>	<u>295,968</u>
Total deferred outflows of resources	266,371	295,968
Total Assets and Deferred Outflows of Resources	<u>\$ 240,585,463</u>	<u>\$ 220,363,970</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Statements of Net Position  
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<u>Liabilities</u>	<u>2014</u>	<u>2013</u>
Long-term debt, less current installments (note 5)	\$ 42,830,805	\$ 46,224,434
Current liabilities:		
Accounts payable	5,532,451	6,336,179
Reserve for surplus declaration (note 9)	3,134,241	1,500,000
Accrued wages and vacations	577,631	795,393
Accrued interest	178,788	183,883
Other accrued expenses	310,785	276,746
Current installments of long-term debt (note 5)	3,390,000	2,685,000
Total current liabilities	<u>13,123,896</u>	<u>11,777,201</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	139,200	224,244
Other liabilities (note 5, 9 and 11)	23,243,462	15,687,359
Total noncurrent liabilities	<u>23,382,662</u>	<u>15,911,603</u>
Total liabilities	<u>79,337,363</u>	<u>73,913,238</u>
<u>Net Position</u>		
Net investment in capital assets	109,715,942	93,557,553
Restricted	7,031,590	6,623,104
Unrestricted	44,500,568	46,270,075
Total net position	<u>161,248,100</u>	<u>146,450,732</u>
Total liabilities and net position	<u>\$ 240,585,463</u>	<u>\$ 220,363,970</u>

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## MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

## Statements of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2014, and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Sales of electricity:		
Residential	\$ 17,523,383	\$ 16,356,928
Large industrial & commercial	3,356,331	2,903,550
Small industrial & commercial	17,630,609	16,341,025
Governmental (note 9)	3,944,974	4,011,879
Sales for resale	13,464,729	12,634,159
Interdepartmental	245,262	226,107
Total sales of electricity	<u>56,165,288</u>	<u>52,473,648</u>
Other operating revenues (note 12 and 13)	2,787,207	2,646,820
Total operating revenues	<u>58,952,495</u>	<u>55,120,468</u>
Operating expenses:		
Production and generation:		
Fuel	9,157,694	6,356,327
Purchased power	18,759,830	17,434,115
Other	5,274,542	4,637,971
Transmission	3,227,178	2,685,517
Distribution	2,525,904	2,902,389
Depreciation and amortization	4,183,539	3,530,577
Customer accounts	616,453	619,182
Customer service and information expenses	775,645	753,503
Sales	65,033	56,657
Administrative and general (note 9)	8,098,393	7,068,168
Taxes other than income taxes	862,975	888,842
Total operating expenses	<u>53,547,186</u>	<u>46,933,248</u>
Operating income	<u>5,405,309</u>	<u>8,187,220</u>
Non-operating revenues (expenses):		
Interest income (note 9)	69,605	122,424
Net increase (decrease) in the fair value of investments	-	(43,250)
Miscellaneous revenue (expense), net (note 9)	5,283,773	2,022,872
Intergovernmental grant funds	5,683,978	2,242,043
Interest expense on long-term debt	(1,946,433)	(2,818,786)
AFUDC (note 1)	304,790	460,522
Interest income (expense) on security deposits	(3,654)	(2,724)
Total nonoperating revenues (expenses)	<u>9,392,059</u>	<u>1,983,101</u>
Change in net position	<u>14,797,368</u>	<u>10,170,321</u>
Net position, beginning of year	<u>146,450,732</u>	<u>136,280,411</u>
Net position, end of year	<u>\$ 161,248,100</u>	<u>\$ 146,450,732</u>

See accompanying notes to financial statements.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows  
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 59,066,982	\$ 54,212,678
Intergovernmental grants	1,318	97,073
Cash paid to suppliers	(39,822,050)	(38,443,197)
Cash paid to employees	(3,938,228)	(3,578,708)
Payment in lieu of taxes to the City of Cedar Falls	(1,500,000)	(1,430,000)
Property tax paid	<u>(458,021)</u>	<u>(472,433)</u>
Net cash provided by (used in) operating activities	<u>13,350,001</u>	<u>10,385,413</u>
Cash flows from noncapital financing activities:		
Interest paid on customer deposits	<u>(204)</u>	<u>(602)</u>
Net cash provided by (used in) noncapital financing activities	<u>(204)</u>	<u>(602)</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(2,685,000)	(2,590,000)
Interest paid	(1,929,011)	(2,024,996)
Proceeds from customer advances for construction	64,600	48,800
Refunds of customer advances for construction	(149,644)	(113,600)
Acquisition, construction and removal cost of capital assets	(16,284,219)	(12,147,481)
Proceeds from sale of capital assets	195,824	170,344
Reimbursement of utility construction costs	4,769,526	1,812,504
Intergovernmental grants	<u>5,130,093</u>	<u>5,963,459</u>
Net cash provided by (used in) capital and related financing activities	<u>(10,887,831)</u>	<u>(8,880,970)</u>
Cash flows from investing activities:		
Proceeds from repayment of loan by associated utility	185,000	185,000
Proceeds from maturities of investment securities	9,270,000	14,783,370
Purchase of investment securities	(8,590,000)	(9,770,000)
Interest received	<u>67,931</u>	<u>156,169</u>
Net cash provided by (used in) investing activities	<u>932,931</u>	<u>5,354,539</u>
Net increase (decrease) in cash and cash equivalents	3,394,897	6,858,380
Cash and cash equivalents, beginning of year	<u>35,414,865</u>	<u>28,556,485</u>
Cash and cash equivalents, end of year (note 1)	<u>\$ 38,809,762</u>	<u>\$ 35,414,865</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows, Continued  
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 5,405,309	\$ 8,187,220
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of capital assets	4,183,539	3,530,577
Other Income (expense), net	2,126,321	210,368
(Increase) decrease in accounts receivable	119,919	(2,722,918)
(Increase) decrease in loans receivable	61,368	90,488
(Increase) decrease in inventories	1,576,987	567,145
(Increase) decrease in prepayments and other	(51,861)	(43,680)
Increase (decrease) in accounts payable	(1,797,469)	362,988
Increase (decrease) in reserve for surplus declaration	1,634,241	70,000
Increase (decrease) in accrued wages and vacation	(217,762)	18,528
Increase (decrease) in other accrued expenses	34,039	(178)
Increase (decrease) in other liabilities	<u>275,370</u>	<u>114,875</u>
Net cash provided by operating activities	<u>\$ 13,350,001</u>	<u>\$ 10,385,413</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	304,790	460,522
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	36,864,207	\$ 33,320,510
Cash - restricted	<u>1,945,555</u>	<u>2,094,355</u>
Cash and cash equivalents	<u>\$ 38,809,762</u>	<u>\$ 35,414,865</u>



## **NOTES TO FINANCIAL STATEMENTS**



MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

(1) **Summary of Significant Accounting Policies**

**Organization and Basis of Accounting**

The Municipal Electric Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls, Iowa. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 18-Conservation of Power and Water Resources, Chapter I-Federal Energy Regulatory Commission, Department of Energy.

The Utility's present capacity consists of one wholly owned and three jointly owned coal-fired plants, Walter Scott Energy Center Unit 3, Walter Scott Energy Center Unit 4, and George Neal Generating Station Unit 4 (Western Units) and one assigned by contract with a combined generating capacity of 111.9 megawatts. The Utility owns two combustion turbines with a generating capacity of 43.4 megawatts. In August 2013, an explosion occurred in Gas Turbine Unit 2 which removed the 23.8 megawatt turbine from service until July 2014. The Utility jointly owns 1.5 megawatts of generating capacity in a wind turbine facility. The Utility also has contractual rights for the purchase of 6 megawatts of wind energy which expires in 2022. The Utility owns a total of 162.8 megawatts of generating capacity.

**Accounting Changes**

The GASB Statement No. 65, ***"Items Previously Reported as Assets and Liabilities"*** ("GASB 65") was issued in March 2012 effective for periods beginning after December 15, 2012. The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Additionally, GASB 65 requires that debt issuance costs should be recognized as expense in the period incurred. The adoption of GASB 65 resulted in reclassification of items that were previously reported as assets and liabilities and the write-off of amounts previously reported as unamortized debt costs. In 2013, total net position decreased by \$775,708 which represents the expensing of prior years' unamortized debt issuance costs.

The GASB has approved GASB Statement No. 66, ***"Technical Corrections – 2012"*** which is an amendment of GASB Statements No. 10 and No. 62; Statement No. 67, ***"Financial Reporting for Pension Plans"*** which is an amendment of GASB Statement No. 25; and Statement No. 68, ***"Accounting and Financial Reporting for Pensions"*** which is an amendment of GASB Statement No. 27. Application of these standards may restate portions of these financial statements.

**Capital Assets and Depreciation**

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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**(1) Summary of Significant Accounting Policies, Continued**

**Capital Assets and Depreciation, Continued**

rate of 4.35% in 2014 and 3.29% 2013. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: land improvements 45 years; infrastructure 25 to 55 years; buildings and improvements 20 to 70 years; and equipment 10 to 60 years. The depreciation provisions were equivalent to an overall composite rate of 2.2% and 1.9% of depreciable assets for 2014 and 2013, respectively.

Capital assets may be contributed to the Utility by outside parties. As these assets are completed and placed in service, the utility reports the value of these contributions in the statement of revenue, expenses, and changes in net position.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

**Cash and Investments**

Investments are stated at their fair value on the statement of net position. The Utility's investments stated at fair value reflect quoted market prices at the statement of net position date, for U.S. Treasury and government agency debt securities. The cost of certificates of deposit approximates fair value.

**Cash and Investments, Continued**

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December 31, 2014 and 2013 were \$2,750,000 and \$2,750,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recorded at the invoiced amount and are reported net of allowances.

**Inventories**

Coal and oil inventories are valued at average cost. Materials and supplies are valued at average cost. Inventories are recorded as expenditures at the time individual inventory items are consumed.

**Bond Premiums and Discounts**

Debt premiums and discounts are amortized over the life of the bonds using the same percentage as the principal paid in a given year is to the total debt issued by issue.

**Net Position**

Net position represents the difference between assets and liabilities in the financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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**(1) Summary of Significant Accounting Policies, Continued**

**Net Position, Continued**

assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of government entities. Unrestricted net position consists of net positions that do not meet the definition of “net investment in capital assets” or “restricted”.

The Utility’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

**Operating Revenues and Expenses**

Operating revenues include revenues resulting from the sale of electricity, service revenues and sales of capacity. Operating expenses include expenses for power production and purchases, transmission, distribution, depreciation, customer accounts, customer service and information, sales, and administrative and general. Non-operating revenues and expenses include those derived from capital and related financing activities, non-capital financing activities and investing activities.

Revenues from the sale of electricity are based on billing rates, which are applied to customers' consumption of electricity. The Utility records estimated unbilled revenue, including amounts to be billed under a fuel adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2014 and 2013, were \$2,097,642, and \$1,953,798, respectively, and are recorded in customer accounts receivable. The Utility uses a fuel adjustment clause whereby increases or decreases in fuel costs and purchase power costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Budgetary Information**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2014 and 2013, there were no budget amendments.

**Grants**

The Electric Utility has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
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December 31, 2014 and 2013

**(1) Summary of Significant Accounting Policies, Continued**

**Employee Benefits**

Employee benefits for accumulated sick leave hours are not accrued as they are not payable to employees. Vacation hours are earned monthly and are accrued and recorded as liabilities and unused vacation hours are paid upon termination of service. Accrued wages represents time employees worked during the calendar year.

The Electric Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay only applies to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date are not entitled to the benefit. As of December 31, 2014 and 2013 the accrued liability was \$792,422 and \$768,366, respectively.

**Customer Advances**

Customer Advances represent amounts paid to the utility by developers to extend service to new areas. As customers are added, advances will be refunded to the developers over the defined term of the agreement. Expired advances are recorded as other non-operating income in the year they expire.

**Reclassifications**

Reclassifications of prior year's amounts may have been made for comparability.

**(2) Restricted Assets**

The composition of restricted assets as of December 31, 2014 and 2013 was as follows:

Current Assets – Restricted	Cash	2014 Investments	Total
Bond Reserve	\$ 10,407	\$ 4,090,000	\$ 4,100,407
Bond and Interest	434,705	-	434,705
Streeter Landfill	756,000	-	756,000
Self-Insured Medical and Dental	744,443	500,000	1,244,443
Improvement and Extension	-	1,000,000	1,000,000
Total Current Assets – Restricted	1,945,555	5,590,000	7,535,555
Noncurrent Assets - Restricted			
Bond Reserve	\$ -	\$ 500,000	\$ 500,000
Total Noncurrent Assets - Restricted	\$ -	\$ 500,000	\$ 500,000
Total restricted assets	\$ 1,945,555	\$ 6,090,000	\$ 8,035,555

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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**(2) Restricted Assets, Continued**

Current Assets – Restricted	Cash	2013 Investments	Total
Bond Reserve	\$ 589,061	\$ 4,080,000	\$ 4,669,061
Bond and Interest	384,501	-	384,501
Streeter Landfill	682,500	-	682,500
Self-Insured Medical and Dental	438,293	500,000	938,293
Improvement and Extension	-	1,000,000	1,000,000
Total Current Assets – Restricted	2,094,355	5,580,000	7,674,355
 Total restricted assets	 \$ 2,094,355	 \$ 5,580,000	 \$ 7,674,355

The monies deposited into the various funds have been invested in interest-bearing securities as required by the bond resolutions or legal requirement. Amounts deposited in the bond reserve, bond interest, construction, and improvement and extension funds may only be used for the purpose of paying principal and interest on the bonds when due or such other purposes as set forth in the bond resolutions and as a result are classified as restricted. Amounts deposited in the Streeter Landfill fund may only be used to cover costs related to the closure of the ash landfill. Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

**(3) Cash on Hand, Deposits, and Investments**

**Cash on Hand**

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2014 and 2013 was \$345.

**Deposits**

At December 31, 2014, the Utility's carrying amount of deposits, including \$8,590,000 of certificates of deposits and \$16,645,191 of money market accounts, was \$44,649,417. At December 31, 2013, the Utility's carrying amount of deposits, including \$9,270,000 of certificates of deposits and \$16,637,509 of money market accounts, was \$41,934,520.

**Investments**

The Utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of December 31, 2014, the Utility had no Federal Agency Obligations investments and maturities.

As of December 31, 2013, the Utility had no Federal Agency Obligations investments and maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,750,000 and \$2,750,000 at December 31, 2014 and 2013, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(3) Cash on Hand, Deposits, and Investments, Continued**

**Interest Rate Risk**

The Utility's investment policy limits the investments of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

**Credit Risk**

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2014 or 2013. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

**Concentration of Credit Risk**

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2014 or 2013.

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are covered by federal depository insurance up to the insured limits or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the statement of net position follows:

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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**(3) Cash on Hand, Deposits, and Investments, Continued**

**Custodial Credit Risk – Investments, Continued**

	<b>2014</b>	<b>2013</b>
Cash on hand	\$ 345	\$ 345
Carrying amount of deposits	44,649,417	41,934,520
Carrying amount of federal agency obligations	-	-
Carrying amount of Iowa Agency Investment Trust	2,750,000	2,750,000
Total	<u>\$ 47,399,762</u>	<u>\$ 44,684,865</u>
Current Assets		
Cash and cash equivalents - unrestricted	\$ 36,864,207	\$ 33,320,510
Investments	2,500,000	3,690,000
Cash and cash equivalents - restricted	1,945,555	2,094,355
Restricted investments	5,590,000	5,580,000
Noncurrent Investments		
Restricted	500,000	-
Total	<u>\$ 47,399,762</u>	<u>\$ 44,684,865</u>

Of the unrestricted cash and investments listed above, the Board of Trustees of the Municipal Electric Utility has made reserve fund designations as follows:

	<b>2014</b>	<b>2013</b>
Unrestricted Cash and Investments		
Board Designated		
Generation	\$ -	\$ 4,887,158
Western Units Landfill	499,548	398,594
Security Deposits	295,239	245,487
Operating	38,569,420	31,479,271
Total Cash and Investments Unrestricted	<u>\$ 39,364,207</u>	<u>\$ 37,010,510</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
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**(4) Capital Assets**

A summary of capital assets activity for the years ended December 31, 2014 and 2013 follows:

2014	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,373,577	\$ -	\$ -	\$ 1,373,577
Construction, work-in-progress	7,054,663	17,668,588	14,518,077	10,205,174
Total capital assets, not being depreciated	8,428,240	17,668,588	14,518,077	11,578,751
Capital assets, being depreciated:				
Infrastructure	160,729,533	12,685,348	1,798,773	171,616,108
Buildings and improvements	31,373,791	840,275	37,629	32,176,437
Equipment	20,072,032	946,815	586,349	20,432,498
Total capital assets, being depreciated	212,175,356	14,472,438	2,422,751	224,225,043
Less accumulated depreciation	78,136,608	4,987,631	2,990,821	80,133,418
Total capital assets, being depreciated, net	134,038,748	9,484,807	(568,070)	144,091,625
Capital assets, net	<u>\$ 142,466,988</u>	<u>\$ 27,153,395</u>	<u>\$ 13,950,007</u>	<u>\$ 155,670,376</u>
2013	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,326,855	\$ 46,722	\$ -	\$ 1,373,577
Construction, work-in-progress	19,422,336	12,820,316	25,187,989	7,054,663
Total capital assets, not being depreciated	20,749,191	12,867,038	25,187,989	8,428,240
Capital assets, being depreciated:				
Infrastructure	145,179,355	16,702,657	1,152,479	160,729,533
Buildings and improvements	25,749,878	5,668,500	44,587	31,373,791
Equipment	20,862,151	2,770,110	3,560,229	20,072,032
Total capital assets, being depreciated	191,791,384	25,141,267	4,757,295	212,175,356
Less accumulated depreciation	78,980,669	4,273,594	5,117,655	78,136,608
Total capital assets, being depreciated, net	112,810,715	20,867,673	(360,360)	134,038,748
Capital assets, net	<u>\$ 133,559,906</u>	<u>\$ 33,734,711</u>	<u>\$ 24,827,629</u>	<u>\$ 142,466,988</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(5) Noncurrent Liabilities**

Noncurrent liabilities activity for the years ended December 31, 2014 and 2013 was as follows:

2014	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds:					
Series 2005	\$ 19,180,000	\$ -	\$ 1,420,000	\$ 17,760,000	\$ 1,480,000
Series 2007	14,110,000	-	805,000	13,305,000	840,000
Capital Loan Notes:					
Series 2010A	8,790,000	-	410,000	8,380,000	420,000
Series 2010B	6,720,000	-	50,000	6,670,000	650,000
Unamortized premium	341,719	-	19,480	322,239	-
Unamortized discount	(232,285)	-	(15,851)	(216,434)	-
	<u>48,909,434</u>	-	<u>2,688,629</u>	<u>46,220,805</u>	<u>3,390,000</u>
Current installments of long-term debt	(2,685,000)	(705,000)	-	(3,390,000)	
Long-term debt, less current installments	<u>46,224,434</u>	<u>(705,000)</u>	<u>2,688,629</u>	<u>42,830,805</u>	
Customer advances for construction	224,244	69,200	154,244	139,200	
Other liabilities:					
Landfill closure	1,081,094	174,455	-	1,255,549	
Other	13,162,185	8,285,736	1,005,003	20,442,918	
Accrued severance and OPEB	<u>1,444,080</u>	<u>253,105</u>	<u>152,190</u>	<u>1,544,995</u>	
Noncurrent liabilities	<u>15,911,603</u>	<u>8,782,496</u>	<u>1,311,437</u>	<u>23,382,662</u>	
Total noncurrent liabilities	<u>\$ 62,136,037</u>	<u>\$ 8,077,496</u>	<u>\$ 4,000,066</u>	<u>\$ 66,213,467</u>	

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**(5) Noncurrent Liabilities, Continued**

2013	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds:					
Series 2005	\$ 20,550,000	\$ -	\$ 1,370,000	\$ 19,180,000	\$ 1,420,000
Series 2007	14,875,000	-	765,000	14,110,000	805,000
Capital Loan Notes:					
Series 2010A	9,195,000	-	405,000	8,790,000	410,000
Series 2010B	6,770,000	-	50,000	6,720,000	50,000
Unamortized premium	360,512	-	18,793	341,719	-
Unamortized discount	(799,212)	-	(566,927)	(232,285)	-
	<u>50,951,300</u>	-	<u>2,041,866</u>	<u>48,909,434</u>	<u>2,685,000</u>
Current installments of long-term debt	(2,590,000)	(95,000)	-	(2,685,000)	
Long-term debt, less current installments	<u>48,361,300</u>	<u>(95,000)</u>	<u>2,041,866</u>	<u>46,224,434</u>	
Customer advances for construction	289,044	48,800	113,600	224,244	
Other liabilities:					
Landfill closure	950,487	152,385	21,778	1,081,094	
Other	2,727,151	12,079,072	1,644,038	13,162,185	
Accrued severance and OPEB	1,459,812	341,492	357,224	1,444,080	
Noncurrent liabilities	<u>5,426,494</u>	<u>12,621,749</u>	<u>2,136,640</u>	<u>15,911,603</u>	
Total noncurrent liabilities	<u>\$ 53,787,794</u>	<u>\$ 12,526,749</u>	<u>\$ 4,178,506</u>	<u>\$ 62,136,037</u>	

On December 21, 2010, revenue refunding capital loan notes series 2010B in the amount of \$6,870,000 were issued to advance refund \$6,530,000 of outstanding Series 2003 revenue bonds. The notes mature in 2023 and interest rates throughout the term of the notes range between 2.50% and 3.80%. Interest rates over the remaining term of the bonds also range between 2.50% and 3.80%.

