



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, 2015 and 2014**

THIS PAGE INTENTIONALLY LEFT BLANK



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, 2015 and 2014**

THIS PAGE INTENTIONALLY LEFT BLANK

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

Table of Contents

Independent Auditors’ Report

Management Discussion and Analysis1

Statements of Net Position9

Statements of Revenues, Expenses and Changes in Net Position11

Statements of Cash Flows12

Notes to Financial Statements14

Schedule of the Utility’s Proportionate Share of the Net Pension Liability – Iowa Public
Employee’s Retirement System.....37

Schedule of Funding Progress for the Other Post Employment
Benefits Plan.....41

Independent Auditors’ 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 Standards42

Schedule of Findings Related to Government Auditing Standards and Required
Statutory Report.....44

THIS PAGE INTENTIONALLY LEFT BLANK



Independent Auditor's 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 the 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, 2015, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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, 2015, and the respective changes in financial position and, where, applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 6 to the financial statements, the Municipal Electric Utility has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of January 1, 2014. 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, Schedule of Utilities Proportionate Share of the Net Pension Liability, Schedule of Utilities Contributions, and Schedule of Funding Progress for the Other Post-Employment Benefits Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

Restatement of Prior Year Financial Statements

The financial statements of the Municipal Electric Utility as of December 31, 2014, were audited by other auditors, whose report dated March 27, 2015, expressed an unmodified opinion on those statements. As part of our audit of the 2015 financial statements, we also audited adjustments described in Note 1 that were applied to restate the 2014 financial statements for the retroactive implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2014 financial statements of the Municipal Electric Utility other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 26, 2016 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Electric Utility's internal control over financial reporting and compliance.



Dubuque, Iowa
May 26, 2016

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, 2015 and 2014
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, 2015 and 2014. 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

2015 was warmer than 2014, especially through the fall and into December, resulting in decreased retail usage of nearly 17 million kWh or 3.4%. Wholesale sales also weakened due to warmer weather and a decrease in market prices resulting in a decrease of nearly 30 million kWh or 7.2%. Due to the decrease in wholesale market prices and no rate increase, the Utility experienced a \$9.2 million or 15.6% decrease in operating revenues. Operating expenses decreased \$8.0 million or 15.1% due to an \$8.7 million, or 31.3% decrease in fuel and purchased power costs from lower wholesale market prices. 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 deferred outflows and liabilities and deferred inflows 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
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2015 and 2014
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

	2015	2014 <i>(Restated)</i>	2013 <i>(Not Restated)</i>
Capital assets, net	\$ 156,953,311	\$ 155,670,376	\$ 142,466,988
Other noncurrent assets	18,608,890	21,346,665	13,804,392
Current assets	62,995,778	63,302,051	63,796,622
Total assets	238,557,979	240,319,092	220,068,002
Deferred outflows of resources	2,037,325	834,175	295,968
Total assets and deferred outflows of resources	240,595,304	241,153,267	220,363,970
Long-term debt	40,229,717	42,830,805	46,224,434
Current liabilities	9,949,417	13,123,896	11,777,201
Noncurrent liabilities	8,399,116	7,147,815	2,749,418
Total liabilities	58,578,250	63,102,516	60,751,053
Deferred inflows of resources	19,878,421	22,206,605	13,162,185
Total liabilities and deferred inflows of resources	78,456,671	85,309,121	73,913,238
Net investment in capital assets	114,243,153	109,715,942	93,557,553
Restricted	7,000,449	7,031,590	6,623,104
Unrestricted	40,895,031	39,096,614	46,270,075
Total net position	\$ 162,138,633	\$ 155,844,146	\$ 146,450,732

2015 Compared to 2014

- ❖ Total assets and deferred outflows of resources decreased \$558,000 or 0.2% primarily due to:
 - Net capital assets increasing \$1.3 million or 0.8% due to generation upgrade projects, transmission improvements, and overhead to underground distribution system conversions. Net capital assets represent 65.8% of total assets for the Utility in 2015.
 - Decrease in other noncurrent assets of \$2.7 million or 12.8% due to:
 - Decrease in tax increment financing (TIF) receivable of \$2 million or 9.8% as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.
 - Decrease of noncurrent restricted investments of \$500,000.
 - Decrease in note receivable of \$183,000 or 100.0%.
 - Decrease in current assets of \$306,000 or 0.5% primarily due to:
 - Increase in cash and investments of \$4.5 million or 9.6%.
 - Decrease in customer accounts receivable of \$1.1 million or 23.3% due to a decrease in cost recoverable through fuel adjustment from a decrease in market prices in 2015.
 - Decrease in governmental grants receivable of \$3.8 million or 97.4% due to finalization and reimbursement of grant projects.

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, 2015 and 2014
Unaudited

- Increase in fuel inventory of oil, coal and allowances of \$416,000 or 9.5% at the Western Units.
- Increase in materials and supplies inventory of \$184,000 or 11.2%.
- Increase in deferred outflows of resources of \$1.2 million or 144.2% due to:
 - Increase of \$493,000 or 185.2% in the amortization of the loss on reacquired debt due to the advanced refunding of series 2005 and 2007 debt with series 2015 debt.
 - Increase in deferred outflows of resources of \$710,000 or 125.0% due to application of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
- ❖ Total liabilities and deferred inflows of resources decreased \$6.9 million or 8.0% primarily due to:
 - Decrease of \$2.6 million or 6.1% in long-term debt less current installments primarily due to the advanced refunding of the 2005 and 2007 Electric Revenue Bonds through the issuance of the 2015 Electric Revenue Refunding Capital Loan Notes plus amortization of debt discounts and premiums.
 - Decrease in current liabilities of \$3.2 million or 24.2% as a result of:
 - Decrease in accounts payable of \$3 million or 53.8% primarily due to a decrease in inventory due to completion of large governmental grant projects.
 - Decrease of \$150,000 or 4.4% in current installments of long term debt.
 - Increase in noncurrent liabilities of \$1.3 million or 17.0% as a result of:
 - Increase in net pension liability, required by The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**, of \$747,000 or 17.7%.
 - Increase in other liabilities of \$446,000 or 15.9% mainly due to an increase in local and western unit landfill closure liability of \$380,000 or 30.3%.
 - Decrease in deferred inflows of resources of \$2.3 million or 10.5% due to:
 - Decrease in pension related deferred inflows of \$315,000 or 17.9% due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
 - Decrease of \$2 million or 9.8% in the Tax Increment Financing (TIF) deferred inflow as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.

Additional detail on the change in capital assets and long-term debt can be found in Notes 4 and 5, respectively. Additional detail on GASB No. 68 accounting for pensions in Note 6.

2014 Compared to 2013

- ❖ Total assets and deferred outflows of resources increased \$20.8 million or 9.4% 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.

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, 2015 and 2014
Unaudited

- Decrease in note receivable of \$185,000 or 50.3%.
- Decrease in current assets of \$495,000 or 0.8% primarily due to:
 - Decrease in customer accounts receivable of \$1.6 million or 24.2% mainly due to a 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%.
- Increase in deferred outflows of resources of \$538,000 or 181.8% due to:
 - Decrease of \$30,000 or 10.0% due to the annual amortization of the loss on reacquired debt.
 - Increase in deferred outflows of resources of \$568,000 or 100.0% due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of 2014 financial statements.
- ❖ Total liabilities and deferred inflows of resources increased \$11.4 million or 15.4% primarily due to:
 - Decrease of \$3.4 million or 7.3% in long-term debt less current installments 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 of 108.9%.
 - Increase of \$705,000 or 26.3% in current installments of long term debt.
 - Increase in noncurrent liabilities of \$4.4 million or 160.0% mainly due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of 2014 financial statements.
 - Increase in deferred inflows of resources of \$9 million or 68.7% due to:
 - Increase of the Tax Increment Financing (TIF) deferred inflow of \$7.3 million or 55.3% as a result of the City of Cedar Falls adopting resolutions increasing TIF debt owed to the Electric Utility for certified expenditures.
 - Increase in pension related deferred inflows of \$1.8 million or 100.0% due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of 2014 financial statements.

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

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, 2015 and 2014
Unaudited

Condensed Revenues, Expenses and Changes in Net Position

	2015	2014 <i>(Restated)</i>	2013 <i>(Not Restated)</i>
Sales of electricity	\$ 46,379,385	\$ 56,165,288	\$ 52,473,648
Other	3,362,536	2,787,207	2,646,820
Total operating revenues	<u>49,741,921</u>	<u>58,952,495</u>	<u>55,120,468</u>
Fuel and purchased power	19,189,385	27,917,524	23,790,442
Other, Transmission and Distribution	10,774,519	11,027,624	10,225,877
Depreciation and amortization	4,596,566	4,183,539	3,530,577
Services and administrative	10,601,216	10,093,655	9,386,352
Total operating expenses	<u>45,161,686</u>	<u>53,222,342</u>	<u>46,933,248</u>
Operating Income	<u>4,580,235</u>	<u>5,730,153</u>	<u>8,187,220</u>
Interest income	61,075	69,605	122,424
Other, net	1,653,177	9,322,454	1,860,677
Total non-operating revenues (expenses)	<u>1,714,252</u>	<u>9,392,059</u>	<u>1,983,101</u>
Change in net position	6,294,487	15,122,212	10,170,321
Net position, beginning of year	<u>155,844,146</u>	<u>140,721,934</u>	<u>136,280,411</u>
Net position, end of year	<u><u>\$162,138,633</u></u>	<u><u>\$155,844,146</u></u>	<u><u>\$146,450,732</u></u>

2015 Compared to 2014

- ❖ Total operating revenues decreased \$9.2 million or 15.6% due to:
 - Decrease in electric sales of \$5.1 million or 12.0% due to lower energy prices from a decrease of \$5 million or 29.5% in the energy costs adjustment (ECA) which is passed through to revenue and a decrease in retail kWh usage of nearly 17,000,000 or 3.4%.
 - Decrease in wholesale revenues of \$4.7 million or 34.6% due to decreased market prices and a decrease of 30,000,000 kWh or 7.2% in wholesale unit sales.
 - Increase in other operating revenues of \$575,000 or 20.6% as a result of increases in Neal 4 rental income, interdepartmental rents, grant revenues and transmission revenues.

- ❖ Total operating expenses decreased \$8.1 million or 15.1% due to:
 - Decrease in fuel and purchased power costs of \$8.7 million or 31.3%.
 - Fuel costs decreased \$3.3 million or 35.6% due to Streeter Station and the Western Units generating less at lower fuel costs.
 - Decrease of \$5.5 million or 29.1% in purchased power costs due to lower 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.
 - Decrease of \$278,000 or 11.0% in distribution costs from a reduction in meter socket replacements for the overhead to underground distribution conversion project.
 - Increase of \$413,000 or 9.9% in depreciation & amortization expense due to the completion of capital asset projects placed into service in 2014.
 - Increase in services and administrative expenses of \$508,000 or 5.0% due to:
 - Increase in customer service and information expense of \$187,000 or 24.1% due to an increase in customer incentive expenses.

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, 2015 and 2014
Unaudited

- Increase in administrative & general expenses of \$305,000 or 3.9% due to:
 - Decrease in outside services of \$188,000 or 38.4% mostly due to a decrease in legal fees related to arbitration costs of the bag house litigation that was settled in late 2014.
 - Increase in employee insurance & benefits of \$498,000 or 30.1% due to a reallocation of health insurance that increased claims expense for the Utility and an increase in employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.