On December 21, 2010, the Utility issued \$10,000,000 of Series 2010A revenue capital loan notes for the purpose of paying costs of improvements and extensions to the Utility and environmental upgrades of generation facilities owned or co-owned by the Utility. The notes mature in 2030 and interest rates throughout the term of the notes range between 3.00% and 4.75%. Interest rates over the remaining term of the bonds also range between 3.00% and 4.75%.

During 2007, the Utility issued \$17,825,000 of Series 2007 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility and environmental upgrades of generation facilities owned or co-owned by the Utility. The bonds mature in 2026 and interest rates throughout

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**(5) Noncurrent Liabilities, Continued**

the term of the bonds range between 4.000% and 4.375%. Interest rates over the remaining term of the bonds also range between 4.000% and 4.375%.

During 2005, the Utility issued \$24,975,000 of Series 2005 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility, including the construction of generation and related transmission facilities to serve the Utility. The bonds mature in 2024 and interest rates throughout the term of the bonds are in a range between 3.00% and 4.25%. Interest rates over the remaining term of the bonds range between 4.00% and 4.25%.

The Series 2005 and 2007 revenue bonds and 2010A and 2010B revenue capital loan notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 2.50% and 4.75%. The bonds and capital loan notes are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

Year	Series 2005 Electric Revenue Bonds		Series 2007 Electric Revenue Bonds	
	December 1	4.00% - 4.25%	December 1	4.00% - 4.375%
	Principal Amount	Interest Amount	Principal Amount	Interest Amount
2015	\$ 1,480,000	\$ 730,175	\$ 840,000	\$ 560,168
2016	1,535,000	670,975	885,000	526,569
2017	1,600,000	609,575	925,000	491,169
2018	1,665,000	545,575	970,000	454,169
2019	1,730,000	478,975	1,015,000	414,156
2020 – 2024	9,750,000	1,266,781	5,860,000	1,393,500
2025 – 2026			2,810,000	185,938
	<u>\$ 17,760,000</u>	<u>\$ 4,302,056</u>	<u>\$ 13,305,000</u>	<u>\$ 4,025,669</u>

Year	Series 2010A Electric Revenue Capital Loan Notes		Series 2010B Electric Revenue Refunding Capital Loan Notes	
	December 1	3.00% - 4.75%	December 1	2.50% - 3.80%
	Principal Amount	Interest Amount	Principal Amount	Interest Amount
2015	\$ 420,000	\$ 331,388	\$ 650,000	\$ 204,730
2016	430,000	318,787	670,000	188,480
2017	435,000	305,888	685,000	171,730
2018	445,000	292,837	710,000	154,605
2019	455,000	279,488	735,000	135,080
2020 – 2024	2,490,000	1,143,537	3,220,000	296,400
2025 – 2029	3,025,000	587,238	-	-
2030	680,000	32,300	-	-
	<u>\$ 8,380,000</u>	<u>\$ 3,291,463</u>	<u>\$ 6,670,000</u>	<u>\$ 1,151,025</u>

The bond resolutions provides certain covenants relating to the collection, segregation, and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

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**(5) Noncurrent Liabilities, Continued**

All Utility revenues net of specified operating expenses are pledged as security of the above bonds until the bonds are defeased. Principal and interest paid for 2014 and 2013 were \$4,614,011 and \$4,614,996, respectively. Total sales of electricity gross revenues as defined for the same periods were \$56,165,288 and \$52,473,648. Annual principal and interest payments are expected to require 6.55% of gross revenues on average.

Iowa Administrative Code requires the Utility to place a final cover on its ash landfill site for its Streeter Station Generating Facility when it is closed and thereupon to have in place surveying monuments and an approved groundwater monitoring system. Iowa Administrative Code also requires the Utility to maintain the final cover, monitor ground water, and file reports with the Iowa Department of Natural Resources for ten years following closure of the site. Although closure and post closure costs are paid only near or after the date that the landfill is closed, the Utility reports a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. Landfill closure and post closure care costs at December 31, 2014 are estimated to be \$756,000. This represents the cumulative estimated amount to date, based on the use of 100% of the estimated capacity of the landfill, to perform all closure and post closure care in 2015. Currently, the Utility has \$756,000 in restricted funds to cover the cost of the closure (see note 2). The Utility expects to close the landfill by August 11, 2020. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. In 2008 the Utility created a Landfill Closure liability for its ownership share of Walter Scott Energy Center - Unit 3, and George Neal Generating Station – Unit 4 generating units. The Walter Scott Energy Center – Unit 3 dry ash landfill is expected to be closed December 1, 2020 and its wet ash landfill is expected to be closed December 1, 2044. The Neal – Unit 4 land fill is expected to be closed December 1, 2021. A liability has been established and funds designated to pay the closing costs in the amount of \$499,548 (see note 3).

**(6) Pension and Retirement Benefits**

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll through June 30, 2014. Beginning July 1, 2014 plan members are required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2014, 2013, and 2012 were \$649,951, \$611,560, and \$579,454, respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa, Chapter 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits.

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**(7) Income Tax Status**

The Utility is exempt from federal and state income taxes under the applicable tax codes.

**(8) Jointly-Owned Capital Assets**

The Utility's share of jointly owned electric facilities at December 31, 2014 and 2013 is reflected in the following table. These facilities provide approximately 33% of the Utility's total generating capacity. The Utility is required to provide financing for its share of the facilities. The Utility's share of expenses associated with these facilities is included with the appropriate operating expenses in the statements of revenues, expenses and changes in net position.

Facility	Percentage Ownership	Capacity MW	Capital Assets, Net	
			2014	2013
Walter Scott Energy Center Unit 3	3.10%	21.0	\$ 12,474,721	\$ 12,331,465
Walter Scott Energy Center Unit 4	2.14%	16.9	28,878,643	28,605,628
George Neal Generating Station Unit 4	2.50%	15.0	11,083,037	10,084,521
Iowa Distributed Wind Generation Project	65.80%	1.5	199,926	249,908

**(9) Related Party Transactions**

The Utility provides electric service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$1,086,096 and \$1,026,261 in 2014 and 2013, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2014 and 2013 to reimburse the Electric Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$20,442,918 and \$13,162,185 as of December 31, 2014 and 2013, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting other liability at December 31, 2014 and 2013 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$1,005,003 and \$1,644,038 in 2014 and 2013, respectively and is recorded as miscellaneous non-operating revenues in the statements of revenues, expenses and changes in net position.

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2014 and 2013 were \$3,134,241 and \$1,500,000, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2014, the Utility's Board of Trustees approved a payment of \$3,134,241 related to payments in lieu of taxes for 2014

The Electric Utility has extended a loan to the Municipal Communications Utility of the City of Cedar Falls, Iowa (Communications Utility), with an outstanding balance of \$368,090 and \$553,090 as of December 31, 2014 and 2013, respectively. Interest accrues on the loan at 2.0% and is paid semi-annually during December and June. Annual principal payments continue through 2016. Accrued interest receivable was \$612 and \$919 at December 31, 2014 and 2013, respectively. Interest income for the years ended December 31, 2014 and 2013 was \$10,754 and \$14,427 respectively. In January 2014 the Board of Trustees of the Municipal Electric Utility adopted resolution No.5574 approving the continuation of the annual interest rate of 2.0%.

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**(10) Risk Management**

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks.

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2014 plan year for aggregate medical claims exceeding \$2.9 million.

Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. The estimate is based on a percentage of claims unpaid at year end considering the Utilities claims payment history. Changes in the balances of claims liabilities during the past two years are as follows:

	<b>2014</b>	<b>2013</b>
Unpaid claims and IBNR, beginning of year	\$ 325,000	\$ 194,000
Current year costs including IBNR	2,659,707	3,328,303
Claims paid	(2,832,707)	(3,197,303)
Unpaid claims and IBNR, end of year	<u>\$ 152,000</u>	<u>\$ 325,000</u>

The Electric Utility has recorded \$95,760 and \$208,000 in accounts payable for its share of these unpaid claims at December 31, 2014 and 2013, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 519 governmental entities participate in the Association as of June 30, 2014. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

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**(10) Risk Management, Continued**

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Cash and cash equivalents and investments	\$ 76,450,260	\$ 69,938,392
Receivables	1,730,052	1,045,398
Other assets	828,246	853,067
Total assets	<u>\$ 79,008,558</u>	<u>\$ 71,836,857</u>
Total liabilities	\$ 28,860,654	\$ 27,709,153
Total equity	50,147,904	44,127,704
Total liabilities and equity	<u>\$ 79,008,558</u>	<u>\$ 71,836,857</u>
Total revenue	\$ 10,493,284	\$ 9,069,064
Total expenses	4,473,084	4,256,529
Net increase in equity	<u>\$ 6,020,200</u>	<u>\$ 4,812,535</u>

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from coverage in the prior year.

**(11) Other Post-Employment Benefits (OPEB)**

**Plan Description**

The Utilities administers a single-employer defined benefit medical health care plan (The Plan) for all four utilities. The plan provides self-insured medical, vision, and prescription drug coverage, and to all active and retired employees and their eligible dependents. Eligible retirees receive health care coverage through the same plans that are available for active employees. To be eligible for these benefits employees at their retirement date must be a minimum of 55 years old, have been employed for the preceding four years, and be enrolled in the plan. Plan contributions are required from retirees based on an amount equal to the full cost of active members. These medical benefits terminate upon attaining Medicare eligibility. In addition, the Plan provides a \$5,000 in life insurance benefits to all retirees who elect this coverage and agree to pay a contribution for this coverage.

**Funding Policy**

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2014 and 2013, the Utilities contributed \$124,345 and \$333,282, respectively and retirees receiving benefits contributed \$105,738 and \$121,230, respectively, through their required contributions.

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**(11) Other Post-Employment Benefits (OPEB), Continued**

**Annual OPEB and Net OPEB Obligations**

The Plan's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of General Accounting Standards Board (GASB) Statement No 45. This standard was implemented in 2008. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following schedule shows the components of the annual OPEB expense for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	<b>2014</b>	<b>2013</b>
Annual required contribution	\$ 73,136	\$ 73,136
Interest on net OPEB obligation	53,435	53,435
Adjustment to annual required contribution	(41,179)	(41,179)
Annual OPEB expense	85,392	85,392
Contributions and payments made	18,607	212,052
Increase (Decrease) in net OPEB obligation	\$ 66,785	\$ (126,660)
Net OPEB obligation, December 31, 2013	962,144	1,088,804
Net OPEB obligation, December 31, 2014	\$ 1,028,929	\$ 962,144

The Electric Utility's share of the December 31, 2014 and 2013 Net OPEB obligation is \$752,573 and \$675,714, respectively.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the years ended December 31, 2014, 2013 and 2012:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	\$ 85,392	21.79%	\$ 1,028,929
December 31, 2013	\$ 85,392	248.33%	\$ 962,144
December 31, 2012	\$ 85,392	76.44%	\$ 1,088,804

**Funded Status and Funding Progress**

As of January 1, 2012, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$908,961. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by The Plan and was \$13,921,796 in 2014 and the ratio using the January 1, 2012 actuarial valuation UAAL to the covered payroll was 6.5%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are

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**(11) Other Post-Employment Benefits (OPEB), Continued**

**Funded Status and Funding Progress, Continued**

subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. There are no plans to fund The Plan at this time.

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

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2012
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	9.5% declining 0.5% annually to 5%
Projected Salary Increases	4.0%

The schedule of funding progress, presented as Required Supplemental Information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

**(12) Flood Event**

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, building furnishings and equipment, meters, switches, relays, tools and rendered the Streeter Station power plant units 6 and 7 and coal handling systems inoperable and in need of major repair. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2009, damaged Utility administrative facilities were operational. Damaged generation units and power plant office facilities were operational in early 2010. In 2014 and 2013, the Electric Utility spent \$0 and \$237,470, respectively, for flood recovery. In 2014 and 2013, the Utility has recognized \$0 and \$214,289, respectively, in revenues for FEMA flood recovery reimbursement. As of December 31, 2014 and 2013, the Utility recognized a receivable of \$999,343 and \$1,007,076, respectively, for FEMA flood disaster reimbursement.

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**(13) Wind Storm Event**

On July 10, 2009, the City of Cedar Falls experienced a storm with extreme winds of approximately 106 MPH. The extreme winds uprooted and sheared trees, blew over poles and lines, and slammed trees and branches into Electric Utility distribution facilities doing millions of dollars worth of damage. The Utility began immediate clean up and also began working with the Federal Emergency Management Agency (FEMA) for reconstruction and repair of severely damaged Utility distribution assets. As of December 31, 2009, the damaged assets had been temporarily repaired. The damaged assets have been permanently repaired, restored, or replaced as of the end of 2014. In 2014 and 2013, the Electric Utility spent \$315,093 and \$1,338,908, respectively, for wind storm disaster recovery. As of December 31, 2014 and 2013, the Utility has recognized in \$0 and \$198,455, respectively, in revenues for FEMA windstorm recovery reimbursement. As of December 31, 2014 and 2013, the Utility recognized a receivable of \$0 and \$1,239,802, respectively, for FEMA wind storm disaster reimbursement.

**(14) Commitments and Contingencies**

The Utility has joint ownership interest in Walter Scott Energy Center Units 3 and 4, and the George Neal Generating Station Unit 4 (see note 8). Coal procurements are made by the agent for the joint owners on a system portfolio basis, which are a mix of 1, 2, and 3-year purchases to minimize risk. The Utility is obligated to purchase at least the annual amount of coal to operate the Utility's share at minimum load. The Utility's share of coal purchases for the years 2014 and 2013 were \$5,114,099 and \$5,074,274, respectively.

The Utility is a party to various lawsuits arising in the normal course of business. The Utility believes the resolutions will not have a material adverse impact on its financial operations and net assets.

In 2006, the Utility contracted with Miron Construction Co., Inc. (Miron) as its General Contractor, to construct a bag house for Streeter Station Generating Unit 6 (Unit 6) to capture particulate matter from this unit. The bag house construction was represented as completed but problems were immediately evident when Unit 6 was attempted to be returned to operation in June 2007. Unit 6 could not be operated in a commercially reasonable manner in accordance with the design criteria. The bags in the bag house become clogged, and the normal cleaning process is unable to keep up with the emission particles flowing through the bag house and Unit 6 is shut down. Formal arbitration measures were invoked under the contract and Miron's performance bond carrier, CNA, was noticed and involved. It is the contention of the Utility that Dustex, the subcontractor that furnished the bag house modules, undersized them to obtain a competitive advantage. As a result of the undersized bag house, Unit 6 cannot be operated at design capacity and does not have a spare module as required under the contract.

Since the bag house has not performed as designed and therefore has not achieved substantial completion, the Utility has withheld progress payments to Miron. Miron disputed this position and initiated arbitration to collect the remaining progress payment and retainage totaling \$420,873. The parties executed an agreement to toll statutes of limitations and allow remediation studies by Miron.

Remediation efforts were not successful and the arbitration hearings were held in January, April and August of 2013. The arbitration panel ruled in favor of CFU and entered an award against Miron, CNA and Dustex. The arbitrator's decision was published on November 8, 2013. CFU attorneys filed a motion to confirm the award in Black Hawk County District Court. Miron and CNA had the case

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**(14) Commitments and Contingencies, Continued**

remanded to Federal District court in Cedar Rapids, Iowa, asking to have the arbitration ruling vacated. Dustex filed a motion to remand the case as well. The Federal District court affirmed the arbitrator's decision as to Miron, CNA and Dustex. Miron and CNA then appealed to the Eighth Circuit Court of Appeals. Dustex filed an appeal to the Eighth Circuit Court of Appeals as well. Prior to oral arguments on the appeal, Miron and CNA, with presumably some contribution from Dustex, agreed to pay the judgment of \$3,625,000 which was received in December 2014 and accounted for in miscellaneous non-operating revenues.

As of December 31, 2014, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$8,516,000 and an estimated time frame to complete through 2015.

**(15) Subsequent Events**

Subsequent events for the Utility have been evaluated through March 27, 2015, which is the date that the financial statements were available to be issued.

Effective January 1, 2015, the Board of Trustees approved a general electric rate restructuring. The kWh usage charges were reduced and equal amounts added to the customer charge. The average net impact of these changes for customers is rate neutral and revenue neutral for the Utility.

In January 2015 the Board of Trustees adopted resolution No. 5574 approving the continuation of the annual interest rate on the notes between the Communications Utility and the Electric Utility at 2.0% as reflective of the investment and borrowing markets.



**Municipal Electric, Gas, Water and Communications Utilities  
Of the City of Cedar Falls, Iowa  
Required Supplemental Information  
December 31, 2014, 2013 and 2012**

**Schedule of Funding Progress for the Other  
Post-Employment Benefits Plan  
Unaudited**

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial		Funded Ratio	Covered Payroll	UAAAL as a Percentage of Covered Payroll
			Accrued Liability (AAL)	Unfunded AAL (UAAAL)			
2014	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,921,796	6.5%
2013	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,400,936	6.8%
2012	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,133,950	6.9%
2011	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,936,933	22.9%
2010	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,152,946	24.4%
2009	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$11,587,064	25.6%
2008	January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.0%	\$11,162,424	30.8%



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*

Independent Auditors' Report

To the Board of Trustees  
Cedar Falls Utilities – Municipal Electric Utility

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Electric Utility of the City of Cedar Falls, Iowa (Municipal Electric Utility) as of and for the year ended December 31, 2014, and have issued our report thereon dated March 27, 2015.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Municipal Electric Utility'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 Municipal Electric Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipal Electric Utility'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 entity'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Trustees  
Cedar Falls Utilities – Municipal Electric Utility

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Municipal Electric Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

***Purpose of this Report***

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
March 27, 2015

**THE MUNICIPAL ELECTRIC UTILITY  
OF THE CITY OF CEDAR FALLS, IOWA**

SCHEDULE OF FINDINGS RELATED TO GOVERNMENT AUDITING STANDARDS AND  
REQUIRED STATUTORY REPORTING  
Year Ended December 31, 2014

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**FINDINGS RELATED TO REQUIRED STATUTORY REPORTING**

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- A-02      Official Depositories – A resolution naming official depositories has been approved by Municipal Electric Utility (utility). The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2014.
- B-02      Certified Budget – Disbursements during the year ended December 31, 2014, did not exceed the amounts budgeted.
- C-02      Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- D-02      Travel Expense – No disbursements of utility money for travel expenses of spouses of utility officials or employees were noted.
- E-02      Business Transactions – No business transactions between the utility and utility officials or employees were noted.
- F-02      Bond Coverage – Surety bond coverage of utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- G-02      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- H-02      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utility's investment policy were noted.
- I-02      Revenue Bonds – The utility has complied with all provisions of bond covenants. All required payments to the sinking, reserve and improvement funds were made.
- J-02      Code of Iowa Communications Legislation Requirements – Nothing came to our attention that the utility was not in compliance with the requirements of the Code of Iowa Section 388.10 *Municipal Utility Providing Telecommunications Services* regarding the subsidization of telecommunications operations by the electric, water or gas utilities.
- K-02      The audit did not identify any material weaknesses in controls.





# **Cedar Falls Utilities**

**Financial Statements of the Municipal  
Gas Utility  
of the City of Cedar Falls, Iowa**

**Including Independent Auditors' Reports**

**For The Years Ended  
December 31, 2014 and 2013**



MUNICIPAL GAS UTILITY  
OF THE CITY OF CEDAR FALLS, IOWA  
(Component Unit of the City of Cedar Falls, Iowa)

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Cedar Falls Utilities – Municipal Gas Utility

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Municipal Gas Utility of the City of Cedar Falls, Iowa (Municipal Gas Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2014 and 2013, and the related notes to the 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 over financial reporting relevant to the Municipal Gas Utility'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 Municipal Gas Utility'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.