- ❖ Interest Income decreased \$9,000 or 12.3% due to a reduction in the amount of investments held throughout 2015.

- ❖ Other, net decreased \$7.7 million or 82.3% primarily due to:
 - Decrease in miscellaneous net revenues of \$4 million or 96.6% primarily resulting from receipt of a \$3.6 million award in settlement of litigation over the design of Streeter Station’s bag house received in 2014.
 - Decrease in governmental grant revenues of \$4.7 million or 82.7% due to the completion of the wind mitigation project replacing some overhead distribution lines.
 - Increase in interest expense on long term debt of \$107,000 or 5.5% due to the advanced refunding of the series 2005 and 2007 debt with series 2015 debt.
 - Increase of \$1.1 million or 100.5% in contributed capital mainly due to an increase of \$1 million or 100.3% in TIF revenues received from the City of Cedar Falls for certified projects.

2014 Compared to 2013

- ❖ Total operating revenues increased \$3.8 million or 7.0% due to:
 - Increase in electric sales revenues of \$2.9 million or 7.2% due to higher energy prices from an increase of \$3.5 million or 26.5% 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%.
 - Increase in wholesale revenues of \$831,000 or 6.6% due to increased market prices and an increase of 24,000,000 kWh or 6.1% 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 \$6.3 million or 13.4% 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.

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, 2015 and 2014
Unaudited

- Increase of \$653,000 or 18.5% in depreciation & amortization expense due to the completion of capital asset projects placed into service in 2013.
 - Increase in services and administrative expenses of \$707,000 or 7.5% due to:
 - Increase in administrative & general expenses of \$705,000 or 10.0% 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.
 - Decrease in employee insurance & benefits of \$635,000 or 27.8% due to:
 - Increase in employee insurance & benefits of \$310,000 or 13.6% due to a decrease in medical claims.
 - Decrease in IPERS Unfunded Pension expense of \$325,000 or 100.0% implementation of The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”*** in 2015 and restatement of the 2014 financial statements.
 - 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 \$7.4 million or 373.6% primarily due to:
 - Increase in miscellaneous net revenues of \$3.9 million or 1867.6% resulting from receipt of a \$3.6 million award in settlement of litigation over the design of the Streeter Station 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 was 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%.
 - Decrease of \$668,000 or 36.9% in contributed capital mainly due to a decrease of \$639,000 or 38.9% in TIF revenues received from the City of Cedar Falls for certified projects.

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, 2015 and 2014
Unaudited

Condensed Statement of Cash Flows

	2015	2014 <i>(Restated)</i>	2013 <i>(Not Restated)</i>
Cash Flows from Operating Activities	\$ 9,544,239	\$13,350,001	\$10,385,413
Cash Flows from Noncapital Financing Activities	(403)	(204)	(602)
Cash Flows from Capital and Related Financing Activities	(5,776,639)	(10,887,831)	(8,880,970)
Cash Flows from Investing Activities	2,546,426	932,931	5,354,539
Net Change in Cash and Cash Equivalents	6,313,623	3,394,897	6,858,380
Cash and Cash Equivalents-Beginning of Year	38,809,762	35,414,865	28,556,485
Cash and Cash Equivalents-End of Year	<u>\$45,123,385</u>	<u>\$38,809,762</u>	<u>\$35,414,865</u>

2015 Compared to 2014

- ❖ Cash inflows from operations decreased by \$3.8 million or 28.5% primarily due to:
 - Decrease in cash received from customers of \$8.3 million or 14.1%.
 - Decrease in cash paid to suppliers of \$5.9 million or 14.8%.
 - Increase in payment in lieu of taxes paid to the City of Cedar Falls of \$1.6 million or 108.9%.
- ❖ Cash outflows from capital and related financing activities decreased by \$5.1 million or 46.9% due to:
 - Decrease in cash of \$151,000 from series 2015 debt proceeds and series 2005 and 2007 refunding.
 - Decrease in capital expenditures of \$8.6 million or 52.9%.
 - Decrease in receipts for reimbursement of utility construction costs of \$2.5 million or 51.9%.
 - Decrease in receipts from intergovernmental grants of \$329,000 or 6.4%.
- ❖ Cash inflows from investing activities increased \$1.6 million or 172.9% due to fewer reinvestments (purchases) of investment securities during 2015.

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.

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL STATEMENTS

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA

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

Statements of Net Position

December 31, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Capital assets: (note 4)		
Capital assets, in service	\$ 239,316,367	\$ 225,598,620
Less accumulated depreciation	84,179,837	80,133,418
Capital assets, net	<u>155,136,530</u>	<u>145,465,202</u>
Construction work in progress	1,816,781	10,205,174
Total capital assets, net	<u>156,953,311</u>	<u>155,670,376</u>
Noncurrent assets:		
Investments - restricted (note 2 and 3)	-	500,000
Note receivable (note 9)	-	183,090
Loans receivable	69,811	111,200
Other (note 9)	18,429,622	20,442,918
Prepayments and other	109,457	109,457
Total noncurrent assets	<u>18,608,890</u>	<u>21,346,665</u>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	42,931,716	36,864,207
Cash and cash equivalents - restricted (note 2 and 3)	2,191,669	1,945,555
Investments - unrestricted (note 3)	500,000	2,500,000
Investments - restricted (note 2 and 3)	5,790,000	5,590,000
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$35,674 in 2015 and \$34,485 in 2014	3,722,331	4,855,623
Loans receivable	39,515	49,757
Interest	17,870	18,221
Current installment of note receivable (note 9)	183,090	185,000
Government grants (note 12 and 13)	102,235	3,920,507
Trade	511,246	1,031,145
Inventories:		
Fuel	4,789,039	4,373,266
Material and supplies	1,832,520	1,648,566
Prepayments and other	384,547	320,204
Total current assets	<u>62,995,778</u>	<u>63,302,051</u>
Total assets	238,557,979	240,319,092
Deferred outflows of resources:		
Pension related deferred outflows (note 6)	1,277,767	567,804
Unamortized loss on reacquired debt	759,558	266,371
Total deferred outflows of resources	<u>2,037,325</u>	<u>834,175</u>
Total assets and deferred outflows of resources	<u>\$ 240,595,304</u>	<u>\$ 241,153,267</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Net Position
December 31, 2015 and 2014

<u>Liabilities</u>	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Long-term debt, less current installments (note 5)	\$ 40,229,717	\$ 42,830,805
Current liabilities:		
Accounts payable	2,556,526	5,532,451
Reserve for surplus declaration (note 9)	3,053,920	3,134,241
Accrued wages and vacations	615,078	577,631
Accrued interest	169,798	178,788
Other accrued expenses	314,095	310,785
Current installments of long-term debt (note 5)	3,240,000	3,390,000
Total current liabilities	<u>9,949,417</u>	<u>13,123,896</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	198,100	139,200
Net pension liability	4,954,618	4,208,071
Other liabilities (note 5 and 11)	3,246,398	2,800,544
Total noncurrent liabilities	<u>8,399,116</u>	<u>7,147,815</u>
Total liabilities	<u>58,578,250</u>	<u>63,102,516</u>
Deferred inflows of resources:		
Pension related deferred inflows (note 6)	1,448,799	1,763,687
TIF related deferred inflows (note 9)	18,429,622	20,442,918
Total deferred inflows of resources	<u>19,878,421</u>	<u>22,206,605</u>
Total liabilities and deferred inflows of resources	78,456,671	85,309,121
 <u>Net Position</u> 		
Net investment in capital assets	114,243,153	109,715,942
Restricted	7,000,449	7,031,590
Unrestricted	40,895,031	39,096,614
Total net position	<u>162,138,633</u>	<u>155,844,146</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 240,595,304</u>	<u>\$ 241,153,267</u>

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2015, and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Operating revenues:		
Sales of electricity:		
Residential	\$ 15,505,965	\$ 17,523,383
Large industrial & commercial	2,833,070	3,356,331
Small industrial & commercial	15,559,998	17,630,609
Governmental (note 9)	3,462,495	3,944,974
Sales for resale	8,807,738	13,464,729
Interdepartmental	210,119	245,262
Total sales of electricity	46,379,385	56,165,288
Other operating revenues (note 12 and 13)	3,362,536	2,787,207
Total operating revenues	49,741,921	58,952,495
Operating expenses:		
Production and generation:		
Fuel	5,894,065	9,157,694
Purchased power	13,295,320	18,759,830
Other	5,270,326	5,274,542
Transmission	3,255,897	3,227,178
Distribution	2,248,296	2,525,904
Depreciation and amortization	4,596,566	4,183,539
Customer accounts	609,280	616,453
Customer service and information expenses	962,289	775,645
Sales	56,970	65,033
Administrative and general (note 9)	8,078,848	7,773,549
Taxes other than income taxes	893,829	862,975
Total operating expenses	45,161,686	53,222,342
Operating income	4,580,235	5,730,153
Non-operating revenues (expenses):		
Interest income (note 9)	61,075	69,605
Miscellaneous revenue (expense), net (note 9)	141,768	4,139,246
Intergovernmental grant funds (note 12 and 13)	983,093	5,683,978
Interest expense on long-term debt	(2,053,859)	(1,946,433)
AFUDC (note 1)	290,207	304,790
Contributed capital (note 9)	2,294,366	1,144,527
Interest income (expense) on security deposits	(2,398)	(3,654)
Total nonoperating revenues (expenses)	1,714,252	9,392,059
Change in net position	6,294,487	15,122,212
Net position, beginning of year, as restated (note 1)	155,844,146	140,721,934
Net position, end of year	\$ 162,138,633	\$ 155,844,146

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, 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Cash flows from operating activities:		
Cash received from customers	\$ 50,723,423	\$ 59,066,982
Intergovernmental grants	90,274	1,318
Cash paid to suppliers	(33,933,979)	(39,822,050)
Cash paid to employees	(3,748,944)	(3,938,228)
Payment in lieu of taxes to the City of Cedar Falls	(3,134,241)	(1,500,000)
Property tax paid	(452,294)	(458,021)
	<hr/>	<hr/>
Net cash provided by operating activities	9,544,239	13,350,001
Cash flows from noncapital financing activities:		
Interest paid on customer deposits	(403)	(204)
	<hr/>	<hr/>
Net cash used in noncapital financing activities	(403)	(204)
Cash flows from capital and related financing activities:		
Proceeds from issuance of capital loan notes	26,395,000	-
Premium on issuance of capital loan notes	3,125,072	-
Discount on issuance of capital loan notes	(31,950)	-
Cost of issuance of capital loan notes	(340,469)	-
Recall of 2005 & 2007 revenue bonds	(29,298,167)	-
Principal payments on long-term debt	(3,390,000)	(2,685,000)
Interest paid	(1,768,605)	(1,929,011)
Proceeds from customer advances for construction	164,900	64,600
Refunds of customer advances for construction	(106,000)	(149,644)
Acquisition, construction and removal cost of capital assets	(7,662,800)	(16,284,219)
Proceeds from sale of capital assets	40,650	195,824
Reimbursement of utility construction costs	2,294,366	4,769,526
Intergovernmental grants	4,801,364	5,130,093
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(5,776,639)	(10,887,831)
Cash flows from investing activities:		
Proceeds from repayment of loan by associated utility	185,000	185,000
Proceeds from maturities of investment securities	8,090,000	9,270,000
Purchase of investment securities	(5,790,000)	(8,590,000)
Interest received	61,426	67,931
	<hr/>	<hr/>
Net cash provided by investing activities	2,546,426	932,931
Net increase in cash and cash equivalents	6,313,623	3,394,897
Cash and cash equivalents, beginning of year	38,809,762	35,414,865
	<hr/>	<hr/>
Cash and cash equivalents, end of year (note 1)	\$ 45,123,385	\$ 38,809,762
	<hr/> <hr/>	<hr/> <hr/>