To the Board of Trustees  
Cedar Falls Utilities – Municipal Gas Utility

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Gas Utility as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matters**

As discussed in Note 1, the financial statements present only the Municipal Gas Utility component unit and do not purport to, and do not, present fairly the financial position of the City of Cedar Falls, Iowa, as of December 31, 2014 and 2013 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is 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 and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 issued our report dated March 27, 2015 on our consideration of the Municipal Gas Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including those systems applicable to Municipal Gas Utility. 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 Municipal Gas Utility's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
March 27, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2014 and 2013  
Unaudited

The following discussion and analysis of the Municipal Gas Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2014 and 2013. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

Weather in 2014 was cooler than normal compared to 2013 resulting in increased usage of nearly 66,000 MCF or 3.0% and the Utility experienced a \$4.4 million or 31.8% increase in operating revenues. Operating expenses increased \$4.4 million or 35.0% primarily due to increased natural gas purchases and higher gas costs. Net operating income decreased \$61,000 or 5.6% in 2014. There were no rate adjustments in 2014. The Utility's net position continued to grow due to strong operating and non-operating revenues.

**Overview of the Financial Statements**

Management's discussion and analysis (MDA) serves as an introduction to the financial statements, and the MDA represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

The statements of net position include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

The statements of revenues, expenses and changes in net position present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail rates are based on rates established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. A fundamental objective of this rate model is to provide adequate revenue to cover all costs.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2014 and 2013  
Unaudited

**Condensed Financial Information & Analysis**

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

**Condensed Statement of Net Position**

	2014	2013	2012
Capital assets, net	\$13,436,058	\$14,160,355	\$12,432,463
Other noncurrent assets	2,845,240	2,251,718	3,034,043
Current assets	12,720,878	11,393,078	10,484,305
Total assets	\$29,002,176	\$27,805,151	\$25,950,811
Current liabilities	1,769,163	2,268,526	1,716,412
Noncurrent liabilities	1,109,224	782,824	969,529
Total liabilities	\$ 2,878,387	\$ 3,051,350	\$ 2,685,941
Net investment in capital assets	\$13,436,058	\$14,160,355	\$12,432,463
Restricted	176,943	88,829	137,986
Unrestricted	12,510,788	10,504,617	10,694,421
Total net position	\$26,123,789	\$24,753,801	\$23,264,870

**2014 Compared to 2013**

- ❖ Total Assets increased \$1.2 million or 4.3% primarily due to:
  - Net capital assets decreasing \$724,000 or 5.1% from an increase in accumulated depreciation of \$756,000 or 7.4% and a decrease in construction work in progress of \$1.6 million or 94.8% due to completion of the new town border station. Net capital assets represent 46.3% of total assets for the Utility in 2014.
  - Increase in other noncurrent assets of \$594,000 or 26.4% due to:
    - Decrease of \$254,000 or 65.6% in tax increment financing (TIF) receivable as a result of the payment by the City of Cedar Falls for TIF debt owed to the Gas Utility for certified expenditures.
    - Decrease of \$600,000 in noncurrent investments in associated companies due to the current installment for the 2012 loan of \$3.0 million to the Communications Utility.
    - Increase of \$1.5 million in prepaid assets for the construction cost of the new town border station by Northern Natural Gas for the sole benefit of the Gas Utility.
  - Increase in current assets of \$1.3 million or 11.7% primarily due to:
    - Increase in cash and cash equivalents of \$1.7 million or 22.4% mostly due to net income and repayment of the \$600,000 in principal by the Municipal Communications Utility for the current portion of the note receivable.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2014 and 2013  
Unaudited

- Decrease of \$511,000 or 17.5% in receivables mainly due to a decrease in customer accounts receivable due to a combination of lower usage and lower gas costs in December.
- ❖ Total Liabilities decreased \$173,000 or 5.7% primarily due to:
  - Decrease in current liabilities of \$499,000 or 22.0% as a result of:
    - Decrease in accounts payable of \$454,000 or 25.0% mainly due to decreased December gas usage and lower inventory purchases due to completion of projects.
  - Increase in noncurrent liabilities of \$326,000 or 41.7% primarily due to a decrease of \$254,000 or 65.6% in tax increment financing (TIF) liability as a result of the payment by the City of Cedar Falls for TIF debt owed to the Gas Utility for certified expenditures and receipt of \$627,000 in rebate funds that will be passed back to customers through the PGA as a result of a Central Plains Energy Project (CPEP) unwind.

*Additional detail on the change in capital assets Note 4. The utility has no long-term debt in 2014 or 2013.*

### **2013 Compared to 2012**

- ❖ Total Assets increased \$1.9 million or 7.1% primarily due to:
  - Net capital assets increasing \$1.7 million or 13.9% due to gas main extensions, gas meter purchases, new town border station, and the construction of the new flood wall. Net capital assets represent 50.9% of total assets for the Utility in 2013.
  - Decrease in other noncurrent assets of \$782,000 or 25.8% due to:
    - Decrease of \$148,000 or 27.6% in tax increment financing (TIF) receivable as a result of the payment by the City of Cedar Falls for TIF debt owed to the Gas Utility for certified expenditures.
    - Decrease of \$600,000 in noncurrent investments in associated companies due to the current installment for the 2012 loan of \$3.0 million to the Communications Utility.
  - Increase in current assets of \$909,000 or 8.7% primarily due to:
    - Decrease in cash and cash equivalents of \$419,000 or 5.4% mostly due to the investment in capital assets which includes the new town border station.
    - Increase of \$1.3 million or 63.6% in receivables mainly due to an increase in customer accounts receivable due to the increase in gas usage and costs in 2013.
- ❖ Total Liabilities increased \$365,000 or 13.6% primarily due to:
  - Increase in current liabilities of \$552,000 or 32.2% as a result of an increase in accounts payable, mainly due to increased gas usage and costs.
  - Decrease in noncurrent liabilities of \$187,000 or 19.3% primarily due to a decrease of \$148,000 or 27.6% in tax increment financing (TIF) liability as a result of the payment by the City of Cedar Falls for TIF debt owed to the Gas Utility for certified expenditures.

*Additional detail on the change in capital assets Note 4. The utility has no long-term debt in 2013 or 2012.*

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
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**Condensed Revenues, Expenses and Changes in Net Position**

	2014	2013	2012
Sales of gas	\$18,116,167	\$13,747,698	\$ 10,256,726
Other	48,138	33,923	61,800
Total operating revenues	18,164,305	13,781,621	10,318,526
Natural gas purchased for resale	12,711,223	8,480,439	5,851,220
Operation & maintenance	1,256,812	1,160,547	1,094,317
Depreciation and amortization	817,910	781,206	760,235
Services and administrative	2,354,226	2,274,760	2,235,615
Total operating expenses	17,140,171	12,696,952	9,941,387
Operating income (loss)	1,024,134	1,084,669	377,139
Interest income	47,509	59,508	14,060
Other, net	298,345	344,754	1,090,248
Total non-operating revenues (expenses)	345,854	404,262	1,104,308
Change in net position	1,369,988	1,488,931	1,481,447
Net position, beginning of year	24,753,801	23,264,870	21,783,423
Net position, end of year	\$26,123,789	\$24,753,801	\$23,264,870

**2014 Compared to 2013**

- ❖ Total Operating Revenues increased \$4.4 million or 31.8% due to:
  - Increase in gas sales revenues of \$4.4 million or 31.8% due to a much colder heating season than the more normal weather of 2013 resulting in an increase of 65,652 MCF or 3.3% and an increase in gas costs passed on to customers through the PGA of \$4.2 million or 49.9%.
  - Increase in other operating revenues of \$14,000 or 41.9% primarily due to an increase of \$8,000 or 38.4% in interdepartmental rents.
  
- ❖ Total Operating Expenses increased \$4.4 million or 35.0% primarily due to:
  - Increase in natural gas purchased for resale of \$4.2 million or 49.9%.
    - Increase in average gas purchase price of \$1.92 per MCF from \$4.27 in 2013 to \$6.19 in 2014.
  - Increase in operation & maintenance expense of \$96,000 or 8.3% due to an overall increase in supervisory & engineering labor and other distribution costs.
  - Increase in depreciation & amortization expense of \$37,000 or 4.7% due to the completion of capital asset projects placed into service in 2014.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
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- Increase in services and administrative expenses of \$79,000 or 3.5% primarily due to:
  - Increase in customer accounts expense of \$21,000 or 6.7% mainly due to the increase in uncollectible accounts of \$26,000 or 373.3%.
  - Increase in customer service & informational expenses of \$137,000 or 50.7% due an increase in energy efficiency rebates and incentives.
  - Decrease of \$80,000 or 5.2% in administrative & general expenses due to a decrease in medical claims.
  
- ❖ Interest Income decreased \$12,000 or 20.2% due to interest earned on the declining outstanding balance on the \$3.0 million note receivable with the Municipal Communications Utility.
  
- ❖ Other, net decreased by \$46,000 or 13.5% primarily due to:
  - Decrease of \$18,000 or 6.2% in miscellaneous revenues mainly due to:
    - Decrease in gain on disposition of property by \$34,000 or 100.0%.
    - Increase of \$63,000 or 32.7% in TIF revenues received from the City of Cedar Falls for certified projects.
  - Decrease of \$52,000 or 100.0% in intergovernmental grant funds revenue due to completion of grant funded projects.

**2013 Compared to 2012**

- ❖ Total Operating Revenues increased \$3.5 million or 33.6% due to:
  - Increase in gas sales revenues of \$3.5 million or 34.0% due to more normal weather conditions than the warmer than normal weather of in 2012 resulting in an increase of 358,076 MCF or 22.0%.
  - Decrease in other operating revenues of \$28,000 or 45.1% primarily due to a decrease of \$21,000 or 92.6% in grant revenues.
  
- ❖ Total Operating Expenses increased \$2.8 million or 27.7% primarily due to:
  - Increase in natural gas purchased for resale of \$2.6 million or 44.9%.
    - Increase in average gas purchase price of \$0.68 per MCF from \$3.59 in 2012 to \$4.27 in 2012.
  - Increase in operation & maintenance expense of \$66,000 or 6.1% due to an overall increase in supervisory & engineering labor costs.
  - Increase in depreciation & amortization expense of \$21,000 or 2.8% due to the completion of capital asset projects placed into service in 2013.
  - Increase in services and administrative expenses of \$39,000 or 1.8% primarily due to:
    - Increase in customer accounts expense of \$25,000 or 8.5% mainly due to the increase in uncollectible accounts of \$20,000 or 154.8%.
    - Decrease in customer service & informational expenses of \$82,000 or 23.4% due a reduction in energy efficiency rebates and incentives.
    - Increase of \$95,000 or 6.6% in administrative & general expenses due to an increase in employee insurance & benefits expense due to nearly 51% increase in premiums since mid-2012.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
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- ❖ Interest Income increased \$45,000 or 323.2% due to interest earned on the \$3.0 million note receivable with the Municipal Communications Utility.
- ❖ Other, net decreased by \$745,000 or 68.4% primarily due to:
  - Decrease of \$229,000 or 44.2% in miscellaneous revenues mainly due to a reduction in miscellaneous non-operating income of \$304,000 or 94.5% due to a gas contract unwind which produced higher revenues in 2012.
  - Decrease of \$519,000 or 90.8% in intergovernmental grant funds revenue due to completion of grant funded projects.

**Condensed Statement of Cash Flows**

	2014	2013	2012
Cash Flows from Operating Activities	\$ 887,005	\$ 1,092,742	\$ 1,555,507
Cash Flows from Capital and Related Financing Activities	179,988	(2,203,910)	(199,926)
Cash Flows from Investing Activities	648,506	660,505	(2,990,913)
Net Change in Cash and Cash Equivalents	1,715,499	(450,663)	(1,635,332)
Cash and Cash Equivalents-Beginning of Year	7,494,776	7,945,439	9,580,771
<b>Cash and Cash Equivalents-End of Year</b>	<b>\$ 9,210,275</b>	<b>\$ 7,494,776</b>	<b>\$ 7,945,439</b>

**2014 Compared to 2013**

- ❖ Cash inflows from operations decreased by \$206,000 or 18.8% due to:
  - Increase in cash received from customers of \$6.1 million or 49.1%.
  - Increase in cash paid to suppliers of \$6.2 million or 61.3% in payments made to suppliers.
  - Increase in cash paid to employees of \$107,000 or 10.3%.
- ❖ Cash outflows from capital and related financing activities decreased by \$2.4 million or 108.2% due to:
  - Decrease in capital expenditures of \$2.4 million or 97.3%.
  - Increase in receipts for reimbursement of utility construction costs of \$55,000 or 26.3%.
  - Decrease in receipts of intergovernmental grants of \$102,000 or 98.7%
- ❖ Cash inflows from investing activities decreased \$12,000 or 1.8% due to:
  - Decrease in interest received of \$12,000 or 1.8%.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2014 and 2013  
Unaudited

**2013 Compared to 2012**

- ❖ Cash inflows from operations decreased by \$463,000 or 29.8% due to:
  - Increase in cash received from customers of \$1.9 million or 17.7%.
  - Increase in cash paid to suppliers of \$2.3 million or 29.2% in payments made to suppliers.
  
- ❖ Cash outflows from capital and related financing activities increased by \$2.0 million or 1002.4% due to:
  - Increase in capital expenditures of \$1.2 million or 91.0%.
  - Decrease in receipts of intergovernmental grants of \$809,000 or 88.6%.
  
- ❖ Cash flows from investing activities changed from an outflow to an inflow by \$3.7 million or 122.1% due to:
  - A \$3.0 million loan from the Gas Utility to the Communications Utility in 2012.
  - Increase in advance to affiliated company due to the receipt of the principal repayment of \$600,000 by the Communications Utility.
  - Increase in interest received of \$51,000 or 565.8%.



## **FINANCIAL STATEMENTS**



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MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Net Position  
December 31, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 24,385,336	\$ 22,706,907
Less accumulated depreciation	<u>11,038,870</u>	<u>10,283,025</u>
Capital assets, net	13,346,466	12,423,882
Construction work in progress	<u>89,592</u>	<u>1,736,473</u>
Total capital assets, net	<u>13,436,058</u>	<u>14,160,355</u>
Noncurrent assets:		
Restricted (note 2)	-	-
Loans receivable	38,331	63,828
Note receivable (note 8)	1,200,000	1,800,000
Other (note 8)	<u>1,606,909</u>	<u>387,890</u>
Total noncurrent assets	<u>2,845,240</u>	<u>2,251,718</u>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	9,016,612	7,363,697
Cash and cash equivalents - restricted (note 2 and 3)	193,663	131,079
Investments (note 3)		
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$13,702 in 2014 and \$5,120 in 2013	2,408,412	2,919,794
Loans receivable	22,200	28,513
Interest	3,011	4,009
Current installment of note receivable (note 8)	600,000	600,000
Trade	49,843	4,313
Government grants (note 11)	91,610	92,986
Other	27,332	29,030
Inventories:		
Material and supplies	206,242	166,774
Prepayments and other	<u>101,953</u>	<u>52,883</u>
Total current assets	<u>12,720,878</u>	<u>11,393,078</u>
 Total assets	 <u>\$ 29,002,176</u>	 <u>\$ 27,805,151</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Net Position  
December 31, 2014 and 2013

<u>Liabilities</u>	<u>2014</u>	<u>2013</u>
Long-term debt, less current installments (note 5)	\$ -	\$ -
Current liabilities:		
Accounts payable	\$ 1,359,964	\$ 1,813,914
Reserve for surplus declaration (note 8)	226,208	200,000
Accrued wages and vacations	155,022	229,843
Other accrued expenses	27,969	24,769
Total current liabilities	<u>1,769,163</u>	<u>2,268,526</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	74,478	98,380
Other liabilities (note 5, 8 and 10)	1,034,746	684,444
Total noncurrent liabilities	<u>1,109,224</u>	<u>782,824</u>
 Total liabilities	 <u>2,878,387</u>	 <u>3,051,350</u>
 <u>Net Position</u>		
Net investment in capital assets	13,436,058	14,160,355
Restricted	176,943	88,829
Unrestricted	12,510,788	10,504,617
Total net position	<u>26,123,789</u>	<u>24,753,801</u>
 Total liabilities and net position	 <u>\$ 29,002,176</u>	 <u>\$ 27,805,151</u>

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MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Revenues, Expenses and Changes in Net Position  
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Sales of gas:		
Residential	\$ 9,833,761	\$ 7,333,340
Industrial	1,866,104	1,389,496
Commercial	4,477,155	3,303,262
Governmental (note 8)	1,194,465	1,047,708
Interdepartmental	744,682	673,892
Total sales of gas	<u>18,116,167</u>	<u>13,747,698</u>
Other operating revenues	48,138	33,923
Total operating revenues	<u>18,164,305</u>	<u>13,781,621</u>
Operating expenses:		
Production:		
Natural gas purchased for resale	12,711,223	8,480,439
Other	12,366	-
Distribution	1,244,446	1,160,547
Depreciation	817,910	781,206
Customer accounts	343,058	321,627
Customer service and information expenses	406,225	269,611
Sales	21,676	16,188
Administrative and general (note 8)	1,461,174	1,540,709
Taxes other than income taxes	122,093	126,625
Total operating expenses	<u>17,140,171</u>	<u>12,696,952</u>
Operating income	<u>1,024,134</u>	<u>1,084,669</u>
Non-operating revenues (expenses):		
Interest income	47,509	59,508
Miscellaneous revenue (expense), net	270,717	288,660
Intergovernmental grant funds (note 11)	-	52,229
AFUDC (note 1)	27,628	3,865
Total non-operating revenues (expenses)	<u>345,854</u>	<u>404,262</u>
Change in net position	1,369,988	1,488,931
Net position, beginning of year	<u>24,753,801</u>	<u>23,264,870</u>
Net position, end of year	<u>\$ 26,123,789</u>	<u>\$ 24,753,801</u>

## MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

## Statements of Cash Flows

Years ended December 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 18,669,203	\$ 12,524,354
Intergovernmental grants	-	1,634
Cash paid to suppliers	(16,429,532)	(10,187,870)
Cash paid to employees	(1,152,666)	(1,045,376)
Payment in lieu of taxes to the City of Cedar Falls	(200,000)	(200,000)
	<u>887,005</u>	<u>1,092,742</u>
Cash flows from capital and related financing activities:		
Proceeds from customer advances for construction	16,980	11,448
Refunds of customer advances for construction	(36,732)	(21,273)
Acquisition, construction and removal cost of capital assets	(68,378)	(2,517,681)
Proceeds from sale of capital assets	4,812	12,448
Reimbursement of utility construction costs	261,930	207,404
Intergovernmental grants	1,376	103,744
	<u>179,988</u>	<u>(2,203,910)</u>
Cash flows from investing activities:		
Advance to affiliated company	600,000	600,000
Interest received	48,506	60,505
	<u>648,506</u>	<u>660,505</u>
Net increase (decrease) in cash and cash equivalents	1,715,499	(450,663)
Cash and cash equivalents, beginning of year	<u>7,494,776</u>	<u>7,945,439</u>
Cash and cash equivalents, end of year (note 1)	<u>\$ 9,210,275</u>	<u>\$ 7,494,776</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows, Continued

Years ended December 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ 1,024,134	\$ 1,084,669
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	817,910	781,206
Other Income (expense), net	4,637	71,156
(Increase) decrease in accounts receivable	465,852	(1,422,469)
(Increase) decrease in loans receivable	31,810	43,758
(Increase) decrease in inventory	(39,468)	(30,325)
(Increase) decrease in prepayments and other	(1,520,804)	31,447
Increase (decrease) in accounts payable	(456,368)	546,651
Increase (decrease) in reserve for surplus declaration	26,208	-
Increase (decrease) in accrued wages and vacation	(74,821)	17,458
Increase (decrease) in other accrued expenses	3,200	(11,995)
Increase (decrease) in other liabilities	<u>604,715</u>	<u>(18,814)</u>
Net cash provided by operating activities	<u>\$ 887,005</u>	<u>\$ 1,092,742</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	27,628	3,865
Expiration of customer advances for construction	4,150	10,100
Intergovernmental grants		
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 9,016,612	\$ 7,363,697
Cash - Restricted	<u>193,663</u>	<u>131,079</u>
Cash and cash equivalents	<u>\$ 9,210,275</u>	<u>\$ 7,494,776</u>
	-	-

See accompanying notes to financial statements.



## **NOTES TO FINANCIAL STATEMENTS**



MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

(1) **Summary of Significant Accounting Policies**

**Organization and Basis of Accounting**

The Municipal Gas Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls, Iowa. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 18 – Conservation of Power and Water Resources, Chapter I – Federal Energy Regulatory Commission, Department of Energy.

**Accounting Changes**

The GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities”* (“GASB 65”) was issued in March 2012 effective for periods beginning after December 15, 2012. The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of GASB 65 did not result in any reclassification of items that were previously reported as assets and liabilities.

The GASB has approved GASB Statement No. 66, *“Technical Corrections – 2012”* which is an amendment of GASB Statements No. 10 and No. 62; Statement No. 67, *“Financial Reporting for Pension Plans”* which is an amendment of GASB Statement No. 25; and Statement No. 68, *“Accounting and Financial Reporting for Pensions”* which is an amendment of GASB Statement No. 27. Application of these standards may restate portions of these financial statements.

**Capital Assets and Depreciation**

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 3.96% in 2014 and 2.95% 2013. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated services and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure – 15 to 65 years, buildings and improvements – 30 to 45 years, and equipment – 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 3.4% of depreciable assets for 2014 and 3.5% for 2013.

Capital assets may be contributed to the utility by outside parties. As these assets are completed and placed in service, the utility reports the value of these contributions in the statement of revenue, expenses, and changes in net position.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

(1) **Summary of Significant Accounting Policies, Continued**

**Cash and Investments**

Investments are stated at their fair value on the statement of net position. The Utility's investments stated at fair value reflect quoted market prices at the statement date, for U.S. Treasury and government agency debt securities. The cost of certificates of deposit approximates fair value.

The Utility considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2014 and 2013 were \$2,300,000 and \$2,300,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recorded at the invoiced amount and are reported net of allowances.

**Inventories**

Materials and supplies are valued at average cost. Inventories are recorded as expenditures at the time individual inventory items are consumed.

**Net Position**

Net position represents the difference between assets and liabilities in the financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of government entities. Unrestricted net position consists of net positions that do not meet the definition of "net investment in capital assets" or "restricted".

**Net Position, Continued**

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

**Natural Gas Commodity Purchases**

The Utility has entered into agreements with natural gas suppliers to purchase gas for resale to our customers. Purchases under these contracts are considered "normal purchases and sales" and considered outside the scope of GASB No. 53, "***Accounting and Financial Reporting for Derivative Instruments***", and are not marked-to-market.

**Operating Revenues and Expenses**

Operating revenues include revenues resulting from the sale of gas and service revenues. Operating expenses include expenses for natural gas purchases, distribution, depreciation, customer accounts, customer service and information, sales, and administrative and general. Non-operating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities and investing activities.

Revenues from the sale of gas are based on billing rates, which are applied to customers' consumption of gas. The Utility records estimated unbilled revenue, including amounts to be billed under a purchased gas adjustment clause, at the end of accounting periods. Revenues earned, but not yet

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

(1) **Summary of Significant Accounting Policies, Continued**

**Operating Revenues and Expenses, Continued**

billed at December 31, 2014 and 2013 were \$1,093,361 and \$1,286,258, respectively, and are recorded in customer accounts receivable. The Utility uses a purchased gas adjustment clause whereby increases and decreases in fuel costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Budgetary Information**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2014 and 2013, there were no budget amendments.

**Grants**

The Gas Utility has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

**Employee Benefits**

Employee benefits for accumulated sick leave hours are not accrued as they are not payable to employees. Vacation hours are earned monthly and are accrued and recorded as liabilities and unused vacation hours are paid upon termination of service. Accrued wages represents time employees worked during the calendar year.

The Gas Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay shall apply only to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date shall not be entitled to the benefit. As of December 31, 2014 and 2013 the accrued liability was \$138,359 and \$156,074, respectively.

**Customer Advances**

Customer Advances represent amounts paid to the utility by developers to extend service to new areas. As customers are added, advances will be refunded to the developers over the defined term of the agreement. Expired advances are recorded as other non-operating income in the year they expire.

**Reclassifications**

Reclassifications of prior year's amounts may have been made for comparability.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(2) Restricted Assets**

The composition of restricted assets as of December 31, 2014 and 2013 was as follows:

Current Assets - Restricted	Cash	2014 Investments	Total
Self-Insured Medical and Dental	\$193,663	\$ -	\$193,663
Total Current Assets – Restricted	\$193,663	\$ -	\$193,663
Total restricted assets	\$193,663	\$ -	\$193,663

Current Assets - Restricted	Cash	2013 Investments	Total
Self-Insured Medical and Dental	\$131,079	\$ -	\$131,079
Total Current Assets – Restricted	\$131,079	\$ -	\$131,079
Total restricted assets	\$131,079	\$ -	\$131,079

Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

**(3) Cash on Hand, Deposits, and Investments**

**Cash on Hand**

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2014 and 2013 was \$100.

**Deposits**

At December 31, 2014, the Utility’s carrying amount of deposits, including \$2,750,000 of money market accounts, was \$6,910,175. At December 31, 2013, the Utility’s carrying amount of deposits, including \$2,750,000 of money market accounts, was \$5,194,676.

**Investments**

The Utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of December 31, 2014 and 2013, the Utility had no Federal Agency Obligation investments or maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,300,000 and \$2,300,000 at December 31, 2014 and 2013, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(3) Cash on Hand, Deposits, and Investments, Continued**

**Interest Rate Risk**

The Utility's investment policy limits the investments of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

**Credit Risk**

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2014 or 2013. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

**Concentration of Credit Risk**

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2014 or 2013.

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are covered by federal depository insurance up to the insured limits or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the statement of net position follows:

	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 100	\$ 100
Carrying amount of deposits	6,910,175	5,194,676
Carrying amount of Iowa Public Agency Investment Trust	2,300,000	2,300,000
Total	<u>\$ 9,210,275</u>	<u>\$ 7,494,776</u>
Current Assets		
Cash and cash equivalents - unrestricted	\$ 9,016,612	\$ 7,363,697
Investments	-	-
Cash and cash equivalents - restricted	193,663	131,079
Total	<u>\$ 9,210,275</u>	<u>\$ 7,494,776</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(3) Cash on Hand, Deposits, and Investments, Continued**

**Custodial Credit Risk – Investments, Continued**

Of the unrestricted cash and investments listed above, the Board of Trustees of the Municipal Gas Utility has made no reserve fund designations.

**(4) Capital Assets**

A summary of capital assets activity for the years ended December 31, 2014 and 2013 follows:

2014	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 29,714	\$ -	\$ 3,847	\$ 25,867
Construction, work-in-progress	1,736,473	95,311	1,742,192	89,592
Total capital assets, not being depreciated	1,766,187	95,311	1,746,039	115,459
Capital assets, being depreciated:				
Infrastructure	18,927,957	1,618,122	34,834	20,511,245
Buildings and improvements	3,099,505	116,632	19,337	3,196,800
Equipment	649,731	3,110	1,417	651,424
Total capital assets, being depreciated	22,677,193	1,737,864	55,588	24,359,469
Less accumulated depreciation	10,283,025	820,621	64,776	11,038,870
Total capital assets, being depreciated, net	12,394,168	917,243	(9,188)	13,320,599
Capital assets, net	\$ 14,160,355	\$ 1,012,554	\$ 1,736,851	\$ 13,436,058

2013	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 39,835	\$ -	\$ 10,121	\$ 29,714
Construction, work-in-progress	1,146,341	2,509,898	1,919,766	1,736,473
Total capital assets, not being depreciated	1,186,176	2,509,898	1,929,887	1,766,187
Capital assets, being depreciated:				
Infrastructure	18,388,514	814,615	275,172	18,927,957
Buildings and improvements	2,029,561	1,075,203	5,259	3,099,505
Equipment	652,815	29,948	33,032	649,731
Total capital assets, being depreciated	21,070,890	1,919,766	313,463	22,677,193
Less accumulated depreciation	9,824,603	793,653	335,231	10,283,025
Total capital assets, being depreciated, net	11,246,287	1,126,113	(21,768)	12,394,168
Capital assets, net	\$ 12,432,463	\$ 3,636,011	\$ 1,908,119	\$ 14,160,355

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(5) Noncurrent Liabilities**

Noncurrent liabilities activity for the years ended December 31, 2014 and 2013 was as follows:

2014	Beginning Balance	Additions	Reductions	Ending Balance
Customer advances for construction	\$ 98,380	\$ 17,580	\$ 41,482	\$ 74,478
Other liabilities	387,890	626,562	254,413	760,039
Accrued severance and OPEB	296,554	29,178	51,025	274,707
Total non-current liabilities	<u>\$ 782,824</u>	<u>\$ 673,320</u>	<u>\$ 346,920</u>	<u>\$ 1,109,224</u>

2013	Beginning Balance	Additions	Reductions	Ending Balance
Customer advances for construction	\$ 118,305	\$ 11,448	\$ 31,373	\$ 98,380
Other liabilities	535,857	43,686	191,653	387,890
Accrued severance and OPEB	315,367	59,978	78,791	296,554
Total non-current liabilities	<u>\$ 969,529</u>	<u>\$ 115,112</u>	<u>\$ 301,817</u>	<u>\$ 782,824</u>

**(6) Pension and Retirement Benefits**

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll through June 30, 2014. Beginning July 1, 2014 plan members are required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2014, 2013, and 2012 were \$181,269, \$166,363, and \$149,413, respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa, Chapter 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits

**(7) Income Tax Status**

The Utility is exempt from federal and state income taxes under the applicable tax codes.

**(8) Related Party Transactions**

The Utility provides gas service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$214,626 and \$145,073 in 2014 and 2013, respectively.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(8) Related Party Transactions, Continued**

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2014 to reimburse the Gas Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$133,477 and \$387,890 as of December 31, 2014 and 2013, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting other liability at December 31, 2014 and 2013 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$254,413 and \$191,653 in 2014 and 2013, respectively, and is recorded as miscellaneous non-operating revenues in the statements of revenues, expenses and changes in net position.

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2013 and 2012 were \$226,208 and \$200,000 respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2014, the Utility's Board of Trustees approved a payment of \$226,208 related to payments in lieu of taxes for 2014.

The Gas Utility has extended a loan to the Municipal Communications Utility of the City of Cedar Falls, Iowa (Communications Utility), with an outstanding balance of \$1,800,000 and \$2,400,000 as of December 31, 2014 and 2013, respectively. Interest accrues on the loan at 2.0% and is paid semi-annually during December and June. Annual principal payments continue through 2017. Accrued interest receivable was \$2,992 and \$3,989 at December 31, 2014 and 2013, respectively. Interest income for the years ended December 31, 2014 and 2013 was \$47,003 and \$59,003, respectively.

**(9) Risk Management**

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks.

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2014 plan year for aggregate medical claims exceeding \$2.9 million.

Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. The estimate is based on a percentage of claims unpaid at year end considering the Utilities claims payment history. Changes in the balances of the Utilities liabilities during the past two years are as follows:

	<b>2014</b>	<b>2013</b>
Unpaid claims and IBNR, beginning of year	\$ 325,000	\$ 194,000
Current year costs including IBNR	2,659,707	3,328,303
Claims paid	(2,832,707)	(3,197,303)
Unpaid claims and IBNR, end of year	<u>\$ 152,000</u>	<u>\$ 325,000</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(9) Risk Management, Continued**

The Gas Utility has recorded \$16,720 and \$42,250 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2014 and 2013, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 519 governmental entities participate in the Association as of June 30, 2014. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Cash and cash equivalents and investments	\$ 76,450,260	\$ 69,938,392
Receivables	1,730,052	1,045,398
Other assets	828,246	853,067
Total assets	<u>\$ 79,008,558</u>	<u>\$ 71,836,857</u>
Total liabilities	\$ 28,860,654	\$ 27,709,153
Total equity	50,147,904	44,127,704
Total liabilities and equity	<u>\$ 79,008,558</u>	<u>\$ 71,836,857</u>
Total revenue	\$ 10,493,284	\$ 9,069,064
Total expenses	4,473,084	4,256,529
Net increase in equity	<u>\$ 6,020,200</u>	<u>\$ 4,812,535</u>

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from coverage in the prior year.

**(10) Other Post-Employment Benefits (OPEB)**

**Plan Description**

The Utilities administers a single-employer defined benefit medical health care plan (The Plan) for all four utilities. The plan provides self-insured medical, vision, and prescription drug coverage, and to all active and retired employees and their eligible dependents. Eligible retirees receive health care coverage through the same plans that are available for active employees. To be eligible for these benefits employees at their retirement date must be a minimum of 55 years old, have been employed for the preceding four years, and be enrolled in the plan. Plan contributions are required from retirees based on an amount equal to the full cost of active members. These medical benefits terminate upon attaining Medicare eligibility. In addition, the Plan provides a \$5,000 in life insurance benefits to all retirees who elect this coverage and agree to pay a contribution for this coverage.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Notes to Financial Statements  
December 31, 2014 and 2013

**(10) Other Post-Employment Benefits (OPEB), Continued**

**Funding Policy**

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2014 and 2013, the Utilities contributed \$124,345 and \$333,282, respectively and retirees receiving benefits contributed \$105,738 and \$121,230, respectively, through their required contributions.

**Annual OPEB and Net OPEB Obligations**

The Plan's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of General Accounting Standards Board (GASB) Statement No 45. This standard was implemented in 2008. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following schedule shows the components of the annual OPEB expense for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	<b>2014</b>	<b>2013</b>
Annual required contribution	\$ 73,136	\$ 73,136
Interest on net OPEB obligation	53,435	53,435
Adjustment to annual required contribution	(41,179)	(41,179)
Annual OPEB expense	85,392	85,392
Contributions and payments made	18,607	212,052
Increase (Decrease) in net OPEB obligation	\$ 66,785	\$ (126,660)
Net OPEB obligation, December 31, 2013	962,144	1,088,804
Net OPEB obligation, December 31, 2014	<u>\$ 1,028,929</u>	<u>\$ 962,144</u>

The Gas Utility's share of the December 31, 2014 and 2013 Net OPEB obligation is \$136,347 and \$140,479, respectively.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to The Plan, and net OPEB obligation for the year ended December 31, 2014, 2013 and 2012:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
December 31, 2014	\$ 85,392	21.79%	\$ 1,028,929
December 31, 2013	\$ 85,392	248.33%	\$ 962,144
December 31, 2012	\$ 85,392	76.44%	\$ 1,088,804

**Funded Status and Funding Progress**

As of January 1, 2012, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$908,961. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Notes to Financial Statements  
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**(10) Other Post-Employment Benefits (OPEB), Continued**

**Funded Status and Funding Progress, Continued**

The Plan and was \$13,921,796 in 2014 and the ratio using the January 1, 2012 actuarial valuation UAAL to the covered payroll was 6.5%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. There are no plans to fund The Plan at this time.

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

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2012
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	9.5% declining 0.5% annually to 5%
Projected Salary Increases	4.0%

The schedule of funding progress, presented as Required Supplemental Information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

**(11) Flood Event**

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, regulators, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation. As of December 31, 2009, damaged Utility facilities were operational. In 2014 and 2013, the Gas Utility spent \$0 and \$45,194, respectively, for flood recovery. In 2014 and 2013, the Utility has recognized \$0 and \$53,863, respectively, in revenues

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(11) Flood Event, Continued**

for FEMA flood recovery reimbursement. As of December 31, 2014 and 2013, the Utility recognized a receivable of \$91,610 and \$92,986, respectively, for FEMA flood disaster reimbursement.

**(12) Commitments and Contingencies**

The Utility has a natural gas transportation contract with a pipeline, which expires in 2022. Total payments include transportation charges and commodity charges. Minimum transportation payments for 2015 are expected to be approximately \$971,945 at current rates.

The Utility is a member of the Central Plains Energy Project. This organization was created in 2006 to accomplish the members' joint and cooperative action with respect to the acquisition, transportation, storage, management and related services and functions which are necessary to provide the members secure, reliable, and economic supplies of natural gas. This membership allows the Utility to purchase a fixed amount of gas for 30 years at a discount from market prices.

As of December 31, 2014, the Utility was not involved in any major construction projects to complete through 2015.

**(13) Subsequent Events**

Subsequent events for the Utility have been evaluated through March 27, 2015, which is the date that the financial statements were available to be issued.

In January 2015 the Board of Trustees adopted resolution No. 5574 approving the continuation of the annual interest rate on the notes between the Communications Utility and Gas Utility at 2.0% as reflective of the investment and borrowing markets.

**Municipal Electric, Gas, Water and Communications Utilities  
Of the City of Cedar Falls, Iowa  
Required Supplemental Information  
December 31, 2014, 2013 and 2012**

**Schedule of Funding Progress for the Other  
Post-Employment Benefits Plan  
Unaudited**

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial		Funded Ratio	Covered Payroll	UAAAL as a Percentage of Covered Payroll
			Accrued Liability (AAL)	Unfunded AAL (UAAAL)			
2014	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,921,796	6.5%
2013	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,400,936	6.8%
2012	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,133,950	6.9%
2011	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,936,933	22.9%
2010	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,152,946	24.4%
2009	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$11,587,064	25.6%
2008	January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.0%	\$11,162,424	30.8%



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*

Independent Auditors' Report

To the Board of Trustees  
Cedar Falls Utilities – Municipal Gas Utility

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Gas Utility of the City of Cedar Falls, Iowa (Municipal Gas Utility) as of and for the year ended December 31, 2014, and have issued our report thereon dated March 27, 2015.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Municipal Gas Utility'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 Municipal Gas Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipal Gas Utility'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 entity'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Trustees  
Cedar Falls Utilities – Municipal Gas Utility

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Municipal Gas Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

***Purpose of this Report***

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
March 27, 2015

**THE MUNICIPAL GAS UTILITY  
OF THE CITY OF CEDAR FALLS, IOWA**

SCHEDULE OF FINDINGS RELATED TO GOVERNMENT AUDITING STANDARDS AND  
REQUIRED STATUTORY REPORTING  
Year Ended December 31, 2014

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**FINDINGS RELATED TO REQUIRED STATUTORY REPORTING**

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- A-02      Official Depositories – A resolution naming official depositories has been approved by Municipal Gas Utility (utility). The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2014.
- B-02      Certified Budget – Disbursements during the year ended December 31, 2014, did not exceed the amounts budgeted.
- C-02      Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- D-02      Travel Expense – No disbursements of utility money for travel expenses of spouses of utility officials or employees were noted.
- E-02      Business Transactions – No business transactions between the utility and utility officials or employees were noted.
- F-02      Bond Coverage – Surety bond coverage of utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- G-02      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- H-02      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utility's investment policy were noted.
- I-02      Revenue Bonds – The utility has complied with all provisions of bond covenants. All required payments to the sinking, reserve and improvement funds were made.
- J-02      Code of Iowa Communications Legislation Requirements – Nothing came to our attention that the utility was not in compliance with the requirements of the Code of Iowa Section 388.10 *Municipal Utility Providing Telecommunications Services* regarding the subsidization of telecommunications operations by the electric, water or gas utilities.
- K-02      The audit did not identify any material weaknesses in controls.





# **Cedar Falls Utilities**

**Financial Statements of the Municipal  
Water Utility  
of the City of Cedar Falls, Iowa**

**Including Independent Auditors' Reports**

**For The Years Ended  
December 31, 2014 and 2013**



MUNICIPAL WATER UTILITY  
OF THE CITY OF CEDAR FALLS, IOWA  
(Component Unit of the City of Cedar Falls, Iowa)

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Cedar Falls Utilities – Municipal Water Utility

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Municipal Water Utility of the City of Cedar Falls, Iowa (Municipal Water Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2014 and 2013, and the related notes to the 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 over financial reporting relevant to the Municipal Water Utility'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 Municipal Water Utility'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.

To the Board of Trustees  
Cedar Falls Utilities – Municipal Water Utility

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Water Utility as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matters**

As discussed in Note 1, the financial statements present only the Municipal Water Utility component unit and do not purport to, and do not, present fairly the financial position of the City of Cedar Falls, Iowa, as of December 31, 2014 and 2013 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is 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 and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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*, have issued our report dated March 27, 2015 on our consideration of the Municipal Water Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including those systems applicable to Municipal Water Utility. 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 Municipal Water Utility's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
March 27, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2014 and 2013  
Unaudited

The following discussion and analysis of the Municipal Water Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2014 and 2013. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

In 2014 the weather was colder than a normal 2013 resulting in decreased usage of nearly 61,000 CCF, but due to a 4% rate increase and increased rents of water property, the Utility experienced a \$166,000 increase in operating revenues. Operating expenses increased \$180,000 due to increased costs for purchased power, distribution, depreciation, and customer accounts. Net operating income decreased \$14,000 or 5.6% in 2014. The Utility's net position continued to grow due to strong operations, non-operating revenues and noncash capital contributions.