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, Continued
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 4,580,235	\$ 5,730,153
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of capital assets	4,596,566	4,183,539
Other Income (expense), net	141,768	2,126,321
(Increase) decrease in accounts receivable	1,653,191	119,919
(Increase) decrease in loans receivable	51,631	61,368
(Increase) decrease in inventories	(599,727)	1,576,987
(Increase) decrease in prepayments and other	(64,343)	(51,861)
Increase (decrease) in accounts payable	(943,068)	(1,797,469)
Increase (decrease) in reserve for surplus declaration	(80,321)	1,634,241
Increase (decrease) in accrued wages and vacation	37,447	(217,762)
Increase (decrease) in other accrued expenses	3,310	34,039
Increase (decrease) in other liabilities	<u>167,550</u>	<u>(49,474)</u>
Net cash provided by operating activities	<u>\$ 9,544,239</u>	<u>\$ 13,350,001</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	290,207	304,790
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	42,931,716	36,864,207
Cash - restricted	<u>2,191,669</u>	<u>1,945,555</u>
Cash and cash equivalents	<u>\$ 45,123,385</u>	<u>\$ 38,809,762</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, 2015 and 2014

(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 natural gas and coal-fired plant 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 for 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 Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”*** was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state and local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, the 2014 beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by GASB Statement No. 71, ***“Pension Transition for Contributions Made Subsequent to the Measurement Date”***. The 2014 beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Electric Utility
Net position December 31, 2013	
as previously reported	\$ 146,450,732
Net pension liability	
at December 31, 2013	(6,035,228)
Change in outflows of resources	
related to contributions made after the	
June 30, 2013 measurement date	306,430
Net position December 31, 2013, as restated	\$ 140,721,934

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, 2015 and 2014

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

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 3.02% in 2015 and 4.35% 2014. 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 2.2% of depreciable assets for 2015 and 2014, 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.

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, 2015 and 2014 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.

Deferred Outflows of Resources

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

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, 2015 and 2014

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

Pensions

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

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of tax increment financing receivables that will not be recognized as revenue until the year for which they are levied and unrecognized items not yet charged to pension expense.

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 deferred outflows and liabilities and deferred inflows 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 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, 2015 and 2014, were \$1,796,171, and \$2,097,642, 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.

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, 2015 and 2014

(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. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2015, there was a budget amendment of \$11,141,186 primarily due to the unbudgeted refunding of debt. In 2014, 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.

Employee Benefits

Employee benefits for accumulated sick leave hours are not accrued as they are not payable to employees upon termination of service. 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, 2015 and 2014 the accrued liability was \$831,930 and \$792,422, 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 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, 2015 and 2014

(2) Restricted Assets

The composition of restricted assets as of December 31, 2015 and 2014 was as follows:

2015	Cash	Investments	Total
Current Assets – Restricted			
Bond Reserve	\$ 286	\$ 4,290,000	\$ 4,290,286
Bond and Interest	1,065,109	-	1,065,109
Streeter Landfill	775,000	-	775,000
Self-Insured Medical and Dental	351,274	500,000	851,274
Improvement and Extension	-	1,000,000	1,000,000
Total Current Assets – Restricted	2,191,669	5,790,000	7,981,669
Noncurrent Assets - Restricted			
Bond Reserve	\$ -	\$ -	\$ -
Total Noncurrent Assets - Restricted	\$ -	\$ -	\$ -
Total restricted assets	\$ 2,191,669	\$ 5,790,000	\$ 7,981,669

2014	Cash	Investments	Total
Current Assets – Restricted			
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

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, 2015 and 2014 was \$345.

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, 2015 and 2014

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

Deposits

At December 31, 2015, the Utility's carrying amount of deposits, including \$6,290,000 of certificates of deposits and \$16,657,391 of money market accounts, was \$48,663,040. 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.

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, 2015 and 2014, 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, 2015 and 2014, 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 2015 or 2014. 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 2015 or 2014.

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.

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, 2015 and 2014

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

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:

	2015	2014
Cash on hand	\$ 345	\$ 345
Carrying amount of deposits	48,663,040	44,649,417
Carrying amount of Iowa Agency Investment Trust	2,750,000	2,750,000
Total	\$ 51,413,385	\$ 47,399,762
Current Assets		
Cash and cash equivalents - unrestricted	\$ 42,931,716	\$ 36,864,207
Investments	500,000	2,500,000
Cash and cash equivalents - restricted	2,191,669	1,945,555
Restricted investments	5,790,000	5,590,000
Noncurrent Investments		
Restricted	-	500,000
Total	\$ 51,413,385	\$ 47,399,762

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

	2015	2014
Unrestricted Cash and Investments		
Board Designated		
Western Units Landfill	\$ 860,518	\$ 499,548
Security Deposits	295,931	295,239
Operating	42,275,267	38,569,420
Total Cash and Investments-Unrestricted	\$ 43,431,716	\$ 39,364,207

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, 2015 and 2014

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2015 and 2014 follows:

2015	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,373,577	\$ 503,227	\$ -	\$ 1,876,804
Construction, work-in-progress	10,205,174	6,128,600	14,516,993	1,816,781
Total capital assets, not being depreciated	11,578,751	6,631,827	14,516,993	3,693,585
Capital assets, being depreciated:				
Infrastructure	171,616,108	12,596,828	513,162	183,699,774
Buildings and improvements	32,176,437	793,238	35,872	32,933,803
Equipment	20,432,498	623,700	250,212	20,805,986
Total capital assets, being depreciated	224,225,043	14,013,766	799,246	237,439,563
Less accumulated depreciation	80,133,418	5,272,151	1,225,732	84,179,837
Total capital assets, being depreciated, net	144,091,625	8,741,615	(426,486)	153,259,726
Capital assets, net	<u>\$ 155,670,376</u>	<u>\$ 15,373,442</u>	<u>\$ 14,090,507</u>	<u>\$ 156,953,311</u>
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>

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, 2015 and 2014

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2015 and 2014 was as follows:

2015	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds:					
Series 2005	\$ 17,760,000	\$ -	\$ 17,760,000	\$ -	\$ -
Series 2007	13,305,000	-	13,305,000	-	-
Capital Loan Notes:					
Series 2010A	8,380,000	-	420,000	7,960,000	430,000
Series 2010B	6,670,000	-	650,000	6,020,000	670,000
Series 2015	-	26,395,000		26,395,000	2,140,000
Unamortized premium	322,239	3,125,072	321,598	3,125,713	
Unamortized discount	(216,434)	(31,951)	(217,389)	(30,996)	
	<u>46,220,805</u>	<u>29,488,121</u>	<u>32,239,209</u>	<u>43,469,717</u>	<u>\$ 3,240,000</u>
Current installments of long-term debt	<u>(3,390,000)</u>		<u>(150,000)</u>	<u>(3,240,000)</u>	
Long-term debt, less current installments	<u>42,830,805</u>	<u>29,488,121</u>	<u>32,089,209</u>	<u>40,229,717</u>	
Customer advances for construction	139,200	164,900	106,000	198,100	
Landfill Closure	1,255,549	383,987	4,018	1,635,518	
Other liabilities	-	22,950	-	22,950	
Net pension liability	4,208,071	746,547	-	4,954,618	
Accrued severance and OPEB	1,544,995	234,344	191,409	1,587,930	
Noncurrent liabilities	<u>7,147,815</u>	<u>1,552,728</u>	<u>301,427</u>	<u>8,399,116</u>	
Total noncurrent liabilities	<u>\$ 49,978,620</u>	<u>\$ 31,040,849</u>	<u>\$ 32,390,636</u>	<u>\$ 48,628,833</u>	
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>-</u>	<u>2,688,629</u>	<u>46,220,805</u>	<u>\$ 3,390,000</u>
Current installments of long-term debt	<u>(2,685,000)</u>	<u>(705,000)</u>		<u>(3,390,000)</u>	
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	
Landfill Closure	1,081,094	174,455	-	1,255,549	
Net pension liability	-	4,208,071	-	4,208,071	
Accrued severance and OPEB	1,444,080	253,105	152,190	1,544,995	
Noncurrent liabilities	<u>2,749,418</u>	<u>4,704,831</u>	<u>306,434</u>	<u>7,147,815</u>	
Total noncurrent liabilities	<u>\$ 48,973,852</u>	<u>\$ 3,999,831</u>	<u>\$ 2,995,063</u>	<u>\$ 49,978,620</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, 2015 and 2014

(5) Noncurrent Liabilities, Continued

On June 17, 2015, new capital loan notes in the amount of \$26,395,000 were issued with interest rates throughout the term of the notes ranging between 5.00% and 2.50% to advance refund \$16,280,000 of outstanding Series 2005 revenue bonds with interest rates ranging from 3.00% to 4.25%, and \$12,465,000 of outstanding Series 2007 revenue bonds with interest rates ranging from 4.00% and 4.375%. The net proceeds of \$29,180,103 (after payment of \$308,019 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposits in an irrevocable trust with an escrow agent to provide for \$29,462,630 of future debt service payments on the old bonds. As a result, the old bonds are considered to be defeased and the liability for that portion of the old bonds has been removed from the statement of net assets.

The cash flow requirements on the old bonds prior to the advance refunding was \$36,381,153 from 2015 through 2026. The cash flow requirements on the new bonds are \$33,383,340 from 2015 through 2026. The advance refunding resulted in \$2,997,813 in future debt service payments savings and an economic gain of \$2,492,812.

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%.

The Series 2010A, 2010B and 2015 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 5.00%. 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:

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, 2015 and 2014

(5) Noncurrent Liabilities, Continued

Year	Series 2010A Electric Revenue Capital Loan Notes		Series 2010B Electric Revenue Refunding Capital Loan Notes	
	December 1 Principal Amount	3.00% - 4.75% Interest Amount	December 1 Principal Amount	2.50% - 3.80% Interest Amount
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	470,000	264,700	755,000	113,030
2021 – 2025	2,580,000	1,047,500	2,465,000	183,370
2026 – 2030	3,145,000	450,875	-	-
	\$ 7,960,000	\$ 2,960,075	\$ 6,020,000	\$ 946,295

Year	Series 2015 Electric Revenue Refunding Capital Loan Notes	
	December 1 Principal Amount	5.00% - 2.50% Interest Amount
2016	\$ 2,140,000	\$ 1,187,375
2017	2,250,000	1,080,375
2018	2,370,000	967,875
2019	2,490,000	849,375
2020	2,625,000	724,875
2021 – 2025	13,185,000	1,597,500
2026	1,335,000	40,050
	\$ 26,395,000	\$ 6,447,425

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 bonds until the bonds are defeased. Principal and interest paid for 2015 and 2014 were \$5,158,605 and \$4,614,011, respectively. Total sales of electricity gross revenues as defined for the same periods were \$46,379,385 and \$56,165,288. Annual principal and interest payments are expected to require 7.29% 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 if closed by October 19, 2015. After that date, the Utility is required to maintain the cover, monitor the ground water, and files reports with the Iowa Department of Natural Resources for thirty years. 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.