**Overview of the Financial Statements**

Management's discussion and analysis (MDA) serves as an introduction to the financial statements, and the MDA represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

The statements of net position include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

The statements of revenues, expenses and changes in net position present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail rates are based on rates established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. A fundamental objective of this rate model is to provide adequate revenue to cover all costs.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2014 and 2013  
Unaudited

**Condensed Financial Information & Analysis**

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

**Condensed Statement of Net Position**

	2014	2013	2012
Capital assets, net	\$22,510,821	\$21,569,594	\$21,156,185
Other noncurrent assets	337,636	327,622	535,190
Current assets	5,339,183	4,940,085	4,416,619
Total assets	\$28,187,640	\$26,837,301	\$26,107,994
Current liabilities	\$ 369,667	\$ 367,499	\$ 299,518
Noncurrent liabilities	537,089	542,861	739,618
Total liabilities	\$ 906,756	\$ 910,360	\$ 1,039,136
Net investment in capital assets	\$22,510,821	\$21,569,594	\$21,156,185
Restricted	88,019	24,754	56,974
Unrestricted	4,682,044	4,332,593	3,855,699
Total net position	\$27,280,884	\$25,926,941	\$25,068,858

**2014 Compared to 2013**

- ❖ Total Assets increased \$1,350,000 or 5.0% primarily due to:
  - Net capital assets increasing \$941,000 or 4.4% due to water main extensions and water main replacements. Net capital assets represent 79.9% of total assets for the Utility in 2014.
  - Increase in other noncurrent assets of \$10,000 or 3.1% primarily due to the increase of \$11,000 in tax increment financing (TIF) receivable as a result of additional project expenditures certified by the City of Cedar Falls.
  - Increase in current assets of \$399,000 or 8.1% primarily due to:
    - Increase in cash and cash equivalents of \$343,000 or 8.1%.
    - Increase in restricted cash of \$49,000 or 97.4%.
    - Increase in customer accounts receivable of \$35,000 or 8.4%.
    - Decrease of \$26,000 or 94.8% in merchandise accounts receivable.
  
- ❖ Total Liabilities decreased \$4,000 or 0.4% primarily due to:
  - Increase in current liabilities of \$2,000 or 0.6% as a result of an increase in accounts payable and a decrease in accrued wages & vacations.
  - Decrease in noncurrent liabilities of \$6,000 or 1.1% mainly due to:
    - Decrease in customer advances for construction of \$22,000 or 100.0%.
    - Increase of \$11,000 or 3.3% in the Tax Increment Financing (TIF) liability as a result of additional project expenditures certified by the City of Cedar Falls.

*Additional detail on the change in capital assets Note 4. The utility has no long-term debt in 2014 or 2013.*

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2014 and 2013  
Unaudited

**2013 Compared to 2012**

- ❖ Total Assets increased \$729,000 or 2.8% primarily due to:
  - Net capital assets increasing \$413,000 or 2.0% due to water main replacements and the construction of the new flood wall. Net capital assets represent 80.4% of total assets for the Utility in 2013.
  - Decrease in other noncurrent assets of \$208,000 or 38.8% primarily due to the decrease of \$207,000 in tax increment financing (TIF) payments receivable as a result of the payment by the City of Cedar Falls for TIF debt owed to the Water Utility for certified expenditures.
  - Increase in current assets of \$523,000 or 11.9% primarily due to:
    - Increase in cash and cash equivalents of \$530,000 or 14.3%.
    - Decrease of \$26,000 or 35.9% in governmental grants receivable for FEMA assistance.
  
- ❖ Total Liabilities decreased \$129,000 or 12.4% primarily due to:
  - Increase in current liabilities of \$68,000 or 22.7% as a result of increases in accounts payable and accrued wages & vacations.
  - Decrease in noncurrent liabilities of \$197,000 or 26.6% mainly due to:
    - Decrease of \$207,000 or 38.9% in the Tax Increment Financing (TIF) liability as a result of the payment by the City of Cedar Falls for TIF debt owed to the Water Utility for certified expenditures.

*Additional detail on the change in capital assets Note 4. The utility has no long-term debt in 2013 or 2012.*

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2014 and 2013  
Unaudited

**Condensed Revenues, Expenses and Changes in Net Position**

	2014	2013	2012
Sales of water	\$ 3,496,446	\$ 3,387,195	\$ 3,336,884
Other	253,605	197,096	181,501
Total operating revenues	<u>3,750,051</u>	<u>3,584,291</u>	<u>3,518,385</u>
Operation and maintenance	1,474,212	1,316,594	1,172,164
Depreciation and amortization	659,945	628,753	604,605
Services and administrative	1,371,235	1,379,834	1,229,387
Total operating expenses	<u>3,505,392</u>	<u>3,325,181</u>	<u>3,006,156</u>
Operating Income	<u>244,659</u>	<u>259,110</u>	<u>512,229</u>
Interest income	217	215	243
Other, net	501,887	446,962	695,003
Total non-operating revenues (expenses)	<u>502,104</u>	<u>447,177</u>	<u>695,246</u>
Income before capital contributions	746,763	706,287	1,207,475
Capital Contributions	<u>607,180</u>	<u>151,796</u>	<u>585,317</u>
Change in net position	1,353,943	858,083	1,792,792
Net position, beginning of year	<u>25,926,941</u>	<u>25,068,858</u>	<u>23,276,066</u>
Net position, end of year	<u>\$27,280,884</u>	<u>\$25,926,941</u>	<u>\$25,068,858</u>

**2014 Compared to 2013**

- ❖ Total Operating Revenues increased \$166,000 or 4.6% due to:
  - Increase in water sales revenues of \$109,000 or 3.2% due to 4% rate adjustment which offset a decrease in usage of nearly 61,000 CCF or 3.5%.
  - Increase in other operating revenues of \$57,000 or 28.7% as a result of an increase of \$53,000 or 32.2% in water property rents.
  
- ❖ Total Operating Expenses increased \$180,000 or 5.4% due to:
  - Increase in operation & maintenance of \$158,000 or 12.0%.
    - Increase of \$19,000 or 11.6% in purchased power expenses.
    - Decrease of \$11,000 or 3.2% in pumping & water treatment expenses.
    - Increase of \$150,000 or 18.1% in distribution operation & maintenance expenses.
  - Depreciation & amortization expense increased by \$31,000 or 5.0% due to the completion of capital asset projects placed into service in 2014.
  - Decrease in services and administrative expenses of \$9,000 or 0.6% primarily due to:
    - Increase in customer accounts of \$18,000 or 6.4% mainly due to increased meter reading and uncollectable account expenses.

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- Decrease in administrative & general expenses of \$25,000 or 2.6% due to a decrease in medical claims.
- ❖ Interest Income increased \$2 or 0.9% due to low interest rates, and difficulty getting banks to bid on placement of investments. Funds remained deposited in money market accounts waiting a strengthening in the investment markets.
- ❖ Other, net increased by \$55,000 or 12.3% primarily due to:
  - Increase of \$73,000 or 17.5% in miscellaneous revenue mainly due to increased payments by the City for billing City Services and the accelerated payment of fees charged for the upgrade of the billing system.
  - Decrease of \$25,000 or 100.0% in intergovernmental grant revenues due to the completion of grant projects.
- ❖ Noncash capital contributions increased \$455,000 or 300.0% due to the increase in distribution extensions during the year.

**2013 Compared to 2012**

- ❖ Total Operating Revenues increased \$66,000 or 1.9% due to:
  - Increase in water sales revenues of \$50,000 or 1.5% due to 7% rate adjustment and a decrease in usage of nearly 225,000 CCF or 11.6%.
  - Increase in other operating revenues of \$16,000 or 8.6% as a result of an increase of \$23,000 or 16.5% in water property rents.
- ❖ Total Operating Expenses increased \$319,000 or 10.6% due to:
  - Increase in operation and maintenance of \$144,000 or 12.3%.
    - Increase of \$31,000 or 10.5% in pumping and water treatment expenses.
    - Decrease of \$4,000 or 2.4% in power purchased from an affiliated utility.
    - Increase of \$117,000 or 16.5% in distribution operation & maintenance expenses.
  - Depreciation & amortization expense increased by \$24,000 or 4.0% due to the completion of capital asset projects placed into service in 2012.
  - Increase in services and administrative expenses of \$150,000 or 12.2% primarily due to:
    - Increase in administrative & general expenses of \$140,000 or 17.1% due to labor cost increases and increases in medical claim and insurance premium costs.
- ❖ Interest Income decreased \$28 or 11.5% due to low interest rates, and difficulty getting banks to bid on placement of investments. Funds remained deposited in money market accounts waiting a strengthening in the investment markets.
- ❖ Other, net decreased by \$248,000 or 35.7% primarily due to:
  - Decrease of \$268,000 or 91.6% in intergovernmental grant revenues due to the completion of grant projects.
- ❖ Noncash capital contributions decreased \$434,000 or 74.1% due to the decrease in distribution extensions during the year.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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**Condensed Statement of Cash Flows**

	2014	2013	2012
Cash Flows from Operating Activities	\$ 1,231,428	\$ 1,114,396	\$ 1,294,396
Cash Flows from Capital and Related Financing Activities	(839,638)	(606,112)	(511,583)
Cash Flows from Investing Activities	218	215	251
Net Change in Cash and Cash Equivalents	392,008	508,499	783,064
Cash and Cash Equivalents-Beginning of Year	4,285,003	3,776,504	2,993,440
<b>Cash and Cash Equivalents-End of Year</b>	<b><u>\$ 4,677,011</u></b>	<b><u>\$ 4,285,003</u></b>	<b><u>\$ 3,776,504</u></b>

**2014 Compared to 2013**

- ❖ Cash inflows from operations increased by \$117,000 or 10.5% primarily due to:
  - Increase in receipts from customers of \$284,000 or 7.5%.
  - Increase in cash paid to suppliers of \$82,000 or 4.4%.
  - Increase in cash paid to employees for payroll of \$84,000 or 10.6%.
  
- ❖ Cash outflows from capital and related financing activities increased \$234,000 or 38.5% due to:
  - Increase in capital expenditures of \$96,000 or 10.8%.
  - Decrease in receipts for reimbursement of utility construction costs of \$42,000 or 20.1%.
  - Decrease in receipt of intergovernmental grant funds of \$50,000 or 98.8%.
  
- ❖ Cash inflows from investing activities increased due to:
  - Increase in interest received of \$3 or 1.4%.

**2013 Compared to 2012**

- ❖ Cash inflows from operations decreased by \$180,000 or 13.9% primarily due to:
  - Increase in receipts from customers of \$69,000 or 1.9%.
  - Increase in cash paid to suppliers of \$220,000 or 13.3%.
  - Increase in cash paid to employees for payroll of \$28,000 or 3.6%.
  
- ❖ Cash outflows from capital and related financing activities increased \$95,000 or 18.5% due to:
  - Decrease in capital expenditures of \$290,000 or 24.5%.
  - Decrease in receipts for reimbursement of utility construction costs of \$34,000 or 14.3%.
  - Decrease in receipt of intergovernmental grant funds of \$376,000 or 88.2%.
  
- ❖ Cash inflows from investing activities decreased due to:
  - Decrease in interest received of \$36 or 14.3%.

## **FINANCIAL STATEMENTS**



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MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Statements of Net Position  
December 31, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 32,544,825	\$ 30,977,667
Less accumulated depreciation	10,145,018	9,534,234
Capital assets, net	<u>22,399,807</u>	<u>21,443,433</u>
Construction work in progress	111,014	126,161
Total capital assets, net	<u>22,510,821</u>	<u>21,569,594</u>
Noncurrent assets:		
Loans Receivable	1,850	2,473
Other (note 8)	335,786	325,149
Total noncurrent assets	<u>337,636</u>	<u>327,622</u>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	4,576,832	4,234,249
Cash and cash equivalents - restricted (note 2 and 3)	100,179	50,754
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$6,424 in 2014 and \$1,822 in 2013	456,998	421,617
Loans receivable	624	624
Government grants (note 11)	45,518	46,144
Other	1,443	27,696
Interest	12	13
Material and supplies	118,497	124,254
Prepayments and other	39,080	34,734
Total current assets	<u>5,339,183</u>	<u>4,940,085</u>
 Total assets	 <u>\$ 28,187,640</u>	 <u>\$ 26,837,301</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Net Position  
December 31, 2014 and 2013

<u>Liabilities</u>	<u>2014</u>	<u>2013</u>
Current liabilities:		
Accounts payable	\$ 230,238	\$ 179,394
Accrued wages and vacations	139,159	184,307
Other accrued expenses	270	3,798
Total current liabilities	369,667	367,499
Noncurrent liabilities: (note 5)		
Customer advances for construction	-	21,529
Other liabilities (note 5, 8 and 10)	537,089	521,332
Total noncurrent liabilities	537,089	542,861
Total liabilities	906,756	910,360
<u>Net Position</u>		
Net investment in capital assets	22,510,821	21,569,594
Restricted	88,019	24,754
Unrestricted	4,682,044	4,332,593
Total net position	27,280,884	25,926,941
Total liabilities and net position	\$ 28,187,640	\$ 26,837,301

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MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Revenues, Expenses and Changes in Net Position  
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Sales of water:		
Residential	\$ 2,529,103	\$ 2,463,420
Industrial	58,889	53,684
Commercial	692,526	652,123
Governmental (note 8)	196,910	196,751
Interdepartmental	19,018	21,217
Total sales of water	3,496,446	3,387,195
Other operating revenues	253,605	197,096
Total operating revenues	3,750,051	3,584,291
Operating expenses		
Production:		
Purchased power from affiliated utility	179,288	160,614
Other	318,571	329,271
Distribution	976,353	826,709
Depreciation	659,945	628,753
Customer accounts	306,366	287,895
Customer service and information expenses	33,950	33,048
Sales	5,994	4,771
Administrative and general	932,648	957,881
Taxes other than income taxes	92,277	96,239
Total operating expenses	3,505,392	3,325,181
Operating income	244,659	259,110
Non-operating revenues (expenses):		
Interest income	217	215
Net increase (decrease) in the fair value of investments	-	-
Miscellaneous revenue (expense), net (note 8)	490,045	417,101
Intergovernmental grant funds (note 11)	-	24,540
AFUDC (note 1)	11,842	5,321
Total non-operating revenues (expenses)	502,104	447,177
Income before contributions	746,763	706,287
Noncash Capital contributions	607,180	151,796
Change in net position	1,353,943	858,083
Net position, beginning of year	25,926,941	25,068,858
Net position, end of year	\$ 27,280,884	\$ 25,926,941

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Statements of Cash Flows  
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,067,417	\$ 3,783,621
Intergovernmental grants	-	737
Cash paid to suppliers	(1,962,890)	(1,880,885)
Cash paid to employees	(873,099)	(789,077)
	1,231,428	1,114,396
Cash flows from capital and related financing activities:		
Proceeds from customer advances for construction	-	21,529
Refunds of customer advances for construction	(21,529)	-
Acquisition, construction and removal cost of capital assets	(988,463)	(892,024)
Proceeds from sale of capital assets	4,395	6,979
Reimbursement of utility construction costs	165,333	206,973
Intergovernmental grants	626	50,431
	(839,638)	(606,112)
Cash flows from investing activities:		
Interest received	218	215
	218	215
Net increase (decrease) in cash and cash equivalents	392,008	508,499
Cash and cash equivalents, beginning of year	4,285,003	3,776,504
Cash and cash equivalents, end of year (note 1)	\$ 4,677,011	\$ 4,285,003

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Statements of Cash Flows, Continued  
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 244,659	\$ 259,110
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation of capital assets	659,945	628,753
Other Income (expense), net	324,712	210,128
(Increase) decrease in accounts receivable	(35,381)	(5,962)
(Increase) decrease in loans receivable	623	595
(Increase) decrease in materials and supplies	5,757	(13,876)
(Increase) decrease in prepayments and other	21,907	(21,020)
Increase (decrease) in accounts payable	52,762	24,902
Increase (decrease) in accrued wages and vacation	(45,148)	49,440
Increase (decrease) in other accrued expenses	(3,528)	(6,361)
Increase (decrease) in other liabilities	5,120	(11,313)
Net cash provided by operating activities	<u>\$ 1,231,428</u>	<u>\$ 1,114,396</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	11,842	5,321
Contributions from contractors in aid of construction	607,180	151,796
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 4,576,832	\$ 4,234,249
Cash - restricted	100,179	50,754
Cash and cash equivalents	<u>\$ 4,677,011</u>	<u>\$ 4,285,003</u>



## **NOTES TO FINANCIAL STATEMENTS**



MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Notes to Financial Statements  
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(1) **Summary of Significant Accounting Policies**

**Organization and Basis of Accounting**

The Municipal Water Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 18 – Conservation of Power and Water Resources, Chapter I – Federal Energy Regulatory Commission, Department of Energy.

**Accounting Changes**

The GASB Statement No. 65, ***“Items Previously Reported as Assets and Liabilities”*** (“GASB 65”) was issued in March 2012 effective for periods beginning after December 15, 2012. The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of GASB 65 did not result in any reclassification of items that were previously reported as assets and liabilities.

The GASB has approved GASB Statement No. 66, ***“Technical Corrections – 2012”*** which is an amendment of GASB Statements No. 10 and No. 62; Statement No. 67, ***“Financial Reporting for Pension Plans”*** which is an amendment of GASB Statement No. 25; and Statement No. 68, ***“Accounting and Financial Reporting for Pensions”*** which is an amendment of GASB Statement No. 27. Application of these standards may restate portions of these financial statements.

**Capital Assets and Depreciation**

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 3.96% in 2014 and 2.95% 2013. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure – 20 to 75 years, buildings and improvements – 30 to 45 years, and equipment – 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 2.1% and 2.1% of depreciable assets for 2014 and 2013, respectively.

Capital assets may be contributed to the Utility by outside parties. As these assets are completed and placed in service, the utility reports the value of these contributions in the statement of revenue, expenses, and changes in net position.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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(1) **Summary of Significant Accounting Policies, Continued**

**Cash and Investments**

Investments are stated at their fair value on the statement of net position. The Utility's investments stated at fair value reflect quoted market prices at the statement date, for U.S. Treasury and government agency debt securities. The cost of certificates of deposit approximates fair value.

The Utility considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2014 and 2013 were \$1,470,000 and \$1,470,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recorded at the invoiced amount and are reported net of allowances.

**Inventories**

Materials and supplies are valued at average cost. Inventories are recorded as expenditures at the time individual inventory items are consumed.

**Net Position**

Net position represents the difference between assets and liabilities in the financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of government entities. Unrestricted net position consists of net positions that do not meet the definition of "net investment in capital assets" or "restricted".

**Net Position, Continued**

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

**Operating Revenues and Expenses**

Operating revenues include revenues resulting from the sale of water and service revenues. Operating expenses include expenses for power production, distribution, depreciation, customer accounts, customer service and information, sales, and administrative and general. Non-operating revenues and expenses include those derived from capital and non-capital activities and investing activities.

Revenues from the sale of water are based on billing rates, which are applied to customers' consumption of water. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed as of December 31, 2014 and 2013, were \$135,222 and \$131,697, respectively, and are recorded in customer accounts receivable.

**Capital Contributions**

Contributions in aid of construction represent the actual cost of property contributed to the Utility and nonrefundable payments from consumers, which are used to partially offset the cost of the construction of additional capital assets.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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(1) **Summary of Significant Accounting Policies, Continued**

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Budgetary Information**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2014 and 2013, there were no budget amendments.

**Grants**

The Water Utility has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

**Employee Benefits**

Employee benefits for accumulated sick leave hours are not accrued as they are not payable to employees. Vacation hours are earned monthly and are accrued and recorded as liabilities and unused vacation hours are paid upon termination of service. Accrued wages represents time employees worked during the calendar year.

**Employee Benefits, Continued**

The Water Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay shall apply only to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date shall not be entitled to the benefit. As of December 31, 2014 and 2013 the accrued liability was \$100,625 and \$96,046, respectively.

**Customer Advances**

Customer Advances represent amounts paid to the utility by developers to extend service to new areas. As customers are added, advances will be refunded to the developers over the defined term of the agreement. Expired advances are recorded as other non-operating income in the year they expire.

**Reclassifications**

Reclassifications of prior year's amounts may have been made for comparability.

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**(2) Restricted Assets**

The composition of restricted assets as of December 31, 2014 and 2013 was as follows:

Current Assets - Restricted	Cash	2014 Investments	Total
Self-Insured Medical and Dental	\$100,179	\$ -	\$100,179
Total Current Assets – Restricted	\$100,179	\$ -	\$ 100,179
Total restricted assets	\$100,179	\$ -	\$100,179

Current Assets - Restricted	Cash	2013 Investments	Total
Self-Insured Medical and Dental	\$ 50,754	\$ -	\$ 50,754
Total Current Assets – Restricted	\$ 50,754	\$ -	\$ 50,754
Total restricted assets	\$ 50,754	\$ -	\$ 50,754

Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

**(3) Cash on Hand, Deposits, and Investments**

**Cash on Hand**

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2014 and 2013 was \$45.

**Deposits**

At December 31, 2014, the Utility’s carrying amount of deposits, including \$700,000 of money market accounts, was \$3,206,966. At December 31, 2013, the Utility’s carrying amount of deposits, including \$700,000 of money market accounts, was \$2,814,958.

**Investments**

The Utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of December 31, 2014 and 2013, the Utility had no Federal Agency Obligation investments or maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,470,000 and \$1,470,000 at December 31, 2014 and 2013, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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**(3) Cash on Hand, Deposits, and Investments, Continued**

**Interest Rate Risk**

The Utility's investment policy limits the investments of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

**Credit Risk**

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2014 or 2013. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

**Concentration of Credit Risk**

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2014 or 2013.

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are covered by federal depository insurance up to the insured limits or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the statement of net position follows:

	<b>2014</b>		<b>2013</b>
Cash on hand	\$ 45	\$	45
Carrying amount of deposits	3,206,966		2,814,958
Carrying amount of Iowa Public Agency Investment Trust	1,470,000		1,470,000
Total	<u>\$ 4,677,011</u>	<u>\$</u>	<u>4,285,003</u>
Current Assets			
Cash and cash equivalents - unrestricted	\$ 4,576,832	\$	4,234,249
Investments	-		-
Cash and cash equivalents - restricted	100,179		50,754
Total	<u>\$ 4,677,011</u>	<u>\$</u>	<u>4,285,003</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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**(3) Cash on Hand, Deposits, and Investments, Continued**

**Custodial Credit Risk – Investments, Continued**

Of the unrestricted cash and investments listed above, the Board of Trustees of the Municipal Water Utility has made no reserve fund designations.

**(4) Capital Assets**

A summary of capital assets activity for the years ended December 31, 2014 and 2013 follows:

2014	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 63,466	\$ -	\$ -	\$ 63,466
Construction, work-in-progress	126,161	1,605,893	1,621,040	111,014
Total capital assets, not being depreciated	189,627	1,605,893	1,621,040	174,480
Capital assets, being depreciated:				
Infrastructure	27,735,879	1,445,810	39,549	29,142,140
Buildings and improvements	1,922,630	84,285	6,632	2,000,283
Equipment	1,255,692	89,486	6,242	1,338,936
Total capital assets, being depreciated	30,914,201	1,619,581	52,423	32,481,359
Less accumulated depreciation	9,534,234	663,653	52,869	10,145,018
Total capital assets, being depreciated, net	21,379,967	955,928	(446)	22,336,341
Capital assets, net	<u>\$ 21,569,594</u>	<u>\$ 2,561,821</u>	<u>\$ 1,620,594</u>	<u>\$ 22,510,821</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(4) Capital Assets, Continued**

2013	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 63,466	\$ -	\$ -	\$ 63,466
Construction, work-in-progress	572,606	1,052,946	1,499,391	126,161
Total capital assets, not being depreciated	636,072	1,052,946	1,499,391	189,627
Capital assets, being depreciated:				
Infrastructure	26,867,486	946,032	77,639	27,735,879
Buildings and improvements	1,391,612	531,802	784	1,922,630
Equipment	1,242,701	21,556	8,565	1,255,692
Total capital assets, being depreciated	29,501,799	1,499,390	86,988	30,914,201
Less accumulated depreciation	8,981,686	640,049	87,501	9,534,234
Total capital assets, being depreciated, net	20,520,113	859,341	(513)	21,379,967
Capital assets, net	\$ 21,156,185	\$ 1,912,287	\$ 1,498,878	\$ 21,569,594

**(5) Noncurrent Liabilities**

Noncurrent liabilities activity for the years ended December 31, 2014 and 2013 was as follows:

2014	Beginning Balance	Additions	Reductions	Ending Balance
Customer advances for construction	\$ 21,529	\$ -	\$ 21,529	\$ -
Other liabilities	325,149	174,970	164,333	335,786
Accrued severance and OPEB	196,183	22,870	17,750	201,303
Total non-current liabilities	\$ 542,861	\$ 197,840	\$ 203,612	\$ 537,089

2013	Beginning Balance	Additions	Reductions	Ending Balance
Customer advances for construction	\$ -	\$ 21,529	\$ -	\$ 21,529
Other liabilities	532,122	-	206,973	325,149
Accrued severance and OPEB	207,496	37,494	48,807	196,183
Total non-current liabilities	\$ 739,618	\$ 59,023	\$ 255,780	\$ 542,861

**(6) Pension and Retirement Benefits**

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Notes to Financial Statements  
December 31, 2014 and 2013

**(6) Pension and Retirement Benefits, Continued**

beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll through June 30, 2014. Beginning July 1, 2014 plan members are required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2014, 2013 and 2012, were \$130,414, \$116,692, and \$106,155, respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa, Chapter 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits.

**(7) Income Tax Status**

The Utility is exempt from federal and state income taxes under the applicable tax codes.

**(8) Related Party Transactions**

The Utility provides water service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$70,696 and \$74,246 in 2014 and 2013, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2014 to reimburse the Water Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$335,786 and \$325,149 as of December 31, 2014 and 2013, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting other liability at December 31, 2014 and 2013 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$164,333 and \$206,973 in 2014 and 2013, respectively, and is recorded as miscellaneous non-operating revenues in the statements of revenues, expenses and changes in net position.

The Utility also provides billing and collection services to the City for the City's sanitary sewer system, storm water reclamation fees, and garbage and refuse service. Revenues from the service provided amounted to \$314,160 in 2014 and \$177,840 in 2013, and are recorded in miscellaneous non-operating revenue.

**(9) Risk Management**

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks.

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(9) Risk Management, Continued**

individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2014 plan year for aggregate medical claims exceeding \$2.9 million.

Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. The estimate is based on a percentage of claims unpaid at year end considering the Utilities claims payment history. Changes in the balances of the Utilities liabilities during the past two years are as follows:

	<b>2014</b>	<b>2013</b>
Unpaid claims and IBNR, beginning of year	\$ 325,000	\$ 194,000
Current year costs including IBNR	2,659,707	3,328,303
Claims paid	(2,832,707)	(3,197,303)
Unpaid claims and IBNR, end of year	<u>\$ 152,000</u>	<u>\$ 325,000</u>

The Water Utility has recorded \$12,160 and \$26,000 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2014 and 2013, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 519 governmental entities participate in the Association as of June 30, 2014. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its years ended June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Cash and cash equivalents and investments	\$ 76,450,260	\$ 69,938,392
Receivables	1,730,052	1,045,398
Other assets	828,246	853,067
Total assets	<u>\$ 79,008,558</u>	<u>\$ 71,836,857</u>
Total liabilities	\$ 28,860,654	\$ 27,709,153
Total equity	50,147,904	44,127,704
Total liabilities and equity	<u>\$ 79,008,558</u>	<u>\$ 71,836,857</u>
Total revenue	\$ 10,493,284	\$ 9,069,064
Total expenses	4,473,084	4,256,529
Net increase in equity	<u>\$ 6,020,200</u>	<u>\$ 4,812,535</u>

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage in the prior year.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(10) Other Post-Employment Benefits (OPEB)**

**Plan Description**

The Utilities administers a single-employer defined benefit medical health care plan (The Plan) for all four utilities. The plan provides self-insured medical, vision, and prescription drug coverage, and to all active and retired employees and their eligible dependents. Eligible retirees receive health care coverage through the same plans that are available for active employees. To be eligible for these benefits employees at their retirement date must be a minimum of 55 years old, have been employed for the preceding four years, and be enrolled in the plan. Plan contributions are required from retirees based on an amount equal to the full cost of active members. These medical benefits terminate upon attaining Medicare eligibility. In addition, the Plan provides a \$5,000 in life insurance benefits to all retirees who elect this coverage and agree to pay a contribution for this coverage.

**Funding Policy**

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2014 and 2013, the Utilities contributed \$124,345 and \$333,282, respectively and retirees receiving benefits contributed \$105,738 and \$121,230, respectively, through their required contributions.

**Annual OPEB and Net OPEB Obligations**

The Plan's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of General Accounting Standards Board (GASB) Statement No 45. This standard was implemented in 2008. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following schedule shows the components of the annual OPEB expense for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	<b>2014</b>	<b>2013</b>
Annual required contribution	\$ 73,136	\$ 73,136
Interest on net OPEB obligation	53,435	53,435
Adjustment to annual required contribution	(41,179)	(41,179)
Annual OPEB expense	85,392	85,392
Contributions and payments made	18,607	212,052
Increase (Decrease) in net OPEB obligation	\$ 66,785	\$ (126,660)
Net OPEB obligation, December 31, 2013	962,144	1,088,804
Net OPEB obligation, December 31, 2014	\$ 1,028,929	\$ 962,144

The Water Utility's share of the December 31, 2014 and 2013 Net OPEB obligation is \$100,679 and \$100,137, respectively.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(10) Other Post-Employment Benefits (OPEB), Continued**

**Annual OPEB and Net OPEB Obligations, Continued**

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to The Plan, and net OPEB obligation for the year ended December 31, 2014, 2013 and 2012:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	\$ 85,392	21.79%	\$ 1,028,929
December 31, 2013	\$ 85,392	248.33%	\$ 962,144
December 31, 2012	\$ 85,392	76.44%	\$ 1,088,804

**Funded Status and Funding Progress**

As of January 1, 2012, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$908,961. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by The Plan and was \$13,921,796 in 2014 and the ratio using the January 1, 2012 actuarial valuation UAAL to the covered payroll was 6.5%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. There are no plans to fund The Plan at this time.

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(10) Other Post-Employment Benefits (OPEB), Continued**

**Funded Status and Funding Progress, Continued**

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2012
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	9.5% declining 0.5% annually to 5%
Projected Salary Increases	4.0%

The schedule of funding progress, presented as Required Supplemental Information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

**(11) Flood Event**

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, well equipment, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation. As of December 31, 2009, damaged Utility facilities were operational. In 2014 and 2013, the Water Utility spent \$0 and \$25,000, respectively, for flood recovery and has recognized \$0 and \$25,277, respectively, in revenues for FEMA flood recovery reimbursement. As of December 31, 2014 and 2013, the Utility recognized a receivable of \$45,518 and \$46,144, respectively, for FEMA flood disaster reimbursement.

**(12) Commitments and Contingencies**

As of December 31, 2014, the Utility was not involved in any major construction projects to complete through 2015.

**(13) Subsequent Events**

Subsequent events for the Utility have been evaluated through March 27, 2015, which is the date that the financial statements were available to be issued.

Effective January 1, 2015, the Board of Trustees approved a 5% water rate increase.

**Municipal Electric, Gas, Water and Communications Utilities  
Of the City of Cedar Falls, Iowa  
Required Supplemental Information  
December 31, 2014, 2013 and 2012**

**Schedule of Funding Progress for the Other  
Post-Employment Benefits Plan  
Unaudited**

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial		Funded Ratio	Covered Payroll	UAAAL as a Percentage of Covered Payroll
			Accrued Liability (AAL)	Unfunded AAL (UAAAL)			
2014	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,921,796	6.5%
2013	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,400,936	6.8%
2012	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,133,950	6.9%
2011	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,936,933	22.9%
2010	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,152,946	24.4%
2009	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$11,587,064	25.6%
2008	January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.0%	\$11,162,424	30.8%



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*

Independent Auditors' Report

To the Board of Trustees  
Cedar Falls Utilities – Municipal Water Utility

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Water Utility of the City of Cedar Falls, Iowa (Municipal Water Utility) as of and for the year ended December 31, 2014, and have issued our report thereon dated March 27, 2015.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Municipal Water Utility'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 Municipal Water Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipal Water Utility'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 entity'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Trustees  
Cedar Falls Utilities – Municipal Water Utility

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Municipal Water Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

***Purpose of this Report***

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
March 27, 2015

**THE MUNICIPAL WATER UTILITY  
OF THE CITY OF CEDAR FALLS, IOWA**

SCHEDULE OF FINDINGS RELATED TO GOVERNMENT AUDITING STANDARDS AND  
REQUIRED STATUTORY REPORTING  
Year Ended December 31, 2014

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**FINDINGS RELATED TO REQUIRED STATUTORY REPORTING**

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- A-02      Official Depositories – A resolution naming official depositories has been approved by Municipal Water Utility (utility). The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2014.
- B-02      Certified Budget – Disbursements during the year ended December 31, 2014, did not exceed the amounts budgeted.
- C-02      Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- D-02      Travel Expense – No disbursements of utility money for travel expenses of spouses of utility officials or employees were noted.
- E-02      Business Transactions – No business transactions between the utility and utility officials or employees were noted.
- F-02      Bond Coverage – Surety bond coverage of utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- G-02      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- H-02      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utility's investment policy were noted.
- I-02      Revenue Bonds – The utility has complied with all provisions of bond covenants. All required payments to the sinking, reserve and improvement funds were made.
- J-02      Code of Iowa Communications Legislation Requirements – Nothing came to our attention that the utility was not in compliance with the requirements of the Code of Iowa Section 388.10 *Municipal Utility Providing Telecommunications Services* regarding the subsidization of telecommunications operations by the electric, water or gas utilities.
- K-02      The audit did not identify any material weaknesses in controls.





# **Cedar Falls Utilities**

**Financial Statements of the Municipal  
Communications Utility  
of the City of Cedar Falls, Iowa**

**Including Independent Auditors' Reports**

**For The Years Ended  
December 31, 2014 and 2013**



MUNICIPAL COMMUNICATIONS UTILITY  
OF THE CITY OF CEDAR FALLS, IOWA  
(Component Unit of the City of Cedar Falls, Iowa)

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Cedar Falls Utilities – Municipal Communications Utility

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Municipal Communications Utility of the City of Cedar Falls, Iowa (Municipal Communications Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2014 and 2013, and the related notes to the 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 over financial reporting relevant to the Municipal Communications Utility'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 Municipal Communications Utility'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.

To the Board of Trustees  
Cedar Falls Utilities – Municipal Communications Utility

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Communications Utility as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matters**

As discussed in Note 1, the financial statements present only the Municipal Communications Utility component unit and do not purport to, and do not, present fairly the financial position of the City of Cedar Falls, Iowa, as of December 31, 2014 and 2013 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is 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 and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 issued our report dated March 27, 2015 on our consideration of the Municipal Communications Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including those systems applicable to Municipal Communications Utility. 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 Municipal Communications Utility's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
March 27, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2014 and 2013  
Unaudited

The following discussion and analysis of the Municipal Communications Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2014 and 2013. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

Communications Utility operating revenues increased \$1.0 million in 2014 due to an average cable TV rate increase of 10.1% with a loss of 387 subscribers and an average internet rate increase of 4.6% with an increase of 312 subscribers. The Utility's operating expenses decreased \$1.2 million during 2014 mostly due to a decrease in depreciation expense from the \$1.6 million one-time increase in depreciation expense for the 2013 write-off of the coax cable system which was replaced by the fiber to the premise system. The Utility's net position continued to grow due to strong operating income.

**Overview of the Financial Statements**

Management's discussion and analysis (MDA) serves as an introduction to the financial statements, and the MDA represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

The statements of net position include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

The statements of revenues, expenses and changes in net position present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail rates are based on rates established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. A fundamental objective of this rate model is to provide adequate revenue to cover all costs.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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**Condensed Financial Information & Analysis**

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

**Condensed Statement of Net Position**

	2014	2013	2012
Current assets	\$ 8,036,320	\$ 6,761,789	\$7,915,924
Noncurrent assets	178,785	582,139	968,538
Capital assets, net	26,554,318	27,622,986	29,227,223
Total assets	\$34,769,423	\$34,966,914	\$38,111,685
Current liabilities	\$ 3,476,329	\$ 3,985,211	\$ 5,141,833
Noncurrent liabilities	461,847	837,698	1,174,744
Long-term debt	12,266,862	14,727,441	17,072,111
Total liabilities	\$ 16,205,038	\$ 19,550,350	\$ 23,388,688
Net investment in capital assets	\$ 11,872,456	\$ 10,471,048	\$ 9,775,113
Restricted	1,748,349	1,717,341	1,852,120
Unrestricted	4,943,580	3,228,175	3,095,764
Total net position	\$18,564,385	\$15,416,564	\$14,722,997

**2014 Compared to 2013**

- ❖ Total Assets decreased \$197,000 or 0.6% primarily due to:
  - Increase in current assets of \$1.2 million or 18.8% due to:
    - Increase in cash and investments of \$1.4 million or 39.6% primarily related to the increase in net income.
    - Increase in governmental grants receivable of \$60,000 or 97.2% due to additional work on the rural broadband grant project.
    - Decrease in materials and supplies inventory of \$236,000 or 23.5% due to reduced need for materials on hand due to the completion of the fiber to the premise project and substantial completion of the rural broadband project.
    - Increase in customer accounts receivable of \$51,000 or 2.8%.
  - Decrease in noncurrent assets of \$403,000 or 69.3% due to the reduction of the tax increment financing (TIF) receivable for future TIF revenues as a result of payment by the City of Cedar Falls for TIF debt owed to the Communications Utility for certified expenditures.
  - Decrease in net capital assets of \$1.1 million or 3.9% primarily due to the increase in accumulated depreciation due to increased depreciation expense resulting from the fiber to the premise system. Net capital assets represent 76.4% of total assets for the Utility in 2014.

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- ❖ Total Liabilities decreased \$3.3 million or 17.1% primarily due to:
  - Decrease in current liabilities of \$509,000 or 12.8% as a result of a decline in accounts payable of \$367,000 or 35.3% due to completion of projects requiring higher levels of inventory.
  - Decrease in noncurrent liabilities of \$376,000 or 44.9% primarily due to a reduction of the Tax Increment Financing (TIF) liability as a result of the payment by the City of Cedar Falls for TIF debt owed to the Communications Utility for certified expenditures.
  - Decrease of \$2.5 million or 16.7% in long-term debt less current installments due to:
    - Decrease in long-term note payable, less current installments of \$785,000 or 36.2%. Long-term note payable, less current installments, is comprised of notes payable to the Municipal Electric Utility and Municipal Gas Utility. The Utility has an outstanding loan with the Municipal Electric Utility totaling \$368,090 and an outstanding loan with the Municipal Gas Utility totaling \$1,800,000 on December 31, 2014.
    - Decrease in long-term debt less, current installments of \$1.7 million or 13.3% due to principal payments and amortization of debt discounts and premiums.

*Additional detail on the change in capital assets and long-term debt can be found in Notes 4 and 5, respectively. Additional information on the long term notes payable can be found in Notes 5 and 8.*

#### **2013 Compared to 2012**

- ❖ Total Assets decreased \$3.1 million or 8.3% primarily due to:
  - Decrease in current assets of \$1.2 million or 14.6% due to:
    - Decrease in cash and investments of \$674,000 or 15.8% primarily related to the reduction in accounts payable.
    - Decrease in government grants receivable of \$441,000 or 87.6% due to the substantial completion of the rural broadband grant project.
    - Decrease in materials and supplies inventory of \$179,000 or 15.1% due to reduced need for materials on hand due to the completion of the fiber to the premise project and substantial completion of the rural broadband project.
    - Increase in customer accounts receivable of \$105,000 or 6.1%.
  - Decrease in noncurrent assets of \$386,000 or 39.9% due to the reduction of the tax increment financing (TIF) receivable for future TIF revenues as a result of the City of Cedar Falls adopting resolutions demonstrating TIF debt owed to the Communications Utility for certified expenditures.
  - Decrease in net capital assets of \$1.6 million or 5.5% primarily due to the write-off of the coax cable system that was replaced by the fiber to the premise system. Net capital assets represent 79.0% of total assets for the Utility in 2013.
  
- ❖ Total Liabilities decreased \$3.8 million or 16.4% primarily due to:
  - Decrease in current liabilities of \$1.2 million or 22.5% as a result of a decline in accounts payable of \$1.2 million or 53.1% due to the rural broadband project and completion of the fiber to the premise project.
  - Decrease in noncurrent liabilities of \$337,000 or 28.7% primarily due to a reduction of the Tax Increment Financing (TIF) liability as a result of the payment by the City of Cedar Falls for TIF debt owed to the Communications Utility for certified expenditures.

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- Decrease of \$2.3 million or 13.7% in long-term debt less current installments due to:
  - Decrease in long-term note payable, less current installments of \$785,000 or 26.6%. Long-term note payable, less current installments, is comprised of notes payable to the Municipal Electric Utility and Municipal Gas Utility. The Utility has an outstanding loan with the Municipal Electric Utility totaling \$553,090 and an outstanding loan with the Municipal Gas Utility totaling \$2,400,000 at December 31, 2013.
  - Decrease in long-term debt less, current installments of \$1.6 million or 11.0% due to principal payments and amortization of debt discounts and premiums.