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, 2015 and 2014

(5) Noncurrent Liabilities, Continued

Landfill closure and post closure care costs at December 31, 2015 are estimated to be \$775,000. 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 \$775,000 in restricted funds to cover the cost of the closure (see note 2). The Utility closed the landfill October 19, 2015. 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, 2022. A liability has been established and funds designated to pay the closing costs in the amount of \$860,518 (see note 3).

(6) Pension Plan - IPERS

Plan Description

Iowa Public Employee' Retirement System (IPERS) membership is mandatory for employees of Cedar Falls Municipal Electric Utility. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.com.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Plan Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the members first month of entitlement benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

Plan Benefits, Continued

earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payment.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or lump-sum payments equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2015 and 2014, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's total contributions to IPERS for the years ended December 31, 2015 and 2014 were \$600,278 and \$649,951, respectively.

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

At December 31, 2015 and 2014, the Utility reported a liability of \$4,954,618 and \$4,208,071, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utilities' collective proportion was 0.190318 percent which was a decrease of 0.010180 percent from its proportion measured as of June 30, 2014 of 0.200498 percent.

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

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

For the years ended December 31, 2015 and 2014, the Utility recognized pension expense of \$321,974 and \$325,107, respectively. At December 31, 2015 and 2014 the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 75,008	\$ -	\$ 45,734	\$ -
Changes of assumptions	137,024	-	185,711	-
Net difference between projected and actual earnings on pension plan investments	741,309	1,158,833	-	1,604,837
Changes in proportion and differences between Utility's contributions and proportionate share of contributions	1,326	289,966	-	158,850
Utility's contributions subsequent to the measurement date	323,100	-	336,359	-
Total	<u>\$1,277,767</u>	<u>\$1,448,799</u>	<u>\$ 567,804</u>	<u>\$1,763,687</u>

\$323,100 reported as deferred outflows of resources related to pensions resulting from the Utility's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended	2015	2014
December 31, 2015	na	\$ 384,246
December 31, 2016	\$ 215,491	\$ 384,246
December 31, 2017	\$ 215,491	\$ 384,246
December 31, 2018	\$ 215,487	\$ 384,243
December 31, 2019	\$ (160,023)	\$ (4,739)
December 31, 2020	\$ 7,686	na

There were no non-employer contributing entities at IPERS.

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

Actuarial Assumptions

The total pension liability in the June 30, 2015 and 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation: (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase: (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return: (effective June 30, 1996)	7.5 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2015 and 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflations) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table from IPERS Comprehensive Annual Financial Reports 2015 (CAFR):

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-plus Fixed Income	28%	2.04
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
US TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	-0.71
Total	<u>100%</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, 2015 and 2014

6) Pension Plan – IPERS, Continued

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Utility’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utility’s proportionate share of the net pension liability at 6-30-15	\$ 8,674,645	\$ 4,954,618	\$ 1,814,648
Utility’s proportionate share of the net pension liability at 6-30-14	\$ 7,951,033	\$ 4,208,071	\$ 1,048,624

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At December 31, 2015 and 2014, the Utility reported a payable of \$78,745 and \$79,118, respectively, to the defined benefit pension plan for legally required employer contributions and a payable of \$46,004 and \$47,319, respectively for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(7) Income Tax Status

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

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, 2015 and 2014

(8) Jointly-Owned Capital Assets

The Utility's share of jointly owned electric facilities at December 31, 2015 and 2014 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	
			2015	2014
Walter Scott Energy Center Unit 3	3.10%	21.0	\$ 13,798,935	\$ 12,474,721
Walter Scott Energy Center Unit 4	2.14%	16.9	28,768,255	28,878,643
George Neal Generating Station Unit 4	2.50%	15.0	11,183,217	11,083,037
Iowa Distributed Wind Generation Project	65.80%	1.5	99,963	199,926

(9) Related Party Transactions

The Utility provides electric service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$1,014,502 and \$1,086,096 in 2015 and 2014, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2014 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 \$18,429,622 and \$20,442,918 as of December 31, 2015 and 2014, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting deferred inflow of resources at December 31, 2015 and 2014 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$2,013,296 and \$1,005,003 in 2015 and 2014, respectively and is recorded as contributed capital 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 2015 and 2014 were \$3,053,920 and \$3,134,241, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2015, the Utility's Board of Trustees approved a payment of \$3,053,920 related to payments in lieu of taxes for 2015.

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 \$183,090 and \$368,090 as of December 31, 2015 and 2014, 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 \$279 and \$612 at December 31, 2015 and 2014, respectively. Interest income for the years ended December 31, 2015 and 2014 was \$7,029 and \$10,754 respectively. In January 2015 the Board of Trustees of the Municipal Electric Utility adopted resolution No.5574 approving the continuation of the annual interest rate of 2.0%.

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, 2015 and 2014

(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 2015 plan year for aggregate medical claims exceeding \$2.8 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:

	2015	2014
Unpaid claims and IBNR, beginning of year	\$ 152,000	\$ 325,000
Current year costs including IBNR	3,016,121	2,659,707
Claims paid	(3,043,121)	(2,832,707)
Unpaid claims and IBNR, end of year	<u>\$ 125,000</u>	<u>\$ 152,000</u>

The Electric Utility has recorded \$65,000 and \$95,760 in accounts payable for its share of these unpaid claims at December 31, 2015 and 2014, 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 525 governmental entities participate in the Association as of June 30, 2015. 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.

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, 2015 and 2014

(10) Risk Management, Continued

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents and investments	\$ 82,061,911	\$ 76,450,260
Receivables	1,944,567	1,730,052
Other assets	773,941	828,246
Total assets	<u>\$ 84,780,419</u>	<u>\$ 79,008,558</u>
Total liabilities	\$ 30,479,705	\$ 28,860,654
Total equity	54,300,714	50,147,904
Total liabilities and equity	<u>\$ 84,780,419</u>	<u>\$ 79,008,558</u>
Total revenue	\$ 8,506,228	\$ 10,493,284
Total expenses	4,353,418	4,473,084
Net increase in equity	<u>\$ 4,152,810</u>	<u>\$ 6,020,200</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, 2015 and 2014, the Utilities contributed \$214,857 and \$124,345, respectively and retirees receiving benefits contributed \$85,269 and \$105,738, respectively, through their required contributions.

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, 2015 and 2014

(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:

	2015	2014
Annual required contribution	\$ 74,113	\$ 73,136
Interest on net OPEB obligation	51,446	53,435
Adjustment to annual required contribution	(39,646)	(41,179)
Annual OPEB expense	85,913	85,392
Contributions and payments made	129,588	18,607
Increase (Decrease) in net OPEB obligation	\$ (43,675)	\$ 66,785
Net OPEB obligation, December 31, 2014	1,028,929	962,144
Net OPEB obligation, December 31, 2015	\$ 985,254	\$ 1,028,929

The Electric Utility's share of the December 31, 2015 and 2014 Net OPEB obligation is \$756,000 and \$752,573, 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, 2015, 2014 and 2013:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	\$ 85,913	150.84%	\$ 985,254
December 31, 2014	\$ 85,392	21.79%	\$ 1,028,929
December 31, 2013	\$ 85,392	248.33%	\$ 962,144

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$931,950. 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 active employees covered by the Plan which was \$13,073,650 in 2015 and the ratio using the January 1, 2015 actuarial valuation UAAL to the covered payroll was 7.1%.

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.

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, 2015 and 2014

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

Funded Status and Funding Progress, Continued

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, 2015
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	8.0% declining 0.5% annually to 5%

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. 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 2015 and 2014, the Utility has recognized \$1,022,407 and \$0, respectively, in revenues for FEMA flood recovery reimbursement. As of December 31, 2015 and 2014, the Utility recognized a receivable of \$0 and \$999,343, respectively, for FEMA flood disaster reimbursement. The Utility concluded its flood work with FEMA in 2015.

(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 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 2015 and 2014, the Electric Utility spent \$0 and \$315,093, respectively, for wind storm disaster recovery. The Utility concluded its wind work with FEMA in 2015.

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, 2015 and 2014

(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 2015 and 2014 were \$5,770,742 and \$5,114,099, 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 Streater 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 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 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, 2015, the Utility was involved in several construction projects with an estimated cost to complete of \$13,943,044 and an estimated time frame to complete through 2018.

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, 2015 and 2014

(15) Subsequent Events

Subsequent events for the Utility have been evaluated through May 26, 2016, which is the date that the financial statements were available to be issued.

Effective January 1, 2016, the Board of Trustees approved a residential 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 2016 the Board of Trustees adopted resolution No. 5722 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 UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

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

	2015	2014
Utilities proportion of the net pension liability (asset)	0.190318%	0.200498%
Utility's proportionate share of the net pension liability	\$ 4,954,618	\$ 4,208,071
Utility's Covered-employee payroll	\$ 6,870,511	\$ 6,943,138
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

*The amounts presented for each fiscal year were determined as of June 30, 2015.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the Utilities will present information for those years for which information is available.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

**Schedule of Utility's Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years**

	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 600,278	\$ 649,951	\$ 611,560	\$ 579,454	\$ 512,851
Contributions in relation to the statutorily required contribution	(600,278)	(649,951)	(611,560)	(579,454)	(512,851)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 6,722,036	\$ 7,278,286	\$ 6,950,838	\$ 6,960,430	\$ 6,815,498
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.80%	8.33%	7.52%
	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 458,698	\$ 427,457	\$ 388,089	\$ 341,288	\$ 301,172
Contributions in relation to the statutorily required contribution	(458,698)	(427,457)	(388,089)	(341,288)	(301,172)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 6,743,466	\$ 6,571,587	\$ 6,261,209	\$ 5,783,294	\$ 5,237,774
Contributions as a percentage of covered-employee payroll	6.80%	6.51%	6.20%	5.90%	5.75%

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

Notes to Required Supplemental Information
Iowa Public Employees' Retirement System

Changes of Benefit Terms

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

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

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. The contribution rates were also changed to be share 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions

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

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

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

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between valuation date and the effective date of the annual actuarial contribution rate.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

Notes to Required Supplemental Information
Iowa Public Employees' Retirement System

Changes of Assumptions, Continued

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

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

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2015	January 1, 2015	\$ -	\$931,950	\$931,950	0.0%	\$13,073,650	7.1%
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%

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

To the Board of Trustees
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 (Municipal Electric Utility) as of and for the year ended December 31, 2015, and have issued our report thereon dated May 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Electric Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Comments involving statutory and other legal matters about the Municipal Electric Utility's operations for the year ended December 31, 2015, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Municipal Electric Utility and are reported in Part III of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Dubuque, Iowa
May 26, 2016

Part I: Findings Related to the Financial Statements:

There were no findings to report.

Part II: Findings and Questioned Costs for Federal Awards:

Single audit did not apply for fiscal year 2015.

Part III: Other Findings Related to Required Statutory Reporting:

- 2015-IA-A **Certified Budget** – Disbursements during the year ended December 31, 2015, did not exceed the amount budgeted.
- 2015-IA-B **Questionable Expenditures** – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 2015-IA-C **Travel Expense** – No expenditures of the Utility’s money for travel expenses of spouses of Utility officials or employees were noted.
- 2015-IA-D **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.
- 2015-IA-E **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 insure the coverage is adequate for current operations.
- 2015-IA-F **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2015-IA-G **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility’s investment policy were noted.
- 2015-IA-H **Revenue Bonds** – No instances of noncompliance with the provisions of the Utility’s revenue bond resolutions were noted.
- 2015-IA-I **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

THIS PAGE INTENTIONALLY LEFT BLANK



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, 2015 and 2014**

THIS PAGE INTENTIONALLY LEFT BLANK

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

Table of Contents

Independent Auditors' Report

Management Discussion and Analysis..... 1

Statements of Net Position 9

Statements of Revenues, Expenses and Changes in Net Position 11

Statements of Cash Flows 12

Notes to Financial Statements 14

Schedule of the Utility's Proportionate Share of the Net Pension Liability – Iowa Public
Employee's Retirement System 32

Schedule of Funding Progress for the Other Post Employment
Benefits Plan..... 36

Independent Auditors' 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 37

Schedule of Findings Related to Government Auditing Standards and Required
Statutory Report..... 39

THIS PAGE INTENTIONALLY LEFT BLANK



Independent Auditor's 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 the 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, 2015, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 Gas Utility as of December 31, 2015, and the respective changes in financial position and, where, applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 6 to the financial statements, the Municipal Gas Utility has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of January 1, 2014. 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, Schedule of Utilities Proportionate Share of the Net Pension Liability, Schedule of Utilities Contributions, and Schedule of Funding Progress for the Other Post-Employment Benefits Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

Restatement of Prior Year Financial Statements

The financial statements of the Municipal Gas Utility as of December 31, 2014, were audited by other auditors, whose report dated March 27, 2015, expressed an unmodified opinion on those statements. As part of our audit of the 2015 financial statements, we also audited adjustments described in Note 1 that were applied to restate the 2014 financial statements for the retroactive implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2014 financial statements of the Municipal Gas Utility other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 26, 2016 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Gas Utility's internal control over financial reporting and compliance.



Dubuque, Iowa
May 26, 2016

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, 2015 and 2014
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, 2015 and 2014. 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

2015 was warmer than 2014 resulting in decreased usage of nearly 304,000 MCF or 14.8% and the Utility experienced a \$6.5 million or 35.7% decrease in operating revenues. Operating expenses decreased \$5.7 million or 33.8% primarily due to decreased natural gas purchases and lower natural gas costs. Net operating income decreased \$731,000 or 61.8% in 2015. There were no rate adjustments in 2015. 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 deferred outflows and liabilities and deferred inflows 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, 2015 and 2014
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

	2015	2014 <i>(Restated)</i>	2013 <i>(Not Restated)</i>
Capital assets, net	\$13,542,877	\$13,436,058	\$14,160,355
Other noncurrent assets	1,954,648	2,845,240	2,251,718
Current assets	13,664,794	12,720,878	11,393,078
Total assets	29,162,319	29,002,176	27,805,151
Deferred outflows of resources	369,294	161,643	-
Total assets and deferred outflows of resources	29,531,613	29,163,819	27,805,151
Current liabilities	1,356,275	1,769,163	2,268,526
Noncurrent liabilities	2,332,581	2,163,641	394,934
Total liabilities	3,688,856	3,932,804	2,663,460
Deferred inflows of resources	463,718	631,347	387,890
Total liabilities and deferred inflows of resources	4,152,574	4,564,151	3,051,350
Net investment in capital assets	13,542,876	13,436,058	14,160,355
Restricted	83,590	176,943	88,829
Unrestricted	11,752,573	10,986,667	10,504,617
Total net position	\$25,379,039	\$24,599,668	\$24,753,801

2015 Compared to 2014

- ❖ Total assets and deferred outflows of resources increased \$368,000 or 1.3% primarily due to:
 - Net capital assets increasing \$107,000 or 0.80%. Net capital assets represent 46.4% of total assets for the Utility in 2015.
 - Decrease in other noncurrent assets of \$891,000 or 31.3% due to:
 - Decrease of \$600,000 or 50.0% in noncurrent investments in associated companies due to the current installment for the 2012 loan of \$3.0 million to the Communications Utility.
 - Decrease of \$273,000 or 17.0% in prepaid assets for amortization of the construction costs of the 2014 town border station built by Northern Natural Gas for the sole benefit of the Gas Utility and a decrease of \$79,000 or 59.3% in tax increment financing (TIF) receivable as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.
 - Increase in current assets of \$944,000 or 7.4% primarily due to:

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, 2015 and 2014
Unaudited

- Increase in unrestricted cash and cash equivalents of \$2.7 million or 29.4% mostly from net income, a decrease in cash paid to suppliers and a repayment of the \$600,000 in principal by the Municipal Communications Utility for the current portion of the note receivable.
- Decrease of \$1.6 million or 78.2% in receivables mainly from a decrease in customer accounts receivable caused by the combination of lower usage and lower gas costs during 2015.
- Increase in deferred outflows of resources of \$208,000 or 128.5% due to the application of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
- ❖ Total liabilities and deferred inflows of resources decreased \$412,000 or 9.0% primarily due to:
 - Decrease in current liabilities of \$413,000 or 23.3% as a result of a decrease in accounts payable of \$560,000 or 41.2% mainly from lower inventory purchases due to completion of projects.
 - Increase in noncurrent liabilities of \$169,000 or 7.8% primarily due to an increase in the net pension liability required by The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
 - Decrease in deferred inflows of resources of \$168,000 or 26.6% due to:
 - Decrease in pension related deferred inflows of \$88,000 or 17.8% due the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
 - Decrease of \$79,000 or 59.3% in the Tax Increment Financing (TIF) liability as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.

Additional detail on the change in capital assets Note 4. Additional detail on GASB No. 68 accounting for pensions in Note 6. The utility has no long-term debt in 2015 or 2014.

2014 Compared to 2013

- ❖ Total assets and deferred outflows of resources increased \$1.4 million or 4.9% 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 or 33.3% 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.

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, 2015 and 2014
Unaudited

- Increase in current assets of \$1.3 million or 11.7% primarily due to:
 - Increase in unrestricted 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.
 - 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.
- Increase in deferred outflows of resources of \$162,000 or 100.0% due to the application of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of 2014 financial statements.
- ❖ Total liabilities and deferred inflows of resources increased \$1.5 million or 49.6% primarily due to:
 - Decrease in current liabilities of \$499,000 or 22.0% as a result of a 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 \$1.8 million or 447.8% primarily due to:
 - Increase in other liabilities from the 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.
 - Increase of \$1.2 million or 100.0% in net pension liability due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of 2014 financial statements.
 - Increase in deferred inflows of resources of \$243,000 or 62.8% due to:
 - Increase in pension related deferred inflows of \$498,000 or 100.0% due the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of 2014 financial statements.
 - Decrease of \$254,000 or 65.6% in the Tax Increment Financing (TIF) liability as a result of payments 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 2014 or 2013.

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, 2015 and 2014
Unaudited

Condensed Revenues, Expenses and Changes in Net Position

	2015	2014 <i>(Restated)</i>	2013 <i>(Not Restated)</i>
Sales of gas	\$11,638,137	\$18,116,167	\$13,747,698
Other	50,426	48,138	33,923
Total operating revenues	<u>11,688,563</u>	<u>18,164,305</u>	<u>13,781,621</u>
Natural gas purchased for resale	6,515,687	12,711,223	8,480,439
Operation & maintenance	1,269,121	1,256,812	1,160,547
Depreciation and amortization	939,583	817,910	781,206
Services and administrative	2,511,690	2,194,537	2,274,760
Total operating expenses	<u>11,236,081</u>	<u>16,980,482</u>	<u>12,696,952</u>
Operating income (loss)	<u>452,482</u>	<u>1,183,823</u>	<u>1,084,669</u>
Interest income	35,507	47,509	59,508
Other, net	291,382	298,345	344,754
Total non-operating revenues (expenses)	<u>326,889</u>	<u>345,854</u>	<u>404,262</u>
Change in net position	779,371	1,529,677	1,488,931
Net position, beginning of year	<u>24,599,668</u>	<u>23,069,991</u>	<u>23,264,870</u>
Net position, end of year	<u>\$25,379,039</u>	<u>\$24,599,668</u>	<u>\$24,753,801</u>

2015 Compared to 2014

- ❖ Total operating revenues decreased \$6.5 million or 35.7% due to:
 - Decrease in gas sales of \$6.5 million or 35.8% due to a warmer heating season than the much colder weather of 2014, resulting in a decrease of 303,540 MCF or 14.8% and a decrease in gas costs passed on to customers through the PGA of \$6.2 million or 48.7%.
 - Increase in other operating revenues of \$2,000 or 4.8% primarily due to an increase of \$6,000 or 23.0% in interdepartmental rents and a decrease in forfeited discounts (late fee revenue) of \$5,000 or 28.2%.

- ❖ Total operating expenses decreased \$5.7 million or 33.8% primarily due to:
 - Decrease in natural gas purchased for resale of \$6.2 million or 48.7% from a decrease in the average gas purchase price of \$2.47 per MCF from \$6.19 in 2014 to \$3.72 in 2015.
 - Increase in operation & maintenance expenses of \$12,000 or 1.0% due to an overall increase in load dispatching costs offset by decreases in supervision & engineering and meter & regulator expenses.
 - Increase in depreciation & amortization expense of \$122,000 or 14.9% due to the completion of capital asset projects placed into service in 2014 and amortization of the new town border station.
 - Increase in services and administrative expenses of \$317,000 or 14.5% primarily due to:
 - Decrease in customer accounts expense of \$35,000 or 10.3% mainly due to the decrease in uncollectible accounts of \$26,000 or 77.8%.

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, 2015 and 2014
Unaudited

- Increase in customer service & informational expenses of \$27,000 or 6.7% from the increase in energy efficiency rebates and incentives.
 - Increase of \$316,000 or 24.3% in administrative & general expenses primarily due to a reallocation of health insurance that increased claims expense for the utility and an increase in employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.
- ❖ Interest income decreased \$12,000 or 25.3% due to interest earned on the declining outstanding balance of the \$3.0 million note receivable with the Municipal Communications Utility.
- ❖ Other, net decreased by \$7,000 or 2.3% primarily due to:
- Increase of \$173,000 or 100.0% in intergovernmental grant funds revenue due to the finalization of grant funded projects.
 - Decrease of \$172,000 or 65.8% in contributed capital mainly due to a decrease of \$175,000 or 68.9% in TIF revenues received from the City of Cedar Falls for certified projects.

2014 Compared to 2013

- ❖ Total operating revenues increased \$4.4 million or 31.8% due to:
- Increase in gas sales 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 \$4.3 million or 33.7% primarily due to:
- Increase in natural gas purchased for resale of \$4.2 million or 49.9%, resulting in an 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 2013.
 - Decrease in services and administrative expenses of \$80,000 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 \$239,000 or 15.5% in administrative & general expenses primarily due to decreases of health insurance claims expense and employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”*** in 2015 and restatement of the 2014 financial statements.
- ❖ 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.

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, 2015 and 2014
Unaudited

- ❖ Other, net decreased by \$46,000 or 13.5% primarily due to:
 - Decrease of \$72,000 or 89.2% in miscellaneous revenues mainly due to:
 - Decrease in gain on disposition of property by \$34,000 or 100.0%.
 - Decrease of \$52,000 or 100.0% in intergovernmental grant funds revenue due to completion of grant funded projects.
 - Increase of \$55,000 or 26.3% in contributed capital due to TIF revenues received from the City of Cedar Falls for certified projects.