*Additional detail on the change in capital assets and long-term debt can be found in Notes 4 and 5, respectively. Additional information on the long term notes payable can be found in Notes 5 and 8.*

**Condensed Revenues, Expenses and Changes in Net Position**

	2014	2013	2012
Cable television	\$9,043,534	\$8,666,930	\$7,913,921
High speed data communications	7,628,894	7,016,679	6,391,826
Other	52,331	41,504	3,966
Total operating revenues	<u>16,724,759</u>	<u>15,725,113</u>	<u>14,309,713</u>
Operation & maintenance	8,188,318	8,012,154	8,009,105
Depreciation and amortization	2,354,882	3,755,349	2,190,992
Sales, customer service, corporate operations	3,161,500	3,141,149	2,999,629
Total operating expenses	<u>13,704,700</u>	<u>14,908,652</u>	<u>13,199,726</u>
Operating Income	<u>3,020,059</u>	<u>816,461</u>	<u>1,109,987</u>
Interest income	6,942	4,171	6,006
Interest expense	(386,804)	(652,923)	(502,144)
Other, net	507,624	525,858	779,608
Total non-operating revenues (expenses)	<u>(127,762)</u>	<u>(122,894)</u>	<u>283,470</u>
Change in net position	3,147,821	693,567	1,393,457
Net position, beginning of year	<u>15,416,564</u>	<u>14,722,997</u>	<u>13,329,540</u>
Net position, end of year	<u>\$18,564,385</u>	<u>\$15,416,564</u>	<u>\$14,722,997</u>

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**2014 Compared to 2013**

- ❖ Total Operating Revenues increased \$1.0 million or 6.4% due to:
  - Increase in cable television operating revenues of \$377,000 or 4.3% from a rate increase of 10.1% with a loss of 387 subscribers.
  - Increase in internet operating revenues of \$612,000 or 8.7% from an average internet rate increase of 4.6% with an increase of 312 subscribers.
  
- ❖ Total Operating Expenses decreased \$1.2 million or 8.1% primarily due to:
  - Increase in operation & maintenance of \$176,000 or 2.2% mostly due to a \$325,000 or 6.5% increase in programming expense offset by a decrease in access expense of \$138,000 or 20.0%.
  - Decrease in depreciation expense increase of \$1.4 million or 37.3% due to the one-time write off of the coax cable system that was replaced by the fiber to the premise system in 2013.
  - Increase in sales , customer services, corporate operations expenses of \$20,000 or 0.6% primarily due to:
    - Increase of \$47,000 or 10.4% in sales & marketing expense.
    - Decrease of \$21,000 or 2.7% in customer operations due to a decrease of \$16,000 or 0.06% in labor related to customer education expense that has decreased now that the fiber system is completed and all customers are converted.
  
- ❖ Interest Income increased \$3,000 or 66.4% due to slightly improved interest rates for investments accounts.
  
- ❖ Interest expense decreased \$266,000 or 40.8% mainly due to the write-off of debt issuance costs per GASB 65 in 2013.
  
- ❖ Other, net decreased \$18,000 or 3.5% primarily due to:
  - Decrease of \$97,000 or 61.5% in intergovernmental grant revenues due to substantial completion of grant projects.
  - Decrease in the allowance for funds used during construction (AFUDC) of \$25,000 or 64.6%.
  - Increase in miscellaneous revenues due to tax increment financing (TIF) revenues of \$80,000 or 24.8% due to increase payments received from the City of Cedar Falls.
  - Decrease in interest expense on affiliated note payable of \$16,000 or 21.3% due to the payment of principal thus reducing the outstanding note balance.

**2013 Compared to 2012**

- ❖ Total Operating Revenues increased \$1.4 million or 9.9% due to:
  - Increase in cable television operating revenues of \$753,000 or 9.5% due to an increase of 89 cable TV subscribers and an average 10.7% rate increase.
  - Increase in internet operating revenues of \$625,000 or 9.8% due to an increase of 543 internet subscribers.
  
- ❖ Total Operating Expenses increased \$1.7 million or 12.9% primarily due to:
  - Increase in depreciation expense increase of \$1.6 million or 71.4% due to the one-time write off of the coax cable system that was replaced by the fiber to the premise system.
  - Increase in services and administrative expenses of \$238,000 or 14.2% primarily due to:

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- Increase of \$166,000 or 16.1% in human resources due to an increase of approximately 51% in medical insurance premiums in the new medical plan year.
  - Increase in other general and administrative expenses of \$30,000 or 24.6% due to increases in wages and property insurance costs.
- ❖ Interest Income decreased \$2,000 or 30.6% due to low interest rates for investments and cash accounts.
  - ❖ Interest expense increased \$151,000 or 30.0% mainly due to the write-off of debt issuance costs per GASB 65 in 2013.
  - ❖ Other, net decreased \$254,000 or 32.5% primarily due to:
    - Decrease of \$324,000 or 67.2% in intergovernmental grant funds revenue due to substantial completion of grant projects.
    - Decrease in the allowance for funds used during construction (AFUDC) of \$25,000 or 39.2%.
    - Increase in miscellaneous revenues due to tax increment financing (TIF) revenues of \$138,000 or 52.1%.
    - Increase in interest expense on affiliated note payable of \$42,000 or 133.4%.

**Condensed Statement of Cash Flows**

	2014	2013	2012
Cash Flows from Operating Activities	\$ 5,440,258	\$ 4,531,644	\$ 4,079,707
Cash Flows from Noncapital Financing Activities	(844,061)	(867,476)	2,780,661
Cash Flows from Capital and Related Financing Activities	(3,180,398)	(4,344,385)	(9,022,682)
Cash Flows from Investing Activities	80,422	53,527	15,234
Net Change in Cash and Cash Equivalents	1,496,221	(626,690)	(2,147,080)
Cash and Cash Equivalents-Beginning of Year	1,974,748	2,601,438	4,748,518
<b>Cash and Cash Equivalents-End of Year</b>	<b>\$ 3,470,969</b>	<b>\$ 1,974,748</b>	<b>\$ 2,601,438</b>

**2014 Compared to 2013**

- ❖ Cash inflows from operations increased by \$909,000 or 20.1% due to:
  - Increase in retail sales due to rate increases for services of \$1.1 million or 7.0%.
  - Increase in payments made to suppliers of \$120,000 or 1.3%.
  - Increase in payments made to employees of \$62,000 or 3.5%.
- ❖ Cash outflows from noncapital financing activities decreased by \$23,000 or 2.7% due to:
  - Decrease of \$23,000 or 28.4% in interest paid on the note payable.

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- ❖ Cash outflows from capital and related financing activities decreased \$1.2 million or 26.8% and include:
  - Decrease in capital expenditures by \$1.7 million or 51.5%.
  - Decrease in receipts of intergovernmental grants by \$598,000 or 99.9%.
- ❖ Cash inflows from investing activities increased \$27,000 or 50.2% primarily related to the net proceeds of investment securities.

**2013 Compared to 2012**

- ❖ Cash inflows from operations increased by \$452,000 or 11.1% due to:
  - Increase in retail sales due to rate increases for services of \$1.6 million or 11.2%.
  - Increase in payments made to suppliers of \$1.0 million or 12.6%
- ❖ Cash flows from noncapital financing activities changed from an inflow to an outflow by \$3.6 million or 131.2% due to:
  - A \$3.0 million loan from the Gas Utility to the Communications Utility in 2012.
  - Increase of \$600,000 or 324.3% due to principal repayment of the annual installment of the loan to the Gas Utility.
- ❖ Cash outflows from capital and related financing activities decreased \$4.7 million or 51.9% and include:
  - Decrease in capital expenditures by \$4.0 million or 54.9%.
  - Increase in receipts of intergovernmental grants by \$529,000 or 751.7%.
- ❖ Cash inflows from investing activities increased \$38,000 or 251.4% primarily related to the net proceeds of investment securities.



## **FINANCIAL STATEMENTS**



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## MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Net Position

December 31, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	\$ 3,203,867	\$ 1,787,295
Cash and cash equivalents - restricted (note 2 and 3)	267,102	187,453
Investments - restricted (note 2 and 3)	1,541,000	1,615,000
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$18,389 in 2014 and \$22,229 in 2013	1,864,322	1,813,524
Interest	2,470	1,950
Government grants (note 11 and 12)	122,645	62,187
Other	136,659	162,612
Material and supplies	768,692	1,004,328
Prepayments and other	129,563	127,440
Total current assets	<u>8,036,320</u>	<u>6,761,789</u>
Noncurrent assets:		
Other (note 8)	178,785	582,139
Total noncurrent assets	<u>178,785</u>	<u>582,139</u>
Capital assets: (note 4)		
Capital assets, in service	34,233,300	34,049,194
Less accumulated depreciation	8,229,817	6,836,155
Capital assets, net	<u>26,003,483</u>	<u>27,213,039</u>
Construction work in progress	550,835	409,947
Total capital assets, net	<u>26,554,318</u>	<u>27,622,986</u>
Total assets	<u>\$ 34,769,423</u>	<u>\$ 34,966,914</u>

See accompanying notes to financial statements.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Net Position

December 31, 2014 and 2013

<u>Liabilities</u>	<u>2014</u>	<u>2013</u>
Current liabilities:		
Accounts payable	\$ 672,979	\$ 1,040,001
Accrued wages and vacation	214,411	341,707
Accrued interest	35,997	41,271
Other accrued liabilities	137,942	137,232
Current installments of note payable (note 5)	785,000	785,000
Current installments of long-term debt (note 5)	1,630,000	1,640,000
Total current liabilities	<u>3,476,329</u>	<u>3,985,211</u>
Noncurrent liabilities: (note 5)		
Other liabilities (note 5, 8 and 10)	444,522	808,038
Customer advances for construction	17,325	29,660
Total noncurrent liabilities	<u>461,847</u>	<u>837,698</u>
Long-term Debt:		
Long-term note payable, less current installments (note 5)	1,383,090	2,168,090
Long-term debt, less current installments (note 5)	10,883,772	12,559,351
Total long-term debt	<u>12,266,862</u>	<u>14,727,441</u>
Total liabilities	<u>16,205,038</u>	<u>19,550,350</u>
<u>Net Position</u>		
Net investment in capital assets	11,872,456	10,471,048
Restricted	1,748,349	1,717,341
Unrestricted	4,943,580	3,228,175
Total net position	<u>18,564,385</u>	<u>15,416,564</u>
Total liabilities and net position	<u>\$ 34,769,423</u>	<u>\$ 34,966,914</u>

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## MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

## Statements of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2013 and 2012

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Cable system revenues	\$ 9,043,534	\$ 8,666,930
Data services revenue	7,132,395	6,537,201
Network access revenue	196,079	223,267
Local private line revenue	300,420	256,211
Other operating Income	52,331	41,504
Total operating revenues	<u>16,724,759</u>	<u>15,725,113</u>
Operating expenses:		
Plant specific and programming	6,823,982	6,482,046
Depreciation	2,354,882	3,755,349
Plant nonspecific	1,364,336	1,530,108
Customer operations	748,919	769,686
Sales	496,883	449,980
Corporate operations (note 8)	1,915,698	1,921,483
Total operating expenses	<u>13,704,700</u>	<u>14,908,652</u>
Operating income	<u>3,020,059</u>	<u>816,461</u>
Non-operating revenues (expenses):		
Interest income	6,942	4,171
Miscellaneous revenue (expense), net (note 8)	490,737	402,064
Intergovernmental grant funds	60,857	158,246
Interest expense on long-term debt (note 5)	(386,804)	(652,923)
AFUDC (note 1)	13,787	38,978
Interest expense on affiliated note payable (note 5 and 8)	(57,757)	(73,430)
Total non-operating revenues (expenses)	<u>127,762</u>	<u>(122,894)</u>
Change in net position	3,147,821	693,567
Net position, beginning of year	<u>15,416,564</u>	<u>14,722,997</u>
Net position, end of year	<u>\$ 18,564,385</u>	<u>\$ 15,416,564</u>

## MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

## Statements of Cash Flows

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 16,718,202	\$ 15,625,757
Intergovernmental grants	-	1,913
Cash paid to suppliers	(9,475,855)	(9,355,484)
Cash paid to employees	(1,802,089)	(1,740,542)
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Net cash provided by (used in) operating activities	5,440,258	4,531,644
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Cash flows from noncapital financing activities:		
Payments on advance from affiliated utility	(785,000)	(785,000)
Interest paid on note payable	(59,061)	(82,476)
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Net cash provided by (used in) used in noncapital financing activities	(844,061)	(867,476)
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Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(1,640,000)	(1,595,000)
Interest payments on long-term debt	(436,353)	(482,188)
Proceeds from customer advances for construction	-	7,100
Refunds of customer advances for construction	(12,335)	(18,171)
Acquisition, construction and removal cost of capital assets	(1,605,625)	(3,308,941)
Proceeds from sale of capital assets	35,140	88,453
Reimbursement of utility construction costs	478,376	365,557
Intergovernmental grants	399	598,805
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Net cash provided by (used in) capital and related financing activities	(3,180,398)	(4,344,385)
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Cash flows from investing activities:		
Proceeds from maturities of investment securities	1,615,000	1,654,000
Purchase of investment securities	(1,541,000)	(1,615,000)
Interest received	6,422	14,527
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Net cash provided by (used in) investing activities	80,422	53,527
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Net increase (decrease) in cash and cash equivalents	1,496,221	(626,690)
Cash and cash equivalents, beginning of year	1,974,748	2,601,438
	<hr/>	<hr/>
Cash and cash equivalents, end of year (note 1)	<u>\$ 3,470,969</u>	<u>\$ 1,974,748</u>

See accompanying notes to financial statements.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Cash Flows, Continued  
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 3,020,059	\$ 816,461
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	2,354,882	3,755,349
Other income (expense), net	12,361	36,507
(Increase) decrease in accounts receivable	(24,845)	(136,257)
(Increase) decrease in materials and supplies	235,636	179,086
(Increase) decrease in prepayments and other	(2,123)	(5,299)
Increase (decrease) in accounts payable	(68,964)	(69,476)
Increase (decrease) in accrued wages and vacation	(127,296)	(22,048)
Increase (decrease) in other accrued liabilities	710	11,122
Increase (decrease) in other noncurrent liabilities	<u>39,838</u>	<u>(33,801)</u>
Net cash provided by operating activities	<u>\$ 5,440,258</u>	<u>\$ 4,531,644</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	13,787	38,978
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 3,203,867	\$ 1,787,295
Cash - Restricted	<u>267,102</u>	<u>187,453</u>
Cash and cash equivalents	<u>\$ 3,470,969</u>	<u>\$ 1,974,748</u>

See accompanying notes to financial statements.



## **NOTES TO FINANCIAL STATEMENTS**



MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(1) Summary of Significant Accounting Policies**

**Organization and Basis of Accounting**

The Municipal Communications Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls, Iowa. The Utility was formed to engage in the development and operation of a broadband communications system and the marketing of related services such as cable television and high-speed data communications. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Communications Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 47 – Telecommunication, Chapter I – Federal Communications Commission.

**Accounting Changes**

The GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities”* (“GASB 65”) was issued in March 2012 effective for periods beginning after December 15, 2012. The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Additionally, GASB 65 requires that debt issuance costs should be recognized as expense in the period incurred. The adoption of GASB 65 resulted in reclassification of items that were previously reported as assets and liabilities and the write-off of amounts previously reported as unamortized debt costs. In 2013, total net position decreased by \$219,103 which represents the expensing of prior years’ unamortized debt issuance costs.

The GASB has approved GASB Statement No. 66, *“Technical Corrections – 2012”* which is an amendment of GASB Statements No. 10 and No. 62; Statement No. 67, *“Financial Reporting for Pension Plans”* which is an amendment of GASB Statement No. 25; and Statement No. 68, *“Accounting and Financial Reporting for Pensions”* which is an amendment of GASB Statement No. 27. Application of these standards may restate portions of these financial statements.

**Capital Assets and Depreciation**

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 3.82% in 2014 and 3.01% in 2013. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure – 18 to 35 years and equipment – 5 to 20 years. The depreciation provision was equivalent to an overall composite rate of 6.8% and 10.2% of depreciable assets for 2014 and 2013, respectively.

Capital assets may be contributed to the utility by outside parties. As these assets are completed and placed in service, the utility reports the value of these contributions in the statement of revenue, expenses, and changes in net position.

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(1) **Summary of Significant Accounting Policies, Continued**

**Capital Assets and Depreciation, Continued**

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

**Cash and Investments**

Investments are stated at their fair value on the statement of net position. The Utility's investments stated at fair value reflect quoted market prices at the statement of net position date, for U.S. Treasury and government agency debt securities. The cost of certificates of deposit approximates fair value.

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December 31, 2014 and 2013 were \$0 and \$6,570, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recorded at the invoiced amount and are reported net of allowances.

**Inventories**

Materials and supplies are valued at average cost. Inventories are recorded as expenditures at the time individual inventory items are consumed.

**Bond Premiums and Discounts**

Debt premiums and discounts are amortized over the life of the bonds using the same percentage as the principal paid in a given year is to the total debt issued by issue.

**Net Position**

Net position represents the difference between assets and liabilities in the financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of government entities. Unrestricted net position consists of net positions that do not meet the definition of "net investment in capital assets" or "restricted".

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

**Operating Revenues and Expenses**

Operating revenues include revenues resulting from the sale of products and services. Operating expenses include expenses for plant specific and programming, depreciation, plant nonspecific, customer operations, sales, and corporate operations. Non-operating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities and investing activities.

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(1) **Summary of Significant Accounting Policies, Continued**

**Operating Revenues and Expenses, Continued**

Revenues are based on billing rates, which are applied to customers' consumption of communications services. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not billed at December 31, 2014 and 2013, were \$486,970 and \$467,223, respectively and are recorded in customer accounts receivable.

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Budgetary Information**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2014 and 2013, there were no budget amendments.

**Grants**

The Communications Utility has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

**Employee Benefits**

Employee benefits for accumulated sick leave hours are not accrued as they are not payable to employees. Vacation hours are earned monthly and are accrued and recorded as liabilities and unused vacation hours are paid upon termination of service. Accrued wages represents time employees worked during the calendar year.

The Communications Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay shall apply only to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date shall not be entitled to the benefit. As of December 31, 2014 and 2013 the accrued liability was \$226,406 and \$180,086, respectively.

**Customer Advances**

Customer Advances represent amounts paid to the utility by developers to extend service to new areas. As customers are added, advances will be refunded to the developers over the defined term of the agreement. Expired advances are recorded as other non-operating income in the year they expire.

**Reclassifications**

Reclassifications of prior year's amounts may have been made for comparability.

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**(2) Restricted Assets**

The composition of restricted assets as of December 31, 2014 and 2013 was as follows:

Current Assets – Restricted	Cash	2014 Investments	Total
Bond Reserve	\$ -	\$ 1,541,000	\$ 1,541,000
Bond and Interest	168,227	-	168,227
Self-Insured Medical and Dental	98,875	-	98,875
<b>Total Current Assets – Restricted</b>	<b>267,102</b>	<b>1,541,000</b>	<b>1,808,102</b>
Total restricted assets	\$ 267,102	\$ 1,541,000	\$ 1,808,102

Current Assets – Restricted	Cash	2013 Investments	Total
Bond Reserve	\$ -	\$ 1,615,000	\$ 1,615,000
Bond and Interest	173,029	-	173,029
Self-Insured Medical and Dental	14,424	-	14,424
<b>Total Current Assets – Restricted</b>	<b>187,453</b>	<b>1,615,000</b>	<b>1,802,453</b>
Total restricted assets	\$ 187,453	\$ 1,615,000	\$ 1,802,453

The monies deposited into the various accounts have been invested in interest-bearing securities as required by the bond resolution. Amounts deposited in the bond reserve and bond interest funds may only be used for the purpose of paying principal and interest on the bonds when due or such other purposes as set forth in the bond resolutions and as a result are classified as restricted. Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

**(3) Cash on Hand, Deposits, and Investments**

**Cash on Hand**

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2014 and 2013 was \$60.

**Deposits**

At December 31, 2014, the Utility's carrying amount of deposits, including \$1,541,000 of certificates of deposits and \$575,000 of money market accounts, was \$5,011,909. At December 31, 2013, the Utility's carrying amount of deposits, including \$1,615,000 of certificates of deposits and \$575,000 of money market accounts, was \$3,583,118.

**Investments**

The Utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United State government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

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**(3) Cash on Hand, Deposits, and Investments, Continued**

**Investments, Continued**

As of December 31, 2014, the Utility had no Federal Agency Obligations investments and maturities.