Condensed Statement of Cash Flows

	2015	2014 <i>(Restated)</i>	2013 <i>(Not Restated)</i>
Cash Flows from Operating Activities	\$ 2,540,932	\$ 887,005	\$ 1,092,742
Cash Flows from Capital and Related Financing Activities	(612,531)	179,988	(2,203,910)
Cash Flows from Investing Activities	636,504	648,506	660,505
Net Change in Cash and Cash Equivalents	2,564,905	1,715,499	(450,663)
Cash and Cash Equivalents-Beginning of Year	9,210,275	7,494,776	7,945,439
Cash and Cash Equivalents-End of Year	<u>\$ 11,775,180</u>	<u>\$ 9,210,275</u>	<u>\$ 7,494,776</u>

2015 Compared to 2014

- ❖ Cash inflows from operations increased by \$1.7 million or 186.5% due to:
 - Decrease in cash received from customers of \$5.4 million or 29.1%.
 - Decrease in cash paid to suppliers of \$7.1 million or 43.3%.
 - Increase in payment in lieu of taxes to the City of Cedar Falls of \$26,000 or 13.1%.
- ❖ Cash outflows from capital and related financing activities increased by \$793,000 or 440.3% due to:
 - Increase in capital expenditures of \$928,000 or 1357.2%.
 - Decrease in receipts for reimbursement of utility construction costs of \$172,000 or 65.8%.
 - Increase in receipts of intergovernmental grant receivables of \$263,000 or 19109.2%
- ❖ Cash inflows from investing activities decreased \$12,000 or 1.9% due to a decrease in interest received of \$12,000 or 24.7%.

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%.

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, 2015 and 2014
Unaudited

- 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 a decrease in interest received of \$12,000 or 19.8%.

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL STATEMENTS

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, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Capital assets: (note 4)		
Capital assets, in service	\$ 25,321,763	\$ 24,385,336
Less accumulated depreciation	11,824,231	11,038,870
Capital assets, net	<u>13,497,532</u>	<u>13,346,466</u>
Construction work in progress	45,345	89,592
Total capital assets, net	<u>13,542,877</u>	<u>13,436,058</u>
Noncurrent assets:		
Loans receivable	20,747	38,331
Note receivable (note 8)	600,000	1,200,000
Other (note 8)	<u>1,333,901</u>	<u>1,606,909</u>
Total noncurrent assets	<u>1,954,648</u>	<u>2,845,240</u>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	11,671,590	9,016,612
Cash and cash equivalents - restricted (note 2 and 3)	103,590	193,663
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$16,247 in 2015 and \$13,702 in 2014	933,114	2,408,412
Loans receivable	15,738	22,200
Interest	2,014	3,011
Current installment of note receivable (note 8)	600,000	600,000
Trade	10,528	49,843
Government grants (note 11)	-	91,610
Other	27,365	27,332
Inventories:		
Material and supplies	188,142	206,242
Prepayments and other	<u>112,713</u>	<u>101,953</u>
Total current assets	<u>13,664,794</u>	<u>12,720,878</u>
Total assets	29,162,319	29,002,176
Deferred outflows of resources:		
Pension related deferred outflows (note 6)	<u>369,294</u>	<u>161,643</u>
Total deferred outflows of resources	<u>369,294</u>	<u>161,643</u>
Total assets and deferred outflows of resources	<u>\$ 29,531,613</u>	<u>\$ 29,163,819</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, 2015 and 2014

<u>Liabilities</u>	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Long-term debt, less current installments (note 5)	\$ -	\$ -
Current liabilities:		
Accounts payable	\$ 799,770	\$ 1,359,964
Reserve for surplus declaration (note 8)	306,080	226,208
Accrued wages and vacations	187,803	155,022
Other accrued expenses	62,622	27,969
Total current liabilities	<u>1,356,275</u>	<u>1,769,163</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	92,388	74,478
Net pension liability	1,415,692	1,187,894
Other liabilities (note 5, and 10)	824,501	901,269
Total noncurrent liabilities	<u>2,332,581</u>	<u>2,163,641</u>
 Total liabilities	 3,688,856	 3,932,804
Deferred inflows of resources:		
Pension related deferred inflows (note 6)	409,406	497,870
TIF related deferred inflows (note 8)	54,312	133,477
Total deferred inflows of resources	<u>463,718</u>	<u>631,347</u>
 Total liabilities and deferred inflows of resources	 4,152,574	 4,564,151
 <u>Net Position</u>		
Net investment in capital assets	13,542,876	13,436,058
Restricted	83,590	176,943
Unrestricted	11,752,573	10,986,667
Total net position	<u>25,379,039</u>	<u>24,599,668</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 29,531,613</u>	 <u>\$ 29,163,819</u>

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Operating revenues:		
Sales of gas:		
Residential	\$ 6,292,648	\$ 9,833,761
Industrial	1,020,781	1,866,104
Commercial	3,027,989	4,477,155
Governmental (note 8)	749,348	1,194,465
Interdepartmental	547,371	744,682
Total sales of gas	<u>11,638,137</u>	<u>18,116,167</u>
Other operating revenues	<u>50,426</u>	<u>48,138</u>
Total operating revenues	<u>11,688,563</u>	<u>18,164,305</u>
 Operating expenses:		
Production:		
Natural gas purchased for resale	6,515,687	12,711,223
Other	154	12,366
Distribution	1,268,967	1,244,446
Depreciation and amortization	939,583	817,910
Customer accounts	307,709	343,058
Customer service and information expenses	433,532	406,225
Sales	19,261	21,676
Administrative and general (note 8)	1,617,191	1,301,485
Taxes other than income taxes	133,997	122,093
Total operating expenses	<u>11,236,081</u>	<u>16,980,482</u>
 Operating income	<u>452,482</u>	<u>1,183,823</u>
 Non-operating revenues (expenses):		
Interest income	35,507	47,509
Miscellaneous revenue (expense), net	24,066	8,787
Intergovernmental grant funds (note 11)	172,709	-
AFUDC (note 1)	5,094	27,628
Contributed capital (note 8)	89,513	261,930
Total non-operating revenues (expenses)	<u>326,889</u>	<u>345,854</u>
 Change in net position	779,371	1,529,677
 Net position, beginning of year, as restated (note 1)	<u>24,599,668</u>	<u>23,069,991</u>
 Net position, end of year	<u>\$ 25,379,039</u>	<u>\$ 24,599,668</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 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Cash flows from operating activities:		
Cash received from customers	\$ 13,242,254	\$ 18,669,203
Intergovernmental grants	561	-
Cash paid to suppliers	(9,392,520)	(16,429,532)
Cash paid to employees	(1,083,155)	(1,152,666)
Payment in lieu of taxes to the City of Cedar Falls	(226,208)	(200,000)
	<u>2,540,932</u>	<u>887,005</u>
Cash flows from capital and related financing activities:		
Proceeds from customer advances for construction	55,140	16,980
Refunds of customer advances for construction	(27,660)	(36,732)
Acquisition, construction and removal cost of capital assets	(996,429)	(68,378)
Proceeds from sale of capital assets	2,586	4,812
Reimbursement of utility construction costs	89,513	261,930
Intergovernmental grants	264,319	1,376
	<u>(612,531)</u>	<u>179,988</u>
Cash flows from investing activities:		
Advance to affiliated company	600,000	600,000
Interest received	36,504	48,506
	<u>636,504</u>	<u>648,506</u>
Net increase in cash and cash equivalents	2,564,905	1,715,499
Cash and cash equivalents, beginning of year	9,210,275	7,494,776
Cash and cash equivalents, end of year (note 1)	<u>\$ 11,775,180</u>	<u>\$ 9,210,275</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 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ 452,482	\$ 1,183,823
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	939,583	817,910
Other Income (expense), net	14,496	4,637
(Increase) decrease in accounts receivable	1,514,613	465,852
(Increase) decrease in loans receivable	24,046	31,810
(Increase) decrease in inventory	18,100	(39,468)
(Increase) decrease in prepayments and other	137,351	(1,520,804)
Increase (decrease) in accounts payable	(561,960)	(456,368)
Increase (decrease) in reserve for surplus declaration	79,872	26,208
Increase (decrease) in accrued wages and vacation	32,781	(74,821)
Increase (decrease) in other accrued expenses	(33,664)	(156,489)
Increase (decrease) in other liabilities	<u>(76,768)</u>	<u>604,715</u>
Net cash provided by operating activities	<u>\$ 2,540,932</u>	<u>\$ 887,005</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	5,094	27,628
Expiration of customer advances for construction	(9,570)	4,150
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 11,671,590	\$ 9,016,612
Cash - Restricted	<u>103,590</u>	<u>193,663</u>
Cash and cash equivalents	<u>\$ 11,775,180</u>	<u>\$ 9,210,275</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, 2015 and 2014

(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 Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”*** was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state and local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, the 2014 beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by GASB Statement No. 71, ***“Pension Transition for Contributions Made Subsequent to the Measurement Date”***. The 2014 beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Gas Utility
Net position December 31, 2013 as previously reported	\$ 24,753,801
Net pension liability at December 31, 2013	(1,773,876)
Change in outflows of resources related to contributions made after the June 30, 2013 measurement date	90,066
Net position December 31, 2013, as restated	\$ 23,069,991

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, 2015 and 2014

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

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 2.75% in 2015 and 3.96% 2014. 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 3.7% of depreciable assets for 2015 and 3.4% for 2014.

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 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, 2015 and 2014 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.

Deferred Outflows of Resources

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

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, 2015 and 2014

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

Pensions

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

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of tax increment financing receivables that will not be recognized as revenue until the year for which they are levied and unrecognized items not yet charged to pension expense.

Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows 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.

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 billed at December 31, 2015 and 2014 were \$848,921 and \$1,093,361, respectively, and are recorded in

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, 2015 and 2014

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

Operating Revenues and Expenses, Continued

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. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2015, there was a budget amendment of \$11,141,186 primarily due to the unbudgeted refunding of debt. In 2014, 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 upon termination of service. 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, 2015 and 2014 the accrued liability was \$158,463 and \$138,359, 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, 2015 and 2014

(2) Restricted Assets

The composition of restricted assets as of December 31, 2015 and 2014 was as follows:

2015	Cash	Investments	Total
Current Assets - Restricted			
Self-Insured Medical and Dental	\$103,590	\$ -	\$103,590

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

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, 2015 and 2014 was \$100.

Deposits

At December 31, 2015, the Utility's carrying amount of deposits, including \$2,750,000 of money market accounts, was \$9,475,080. At December 31, 2014, the Utility's carrying amount of deposits, including \$2,750,000 of money market accounts, was \$6,910,175.

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, 2015 and 2014, 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, 2015 and 2014, 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.

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, 2015 and 2014

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

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 2015 or 2014. 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 2015 or 2014.

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:

	2015	2014
Cash on hand	\$ 100	\$ 100
Carrying amount of deposits	9,475,080	6,910,175
Carrying amount of Iowa Public Agency Investment Trust	2,300,000	2,300,000
Total	<u>\$ 11,775,180</u>	<u>\$ 9,210,275</u>
 Current Assets		
Cash and cash equivalents - unrestricted	\$ 11,671,590	\$ 9,016,612
Investments	-	-
Cash and cash equivalents - restricted	103,590	193,663
Total	<u>\$ 11,775,180</u>	<u>\$ 9,210,275</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, 2015 and 2014

(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 reserve fund designations as follows:

Unrestricted Cash and Investments Board Designated	2015	2014
Capital Replacement	\$ 771,850	\$ -
Operating	10,899,740	9,016,612
Total Cash and Investments-Unrestricted	<u>\$ 11,671,590</u>	<u>\$ 9,016,612</u>

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2015 and 2014 follows:

2015	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 25,867	\$ -	\$ 250	\$ 25,617
Construction, work-in-progress	89,592	1,000,926	1,045,173	45,345
Total capital assets, not being depreciated	<u>115,459</u>	<u>1,000,926</u>	<u>1,045,423</u>	<u>70,962</u>
Capital assets, being depreciated:				
Infrastructure	20,511,245	942,723	83,021	21,370,947
Buildings and improvements	3,196,800	99,533	25,475	3,270,858
Equipment	651,424	2,917	0	654,341
Total capital assets, being depreciated	<u>24,359,469</u>	<u>1,045,173</u>	<u>108,496</u>	<u>25,296,146</u>
Less accumulated depreciation	<u>11,038,870</u>	<u>896,470</u>	<u>111,109</u>	<u>11,824,231</u>
Total capital assets, being depreciated, net	<u>13,320,599</u>	<u>148,703</u>	<u>(2,613)</u>	<u>13,471,915</u>
Capital assets, net	<u>\$ 13,436,058</u>	<u>\$ 1,149,629</u>	<u>\$ 1,042,810</u>	<u>\$ 13,542,877</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, 2015 and 2014

(4) Capital Assets, Continued

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

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2015 and 2014 was as follows:

2015	Beginning Balance	Additions	Reductions	Ending Balance
Customer advances for construction	\$ 74,478	\$ 55,140	\$ 37,230	\$ 92,388
Other liabilities	626,562	-	81,600	544,962
Net pension liability	1,187,894	227,798	-	1,415,692
Accrued severance and OPEB	274,707	47,003	42,171	279,539
Total noncurrent liabilities	\$ 2,163,641	\$ 329,941	\$ 161,001	\$ 2,332,581

2014	Beginning Balance	Additions	Reductions	Ending Balance
Customer advances for construction	\$ 98,380	\$ 17,580	\$ 41,482	\$ 74,478
Other liabilities	-	626,562	-	626,562
Net pension liability	-	1,187,894	-	1,187,894
Accrued severance and OPEB	296,554	29,178	51,025	274,707
Total noncurrent liabilities	\$ 394,934	\$ 1,861,214	\$ 92,507	\$ 2,163,641

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, 2015 and 2014

(6) Pension Plan - IPERS

Plan Description

Iowa Public Employee' Retirement System (IPERS) membership is mandatory for employees of Cedar Falls Municipal Gas Utility. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.com.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Plan Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the members first month of entitlement benefits.) Members cannot begin receiving retirement benefits before age 55.

The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payment.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or lump-sum payments equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015 and 2014, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's total contributions to IPERS for the years ended December 31, 2015 and 2014 were \$176,125 and \$181,269, respectively.

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

At December 31, 2015 and 2014, the Utility reported a liability of \$1,415,692 and \$1,187,894, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utilities' collective proportion was 0.190318 percent which was a decrease of 0.010180 percent from its proportion measured as of June 30, 2014 of 0.200498 percent.

For the years ended December 31, 2015 and 2014, the Utility recognized pension expense of \$107,808 and \$21,580 respectively. At December 31, 2015 and 2014 the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

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

	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,312	\$ -	\$ 12,910	
Changes of assumptions	38,661	-	52,424	
Net difference between projected and actual earnings on pension plan investments	211,815	326,974		453,029
Changes in proportion and differences between Utility's contributions and proportionate share of contributions	379	82,432		44,841
Utility's contributions subsequent to the measurement date	97,127	-	96,309	
Total	<u>\$ 369,294</u>	<u>\$ 409,406</u>	<u>\$ 161,643</u>	<u>\$ 497,870</u>

\$97,127 reported as deferred outflows of resources related to pensions resulting from the Utility's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended	2015	2014
December 31, 2015	na	\$ 108,469
December 31, 2016	\$ 60,250	\$ 108,469
December 31, 2017	\$ 60,250	\$ 108,469
December 31, 2018	\$ 60,254	\$ 108,470
December 31, 2019	\$ (45,706)	\$ (1,341)
December 31, 2020	\$ 2,191	na

There were no non-employer contributing entities at IPERS.

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, 2015 and 2014

6) Pension Plan – IPERS, Continued

Actuarial Assumptions

The total pension liability in the June 30, 2015 and 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation: (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase: (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return: (effective June 30, 1996)	7.5 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2015 and 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflations) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table from IPERS Comprehensive Annual Financial Reports 2015 (CAFR):

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-plus Fixed Income	28%	2.04
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
US TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	-0.71
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension

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, 2015 and 2014

6) Pension Plan – IPERS, Continued

Discount Rate, Continued

plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Utility’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utility’s proportionate share of the net pension liability at 6-30-15	\$ 2,478,621	\$ 1,415,692	\$ 518,503
Utility’s proportionate share of the net pension liability at 6-30-14	\$ 2,244,492	\$ 1,187,894	\$ 296,015

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At December 31, 2015 and 2014, the Utility reported a payable of \$24,561 and \$23,350, respectively to the defined benefit pension plan for legally required employer contributions and a payable of \$14,263 and \$13,281, respectively for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(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 \$123,687 and \$214,626 in 2015 and 2014, respectively.

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 \$54,312 and \$133,477 as of December 31, 2015 and 2014, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting deferred inflow of resources at December 31, 2015 and 2014 and will recognize revenue for contributed capital from the City as amounts are received. Total

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, 2015 and 2014

(8) Related Party Transactions, Continued

amounts received from the TIF amounted to \$79,165 and \$254,413 in 2015 and 2014, respectively, and is recorded as contributed capital 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 2015 and 2014 were \$306,080 and \$226,208 respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2015, the Utility's Board of Trustees approved a payment of \$306,080 related to payments in lieu of taxes for 2015.

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 \$1,200,000 and \$1,800,000 as of December 31, 2015 and 2014, 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 \$1,995 and \$2,992 at December 31, 2015 and 2014, respectively. Interest income for the years ended December 31, 2015 and 2014 was \$35,003 and \$47,003, 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 2015 plan year for aggregate medical claims exceeding \$2.8 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:

	2015	2014
Unpaid claims and IBNR, beginning of year	\$ 152,000	\$ 325,000
Current year costs including IBNR	3,016,121	2,659,707
Claims paid	(3,043,121)	(2,832,707)
Unpaid claims and IBNR, end of year	\$ 125,000	\$ 152,000

The Gas Utility has recorded \$20,000 and \$16,720 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2015 and 2014, 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 525 governmental entities participate in the Association as of June 30, 2015. A board of trustees consisting of seven members is elected by the

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, 2015 and 2014

(9) Risk Management, Continued

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, 2015 and 2014:

	2015	2014
Cash and cash equivalents and investments	\$ 82,061,911	\$ 76,450,260
Receivables	1,944,567	1,730,052
Other assets	773,941	828,246
Total assets	<u>\$ 84,780,419</u>	<u>\$ 79,008,558</u>
Total liabilities	\$ 30,479,705	\$ 28,860,654
Total equity	54,300,714	50,147,904
Total liabilities and equity	<u>\$ 84,780,419</u>	<u>\$ 79,008,558</u>
Total revenue	\$ 8,506,228	\$ 10,493,284
Total expenses	4,353,418	4,473,084
Net increase in equity	<u>\$ 4,152,810</u>	<u>\$ 6,020,200</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.

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, 2015 and 2014, the Utilities contributed \$214,857 and \$124,345, respectively and retirees receiving benefits contributed \$85,269 and \$105,738, respectively, through their required contributions.

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, 2015 and 2014

(10) 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:

	2015	2014
Annual required contribution	\$ 74,113	\$ 73,136
Interest on net OPEB obligation	51,446	53,435
Adjustment to annual required contribution	(39,646)	(41,179)
Annual OPEB expense	85,913	85,392
Contributions and payments made	129,588	18,607
Increase (Decrease) in net OPEB obligation	\$ (43,675)	\$ 66,785
Net OPEB obligation, December 31, 2014	1,028,929	962,144
Net OPEB obligation, December 31, 2015	\$ 985,254	\$ 1,028,929

The Gas Utility's share of the December 31, 2015 and 2014 Net OPEB obligation is \$121,076 and \$136,347, 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, 2015, 2014 and 2013:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	\$ 85,913	150.84%	\$ 985,254
December 31, 2014	\$ 85,392	21.79%	\$ 1,028,929
December 31, 2013	\$ 85,392	248.33%	\$ 962,144

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$931,950. 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 active employees covered by the Plan which was \$13,073,650 in 2015 and the ratio using the January 1, 2015 actuarial valuation UAAL to the covered payroll was 7.1%.

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 made about the future. There are no plans to fund the Plan at this time.

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, 2015 and 2014

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

Funded Status and Funding Progress, Continued

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, 2015
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	8.0% declining 0.5% annually to 5%

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. As of December 31, 2009, damaged Utility facilities were operational. In 2015 and 2014, the Utility has recognized \$173,270 and \$0, respectively, in revenues for FEMA flood recovery reimbursement. As of December 31, 2015 and 2014, the Utility recognized a receivable of \$0 and \$91,610, respectively, for FEMA flood disaster reimbursement. The Utility concluded its work with FEMA in 2015.

(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 2016 are expected to be approximately \$986,303 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.

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, 2015 and 2014

(12) Commitments and Contingencies, Continued

As of December 31, 2015, the Utility was involved in several construction projects with an estimated cost to complete of \$526,000 and an estimated time frame to complete through 2017.

(13) Subsequent Events

Subsequent events for the Utility have been evaluated through May 26, 2016, which is the date that the financial statements were available to be issued.

In January 2016 the Board of Trustees adopted resolution No. 5722 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 GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

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

	2015	2014
Utilities proportion of the net pension liability (asset)	0.190318%	0.200498%
Utility's proportionate share of the net pension liability	\$ 1,415,692	\$ 1,187,894
Utility's Covered-employee payroll	\$ 1,963,123	\$ 1,959,974
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

*The amounts presented for each fiscal year were determined as of June 30, 2015.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

**Schedule of Utility's Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years**

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the Utilities will present information for those years for which information is available.

	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 176,125	\$ 181,269	\$ 166,363	\$ 149,413	\$ 135,767
Contributions in relation to the statutorily required contribution	(176,125)	(181,269)	(166,363)	(149,413)	(135,767)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 1,972,286	\$ 2,029,885	\$ 1,888,585	\$ 1,785,728	\$ 1,805,319
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.81%	8.70%	7.52%
	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 141,229	\$ 128,938	\$ 119,626	\$ 111,999	\$ 105,801
Contributions in relation to the statutorily required contribution	(141,229)	(128,938)	(119,626)	(111,999)	(105,801)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 2,076,679	\$ 1,982,300	\$ 1,929,397	\$ 1,898,153	\$ 1,840,019
Contributions as a percentage of covered-employee payroll	6.80%	6.51%	6.20%	5.90%	5.75%

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

Notes to Required Supplemental Information
Iowa Public Employees' Retirement System

Changes of Benefit Terms

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

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

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. The contribution rates were also changed to be share 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions

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

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

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

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between valuation date and the effective date of the annual actuarial contribution rate.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

Notes to Required Supplemental Information
Iowa Public Employees' Retirement System

Changes of Assumptions, Continued

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

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

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2015	January 1, 2015	\$ -	\$931,950	\$931,950	0.0%	\$13,073,650	7.1%
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%



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

To the Board of Trustees
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 (Municipal Gas Utility) as of and for the year ended December 31, 2015, and have issued our report thereon dated May 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Gas Utility’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Comments involving statutory and other legal matters about the Municipal Gas Utility's operations for the year ended December 31, 2015, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Municipal Gas Utility and are reported in Part III of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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.