As of December 31, 2013, the Utility had no Federal Agency Obligations investments and maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$0 and \$6,570 at December 31, 2014 and 2013, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

**Interest Rate Risk**

The Utility's investment policy limits the investments of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

**Credit Risk**

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2014 or 2013. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

**Concentration of Credit Risk**

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2014 or 2013.

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are covered by federal depository insurance up to the insured limits or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

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**(3) Cash on Hand, Deposits, and Investments, Continued**

**Custodial Credit Risk – Investments, Continued**

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the statement of net position follows:

	<b>2014</b>	<b>2013</b>
Cash on hand	\$ 60	\$ 60
Carrying amount of deposits	5,011,909	3,583,118
Carrying amount of federal agency obligations	-	-
Carrying amount of Iowa Agency Investment Trust	-	6,570
Total	\$ 5,011,969	\$ 3,589,748
Current Assets		
Cash and cash equivalents - unrestricted	\$ 3,203,867	\$ 1,787,295
Cash and cash equivalents - restricted	267,102	187,453
Restricted investments	1,541,000	1,615,000
Total	\$ 5,011,969	\$ 3,589,748

Of the unrestricted cash and investments listed above, the Board of Trustees of the Municipal Communications Utility has made no reserve fund designations.

**(4) Capital Assets**

A summary of capital assets activity for the years ended December 31, 2014 and 2013 follows:

	<b>2014</b>	<b>Beginning Balance</b>	<b>Additions and Transfers In</b>	<b>Deletions and Transfers Out</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:					
Land		\$ 2,177	\$ -	\$ -	\$ 2,177
Construction, work-in-progress		409,947	1,313,563	1,172,675	550,835
Total capital assets, not being depreciated		412,124	1,313,563	1,172,675	553,012
Capital assets, being depreciated:					
Infrastructure		16,458,088	469,022	117,153	16,809,957
Equipment		17,588,929	704,624	872,387	17,421,166
Total capital assets, being depreciated		34,047,017	1,173,646	989,540	34,231,123
Less accumulated depreciation		6,836,155	2,392,255	998,593	8,229,817
Total capital assets, being depreciated, net		27,210,862	(1,218,609)	(9,053)	26,001,306
Capital assets, net		\$ 27,622,986	\$ 94,954	\$ 1,163,622	\$ 26,554,318

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**(4) Capital Assets, Continued**

2013	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ -	\$ 2,177	\$ -	\$ 2,177
Construction, work-in-progress	1,410,409	2,129,201	3,129,663	409,947
Total capital assets, not being depreciated	1,410,409	2,131,378	3,129,663	412,124
Capital assets, being depreciated:				
Infrastructure	17,205,059	1,681,861	2,428,832	16,458,088
Equipment	18,042,813	1,445,625	1,899,509	17,588,929
Total capital assets, being depreciated	35,247,872	3,127,486	4,328,341	34,047,017
Less accumulated depreciation	7,431,058	3,843,993	4,438,896	6,836,155
Total capital assets, being depreciated, net	27,816,814	(716,507)	(110,555)	27,210,862
Capital assets, net	\$ 29,227,223	\$ 1,414,871	\$ 3,019,108	\$ 27,622,986

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**(5) Noncurrent Liabilities**

Noncurrent liabilities activity for the years ended December 31, 2014 and 2013 was as follows:

2014	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation capital loan notes:					
Series 2009B	\$ 1,440,000	\$ -	\$ 165,000	\$ 1,275,000	\$ 105,000
Note payable-Municipal Electric Utility	553,090	-	185,000	368,090	185,000
Note payable-Municipal Gas Utility	2,400,000	-	600,000	1,800,000	600,000
Capital loan Notes:					
Series 2009	2,310,000	-	355,000	1,955,000	165,000
Series 2010	10,050,000	-	1,120,000	8,930,000	1,360,000
Unamortized premium	405,002	-	46,375	358,627	-
Unamortized discount	(5,651)	-	(796)	(4,855)	-
	<u>17,152,441</u>	-	<u>2,470,579</u>	<u>14,681,862</u>	<u>2,415,000</u>
Current installments of long-term debt	(2,425,000)	10,000	-	(2,415,000)	
Long-term debt, less current installments	<u>14,727,441</u>	<u>10,000</u>	<u>2,470,579</u>	<u>12,266,862</u>	
Customer advances for construction	29,660	-	12,335	17,325	
Other liabilities	582,139	-	403,354	178,785	
Accrued severance and OPEB	225,899	74,368	34,530	265,737	
Noncurrent liabilities	<u>837,698</u>	<u>74,368</u>	<u>450,219</u>	<u>461,847</u>	
Total noncurrent liabilities	<u>\$ 15,565,139</u>	<u>\$ 84,368</u>	<u>\$ 2,920,798</u>	<u>\$ 12,728,709</u>	

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**(5) Noncurrent Liabilities, Continued**

2013	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation capital loan notes:					
Series 2009B	\$ 1,595,000	\$ -	\$ 155,000	\$ 1,440,000	\$ 165,000
Note payable-Municipal Electric Utility	738,090	-	185,000	553,090	185,000
Note payable-Municipal Gas Utility	3,000,000	-	600,000	2,400,000	600,000
Capital loan Notes:					
Series 2009	2,655,000	-	345,000	2,310,000	355,000
Series 2010	11,145,000	-	1,095,000	10,050,000	1,120,000
Unamortized premium	450,316	-	45,314	405,002	-
Unamortized discount	(131,295)	-	(125,644)	(5,651)	-
	<u>19,452,111</u>	-	<u>2,299,670</u>	<u>17,152,441</u>	<u>2,425,000</u>
Current installments of long-term debt	(2,380,000)	(45,000)	-	(2,425,000)	
Long-term debt, less current installments	<u>17,072,111</u>	<u>(45,000)</u>	<u>2,299,670</u>	<u>14,727,441</u>	
Customer advances for construction	40,731	7,100	18,171	29,660	
Other liabilities	874,313	31,064	323,237	582,139	
Accrued severance and OPEB	259,700	64,412	98,213	225,899	
Noncurrent liabilities	<u>1,174,744</u>	<u>102,576</u>	<u>439,621</u>	<u>837,698</u>	
Total noncurrent liabilities	<u>\$ 18,246,855</u>	<u>\$ 57,576</u>	<u>\$ 2,739,291</u>	<u>\$ 15,565,139</u>	

All general obligation (G.O.) bonds and notes have been issued by the City on behalf of the Utility. The G.O. bonds and notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. In 2009, the City issued \$2,320,000 in General Obligation Capital Loan Notes, Series 2009B. Interest rates throughout the term of the bonds are in a range between .75% and 3.8%. Interest rates over the remaining term of the bonds are in a range between 2.40% and 3.8%. The proceeds of the Series 2009B bonds were used for the redemption of the outstanding Series 1998, Series 1999, and Series 2002 general obligation bonds to reduce total future debt service payments and the funding of qualified capital expenditures. The total debt service obligations of the bonds are as follows:

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**(5) Noncurrent Liabilities, Continued**

Year	General Obligation Capital Loan Notes, Series 2009B	
	December 1 Principal Amount	2.40% - 3.80% Interest Amount
2015	\$ 105,000	\$ 41,860
2016	110,000	39,340
2017	115,000	36,370
2018	120,000	33,035
2019	125,000	29,315
2020 – 2024	700,000	79,015
	<u>\$ 1,275,000</u>	<u>\$ 258,935</u>

The Series 2009 and 2010 revenue capital loan notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 3.0% and 4.30%. The debt is secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

Year	Series 2009 Communications Revenue Capital Loan Notes		Series 2010 Communications Revenue Capital Loan Notes	
	December 1	3.00% - 4.30%	December 1	3.00% Interest
	Principal Amount	Interest Amount	Principal Amount	Amount
2015	\$ 165,000	\$ 78,960	\$ 1,360,000	\$ 267,900
2016	170,000	74,010	1,400,000	227,100
2017	175,000	67,210	1,455,000	185,100
2018	180,000	60,210	1,510,000	141,450
2019	190,000	53,010	1,570,000	96,150
2020 – 2024	1,075,000	141,403	1,635,000	49,050
	<u>\$ 1,955,000</u>	<u>\$ 474,803</u>	<u>\$ 8,930,000</u>	<u>\$ 966,750</u>

In 2010, the Utility issued \$13,130,000 Communications Utility Revenue Capital Loan Notes, Series 2010 for the purpose of paying costs of improvements and extensions to the Utility. The notes mature in 2020 and interest rates throughout the term of the notes are 3.00%.

In 2009, the Utility issued \$3,640,000 Communications Utility Revenue Capital Loan Notes, Series 2009. The proceeds of the notes were used for the redemption of the outstanding Series 1999 revenue bonds to reduce total future debt service payments and the funding of other qualified capital expenditures.

The bond resolutions provides certain covenants relating to the collection, segregation and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

All Utility revenues net of specified operating expenses are pledged as security of the above revenue capital loan notes until the notes are defeased. Principal and interest paid for 2014 and 2013 were \$1,866,110 and \$1,874,310, respectively. Total customer gross revenues as defined for the same periods were \$16,672,428 and \$15,683,609. Annual principal and interest payments are expected to require 8.31% of gross revenues on average.

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**(5) Noncurrent Liabilities, Continued**

The Board of Trustees of the Municipal Electric Utility authorized a loan bearing interest at 3.1% to be extended to the Utility under Resolutions No. 2759, 2840, 2939, 2994, and 3086. The December 31, 2014 and 2013 outstanding balances on this loan were \$368,090 and \$553,090, respectively. In January 2012 the Board of Trustees of the Municipal Electric Utility adopted resolution No. 5089 reducing the annual interest rate from 3.1% to 2.0% to be more reflective of the investment and borrowing markets. In January 2013 the Board of Trustees of the Municipal Electric Utility adopted resolution No. 5259 approving the continuation of the annual interest rate at 2.0%. The note requires annual principal payments, due December 1, and semiannual interest payments, due January and July 1. In January 2012, The Board of Trustees of the Municipal Gas Utility authorized a loan of \$3,000,000 to the Utility under Resolutions No. 5077, bearing interest at 2.0%. In January 2014 the Board of Trustees of the Municipal Gas Utility adopted resolution No. 5574 approving the continuation of the annual rate at 2.0%. The December 31, 2014 and 2013 outstanding balances on this loan were \$1,800,000 and \$2,400,000 respectively. Total debt service requirements are as follows:

<b>Notes Payable to Municipal Electric Utility</b>			<b>Notes Payable to Municipal Gas Utility</b>		
Year	Principal Amount	Interest Amount	Year	Principal Amount	Interest Amount
2015	185,000	7,048	2015	600,000	36,000
2016	183,090	3,351	2016	600,000	24,000
2017	-	-	2017	600,000	12,000
	<b>\$ 368,090</b>	<b>\$ 10,399</b>		<b>\$ 1,800,000</b>	<b>\$ 72,000</b>

**(6) Pension and Retirement Benefits**

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll through June 30, 2014. Beginning July 1, 2014 plan members are required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2014, 2013, and 2012, were \$263,284, \$258,040, and \$251,418, respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa, Chapter 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits.

**(7) Income Tax Status**

The Utility is exempt from federal and state income taxes under the applicable tax codes.

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**(8) Related Party Transactions**

The Utility provides communications service to the City. Operating revenues from the service provided amounted to \$44,720 and \$52,445 in 2014 and 2013, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2014 and 2013 to reimburse the Communications Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$178,785 and \$582,139 as of December 31, 2014 and 2013, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting other liability at December 31, 2014 and 2013 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$403,354 and \$323,237 in 2014 and 2013, respectively and is recorded as miscellaneous non-operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

Outstanding loan balances from the Municipal Electric Utility are \$368,090, and \$553,090 as of December 31, 2014, and 2013, respectively. Interest accrues on the loan at 2.0%, and is paid semi-annually during December and June. Annual principal payments continue through 2016 (see note 5). Accrued interest payable was \$612 and \$919 at December 31, 2014 and 2013, respectively. Interest expense for the years ended December 31, 2014 and 2013 was \$10,754 and \$14,427 respectively.

Outstanding loan balances from the Municipal Gas Utility are \$1,800,000, and \$2,400,000 as of December 31, 2014, and 2013, respectively. Interest accrues on the loan at 2.0%, and is paid semi-annually during December and June. Annual principal payments continue through 2017 (see note 5). Accrued interest payable was \$2,992 and \$3,989 at December 31, 2014 and 2013, respectively. Interest expense for the years ended December 31, 2014 and 2013 was \$47,003 and \$59,003 respectively.

See note 5 for description of debt with the City. The interest expense related to this debt to the City was \$44,961 and \$47,658 for the years ended December 31, 2014 and 2013, respectively. The accrued interest related to this debt was \$3,488 and \$3,770 at December 31, 2014 and 2013, respectively.

**(9) Risk Management**

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks.

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2014 plan year for aggregate medical claims exceeding \$2.9 million.

Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. The estimate is based on a percentage of claims unpaid at year end

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(9) Risk Management, Continued**

considering the Utilities claims payment history. Changes in the balances of the Utilities liabilities during the past two years are as follows:

	<b>2014</b>	<b>2013</b>
Unpaid claims and IBNR, beginning of year	\$ 325,000	\$ 194,000
Current year costs including IBNR	2,659,707	3,328,303
Claims paid	(2,832,707)	(3,197,303)
Unpaid claims and IBNR, end of year	<u>\$ 152,000</u>	<u>\$ 325,000</u>

The Communications Utility has recorded \$27,360 and \$48,750 in accounts payable for its share of these unpaid claims at December 31, 2014 and 2013, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 519 governmental entities participate in the Association as of June 30, 2014. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Cash and cash equivalents and investments	\$ 76,450,260	\$ 69,938,392
Receivables	1,730,052	1,045,398
Other assets	828,246	853,067
Total assets	<u>\$ 79,008,558</u>	<u>\$ 71,836,857</u>
Total liabilities	\$ 28,860,654	\$ 27,709,153
Total equity	50,147,904	44,127,704
Total liabilities and equity	<u>\$ 79,008,558</u>	<u>\$ 71,836,857</u>
Total revenue	\$ 10,493,284	\$ 9,069,064
Total expenses	4,473,084	4,256,529
Net increase in equity	<u>\$ 6,020,200</u>	<u>\$ 4,812,535</u>

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from coverage in the prior year.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
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**(10) Other Post-Employment Benefits (OPEB)**

**Plan Description**

The Utilities administers a single-employer defined benefit medical health care plan (The Plan) for all four utilities. The plan provides self-insured medical, vision, and prescription drug coverage, and to all active and retired employees and their eligible dependents. Eligible retirees receive health care coverage through the same plans that are available for active employees. To be eligible for these benefits employees at their retirement date must be a minimum of 55 years old, have been employed for the preceding four years, and be enrolled in the plan. Plan contributions are required from retirees based on an amount equal to the full cost of active members. These medical benefits terminate upon attaining Medicare eligibility. In addition, the Plan provides a \$5,000 in life insurance benefits to all retirees who elect this coverage and agree to pay a contribution for this coverage.

**Funding Policy**

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2014 and 2013, the Utilities contributed \$124,345 and \$333,282, respectively and retirees receiving benefits contributed \$105,738 and \$121,230, respectively, through their required contributions.

**Annual OPEB and Net OPEB Obligations**

The Plan's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of General Accounting Standards Board (GASB) Statement No 45. This standard was implemented in 2008. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following schedule shows the components of the annual OPEB expense for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	<b>2014</b>	<b>2013</b>
Annual required contribution	\$ 73,136	\$ 73,136
Interest on net OPEB obligation	53,435	53,435
Adjustment to annual required contribution	(41,179)	(41,179)
Annual OPEB expense	85,392	85,392
Contributions and payments made	18,607	212,052
Increase (Decrease) in net OPEB obligation	\$ 66,785	\$ (126,660)
Net OPEB obligation, December 31, 2013	962,144	1,088,804
Net OPEB obligation, December 31, 2014	\$ 1,028,929	\$ 962,144

The Communications Utility's share of the December 31, 2014 and 2013 Net OPEB obligation is \$39,330 and \$45,814, respectively.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(10) Other Post-Employment Benefits (OPEB), Continued**

**Annual OPEB and Net OPEB Obligations, Continued**

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and net OPEB obligation for the year ended December 31, 2014, 2013 and 2012:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	\$ 85,392	21.79%	\$ 1,028,929
December 31, 2013	\$ 85,392	248.33%	\$ 962,144
December 31, 2012	\$ 85,392	76.44%	\$ 1,088,804

**Funded Status and Funding Progress**

As of January 1, 2012, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$908,961. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by The Plan and was \$13,921,796 in 2014 and the ratio using the January 1, 2012 actuarial valuation UAAL to the covered payroll was 6.5%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. There are no plans to fund The Plan at this time.

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

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2012
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	9.5% declining 0.5% annually to 5%
Projected Salary Increases	4.0%

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2014 and 2013

**(10) Other Post-Employment Benefits (OPEB), Continued**

**Funded Status and Funding Progress, Continued**

The schedule of funding progress, presented as Required Supplemental Information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

**(11) Commitments and Contingencies**

As of December 31, 2014, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$1,556,000 and an estimated time frame to complete through 2015.

**(12) Subsequent Events**

Subsequent events for the Utility have been evaluated through March 27, 2015, which is the date that the financial statements were available to be issued.

Effective January 2, 2015, the Board of Trustees approved the following rate increases per month per subscriber: \$3.00 or 15.0%, for Basic Lifeline; \$6.00 or 14.3%, for Digital Premier, an average of \$1.25, or 10.7% for premium channels; \$2.00 or 3.6% for FiberHome; \$2.00, or 2.7%, for FiberHome Plus; \$2.00 or 2.0% for FiberHome Ultra; \$2.00 or 20.0% for the Data Multi-Service Discount. FiberHome Extreme will be eliminated as a service in 2015 and FiberHome Quantum will decrease by \$128.00 per month and FiberOffice will decrease by \$55.00 per month.

In January 2015 the Board of Trustees adopted resolution No. 5574 approving the continuation of the annual interest rate on the notes between the Communications Utility and the Electric Utility and the Gas Utility at 2.0% as reflective of the investment and borrowing markets.

**Municipal Electric, Gas, Water and Communications Utilities  
Of the City of Cedar Falls, Iowa  
Required Supplemental Information  
December 31, 2014, 2013 and 2012**

**Schedule of Funding Progress for the Other  
Post-Employment Benefits Plan  
Unaudited**

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial		Funded Ratio	Covered Payroll	UAAAL as a Percentage of Covered Payroll
			Accrued Liability (AAL)	Unfunded AAL (UAAAL)			
2014	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,921,796	6.5%
2013	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,400,936	6.8%
2012	January 1, 2012	\$ -	\$908,961	\$908,961	0.0%	\$13,133,950	6.9%
2011	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,936,933	22.9%
2010	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,152,946	24.4%
2009	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$11,587,064	25.6%
2008	January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.0%	\$11,162,424	30.8%



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*

Independent Auditors' Report

To the Board of Trustees  
Cedar Falls Utilities – Municipal Communications Utility

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Communications Utility of the City of Cedar Falls, Iowa (Municipal Communications Utility) as of and for the year ended December 31, 2014, and have issued our report thereon dated March 27, 2015.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Municipal Communications Utility'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 Municipal Communications Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipal Communications Utility'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 entity'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Trustees  
Cedar Falls Utilities – Municipal Communications Utility

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Municipal Communications Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

***Purpose of this Report***

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
March 27, 2015

**THE MUNICIPAL COMMUNICATIONS UTILITY  
OF THE CITY OF CEDAR FALLS, IOWA**

SCHEDULE OF FINDINGS RELATED TO GOVERNMENT AUDITING STANDARDS AND  
REQUIRED STATUTORY REPORTING  
Year Ended December 31, 2014

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**FINDINGS RELATED TO REQUIRED STATUTORY REPORTING**

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- A-02      Official Depositories – A resolution naming official depositories has been approved by Municipal Communications Utility (utility). The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2014.
- B-02      Certified Budget – Disbursements during the year ended December 31, 2014, did not exceed the amounts budgeted.
- C-02      Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- D-02      Travel Expense – No disbursements of utility money for travel expenses of spouses of utility officials or employees were noted.
- E-02      Business Transactions – No business transactions between the utility and utility officials or employees were noted.
- F-02      Bond Coverage – Surety bond coverage of utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- G-02      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- H-02      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utility's investment policy were noted.
- I-02      Revenue Bonds – The utility has complied with all provisions of bond covenants. All required payments to the sinking, reserve and improvement funds were made.
- J-02      Code of Iowa Communications Legislation Requirements – Nothing came to our attention that the utility was not in compliance with the requirements of the Code of Iowa Section 388.10 *Municipal Utility Providing Telecommunications Services* regarding the subsidization of telecommunications operations by the electric, water or gas utilities.
- K-02      The audit did not identify any material weaknesses in controls.