Dubuque, Iowa
May 26, 2016

Part I: Findings Related to the Financial Statements:

There were no findings to report.

Part II: Findings and Questioned Costs for Federal Awards:

Single audit did not apply for fiscal year 2015.

Part III: Other Findings Related to Required Statutory Reporting:

- 2015-IA-A **Certified Budget** – Disbursements during the year ended December 31, 2015, did not exceed the amount budgeted.
- 2015-IA-B **Questionable Expenditures** – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 2015-IA-C **Travel Expense** – No expenditures of the Utility’s money for travel expenses of spouses of Utility officials or employees were noted.
- 2015-IA-D **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.
- 2015-IA-E **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 insure the coverage is adequate for current operations.
- 2015-IA-F **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2015-IA-G **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility’s investment policy were noted.
- 2015-IA-H **Revenue Bonds** – No instances of noncompliance with the provisions of the Utility’s revenue bond resolutions were noted.
- 2015-IA-I **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.



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, 2015 and 2014**

THIS PAGE INTENTIONALLY LEFT BLANK

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

Table of Contents

Independent Auditors' Report

Management Discussion and Analysis 1

Statements of Net Position..... 8

Statements of Revenues, Expenses and Changes in Net Position..... 10

Statements of Cash Flows..... 11

Notes to Financial Statements..... 13

Schedule of the Utility's Proportionate Share of the Net Pension Liability – Iowa Public
Employee's Retirement System..... 30

Schedule of Funding Progress for the Other Post Employment
Benefits Plan 34

Independent Auditors' 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..... 35

Schedule of Findings Related to Government Auditing Standards and Required
Statutory Report 37



Independent Auditor's 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 the 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, 2015, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 Water Utility as of December 31, 2015 and 2014 and 2014, and the respective changes in financial position and, where, applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 6 to the financial statements, the Municipal Water Utility has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of January 1, 2014. 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, Schedule of Utilities Proportionate Share of the Net Pension Liability, Schedule of Utilities Contributions, and Schedule of Funding Progress for the Other Post-Employment Benefits Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

Restatement of Prior Year Financial Statements

The financial statements of the Municipal Water Utility as of December 31, 2014, were audited by other auditors, whose report dated March 27, 2015, expressed an unmodified opinion on those statements. As part of our audit of the 2015 financial statements, we also audited adjustments described in Note 1 that were applied to restate the 2014 financial statements for the retroactive implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2014 financial statements of the Municipal Water Utility other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 26, 2016 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Water Utility's internal control over financial reporting and compliance.



Dubuque, Iowa
May 26, 2016

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, 2015 and 2014
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, 2015 and 2014. 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 2015, though the temperature was warmer than 2014, usage decreased nearly 53,000 CCF or 3.2%. The majority of the decrease was in the residential customer class usage where typical summer usage will increase during warmer years yet this was not true in 2015 due to timely, beneficial rains. Even so, the 5% rate increase and increased rents of water property helped the Utility experience a \$231,000 or 6.2% increase in operating revenues. Operating expenses decreased \$250,000 or 7.1% mainly due to decreased costs for distribution maintenance from fewer frozen water mains and hydrants in 2015. Net operating income increased \$481,000 or 199.4% in 2015. The Utility's net position continued to grow due to strong operations 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 deferred outflows and liabilities and deferred inflows 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, 2015 and 2014
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

	2015	2014 <i>(Restated)</i>	2013 <i>(Not Restated)</i>
Capital assets, net	\$24,007,745	22,510,821	\$21,569,594
Other noncurrent assets	254,007	337,636	327,622
Current assets	5,968,436	5,339,183	4,940,085
Total assets	30,230,188	28,187,640	26,837,301
Deferred outflows of resources	254,634	110,530	-
Total assets and deferred outflows of resources	30,484,822	28,298,170	26,837,301
Current liabilities	335,105	369,667	367,499
Noncurrent liabilities	1,187,936	1,040,714	217,712
Total liabilities	1,523,041	1,410,381	585,211
Deferred inflows of resources	543,092	687,599	325,149
Total liabilities and deferred inflows of resources	2,066,133	2,097,980	910,360
Net investment in capital assets	24,007,745	22,510,821	21,569,594
Restricted	62,748	88,019	24,754
Unrestricted	4,348,196	3,601,350	4,332,593
Total net position	\$28,418,689	\$26,200,190	\$25,926,941

2015 Compared to 2014

- ❖ Total assets and deferred outflows of resources increased \$2.2 million or 7.7% primarily due to:
 - Net capital assets increasing \$1.5 million or 6.6% due to water main extensions and replacements and water tower coating and system replacement. Net capital assets represent 79.4% of total assets for the Utility in 2015.
 - Decrease in other noncurrent assets of \$84,000 or 24.8% primarily due to the decrease of \$82,000 or 24.4% in tax increment financing (TIF) receivable as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.
 - Increase in current assets of \$629,000 or 11.8% primarily due to:
 - Increase in unrestricted cash and cash equivalents of \$660,000 or 14.4%.
 - Decrease in restricted cash of \$24,000 or 23.6%.
 - Increase in customer accounts receivable of \$38,000 or 8.3%.
 - Decrease of \$46,000 or 100.0% in government grants receivable due to the completion and reimbursement of grant related projects.

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, 2015 and 2014
Unaudited

- Increase in deferred outflows of resources of \$144,000 or 130.4% due to the application of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
- ❖ Total liabilities and deferred inflows of resources decreased \$32,000 or 1.5% primarily due to:
 - Decrease in current liabilities of \$35,000 or 9.3% as a result of a decrease in accounts payable.
 - Increase in noncurrent liabilities of \$147,000 or 14.1% primarily due to an increase in the net pension liability required by The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
 - Decrease in deferred inflows of resources of \$145,000 or 21.0% due to:
 - Decrease in pension related deferred inflows of \$63,000 or 17.8% due the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
 - Decrease of \$82,000 or 24.4% in the Tax Increment Financing (TIF) deferred inflow as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.

Additional detail on the change in capital assets Note 4. Additional detail on GASB No. 68 accounting for pensions in Note 6. The utility has no long-term debt in 2015 or 2014.

2014 Compared to 2013

- ❖ Total assets and deferred outflows of resources increased \$1.5 million or 5.4% 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 \$11,000 or 3.3% primarily due to the increase 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 unrestricted 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.
 - Increase in deferred outflows of resources of \$111,000 or 100.0% due to the application of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of 2014 financial statements.
- ❖ Total liabilities and deferred inflows of resources increased \$1.2 million or 130.5% 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.
 - Increase in noncurrent liabilities of \$823,000 or 378.0% mainly due to:
 - Decrease in customer advances for construction of \$22,000 or 100.0%.
 - Increase of \$839,000 or 100.0% in net pension liability due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and**

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, 2015 and 2014
Unaudited

Financial Reporting for Pensions – an Amendment of GASB No. 27” in 2015 and restatement of 2014 financial statements.

- Increase in deferred inflows of resources of \$362,000 or 111.5% due to:
 - Increase in pension related deferred inflows of \$352,000 or 100.0% due the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of 2014 financial statements.
 - Increase of \$11,000 or 3.3% in the Tax Increment Financing (TIF) deferred inflow 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.

Condensed Revenues, Expenses and Changes in Net Position

	2015	2014 <i>(Restated)</i>	2013 <i>(Not Restated)</i>
Sales of water	\$ 3,658,011	\$ 3,496,446	\$ 3,387,195
Other	323,335	253,605	197,096
Total operating revenues	<u>3,981,346</u>	<u>3,750,051</u>	<u>3,584,291</u>
Operation and maintenance	1,261,093	1,474,212	1,316,594
Depreciation and amortization	693,006	659,945	628,753
Services and administrative	1,304,655	1,374,576	1,379,834
Total operating expenses	<u>3,258,754</u>	<u>3,508,733</u>	<u>3,325,181</u>
Operating Income	<u>722,592</u>	<u>241,318</u>	<u>259,110</u>
Interest income	216	217	215
Other, net	526,557	501,887	446,962
Total non-operating revenues (expenses)	<u>526,773</u>	<u>502,104</u>	<u>447,177</u>
Income before capital contributions	1,249,365	743,422	706,287
Noncash Capital Contributions	969,134	607,180	151,796
Change in net position	2,218,499	1,350,602	858,083
Net position, beginning of year	<u>26,200,190</u>	<u>24,849,588</u>	<u>25,068,858</u>
Net position, end of year	<u>\$28,418,689</u>	<u>\$26,200,190</u>	<u>\$25,926,941</u>

2015 Compared to 2014

- ❖ Total operating revenues increased \$231,000 or 6.2% due to:
 - Increase in water sales revenues of \$162,000 or 4.6% due to 5% rate adjustment which offset a decrease in usage of nearly 53,000 CCF or 3.2%.
 - Increase in other operating revenues of \$70,000 or 27.5% as a result of an increase of \$69,000 or 31.8% in water property rents.

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, 2015 and 2014
Unaudited

- ❖ Total operating expenses decreased \$250,000 or 7.1% due to:
 - Decrease in operation & maintenance of \$213,000 or 14.5% due to:
 - Decrease of \$29,000 or 16.2% in purchased power from affiliated utility expense.
 - Decrease of \$10,000 or 3.2% in other pumping and water treatment expenses.
 - Decrease of \$174,000 or 17.8% in distribution operation & maintenance expenses.
 - Depreciation & amortization expense increased by \$33,000 or 5.0% due to the completion of capital asset projects placed into service in 2014.
 - Decrease in services and administrative expenses of \$70,000 or 5.1% primarily due to:
 - Decrease in customer accounts of \$24,000 or 7.7% mainly due to decreased supervisory and uncollectable account expenses.
 - Decrease in administrative & general expenses of \$50,000 or 5.4% mainly due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.
- ❖ Interest income decreased \$1 or 0.5% 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 increased by \$25,000 or 4.9% primarily due to:
 - Increase of \$84,000 or 100.0% in intergovernmental grant revenues due to the finalization of grant projects.
 - Decrease of \$58,000 or 35.2% in contributed capital mainly due to a decrease of \$83,000 or 50.2% in TIF revenues received from the City of Cedar Falls for certified projects.
- ❖ Noncash capital contributions increased \$362,000 or 59.6% due to the increase in distribution extensions from developments during the year.

2014 Compared to 2013

- ❖ Total operating revenues increased \$166,000 or 4.6% due to:
 - Increase in water sales 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 \$184,000 or 5.5% due to:
 - Increase in operation & maintenance of \$158,000 or 12.0%.
 - Increase of \$19,000 or 11.6% in purchased power from affiliated utility expense.
 - 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 \$5,000 or 0.4% primarily due to:
 - Increase in customer accounts of \$18,000 or 6.4% mainly due to increased meter reading and uncollectable account expenses.

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, 2015 and 2014
Unaudited

- Decrease in administrative & general expenses of \$22,000 or 2.3% primarily due to decreases of health insurance claims expense and employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of the 2014 financial statements.
- ❖ 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 \$115,000 or 54.5% 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.
 - Decrease of \$42,000 or 20.1% in contributed capital due to TIF revenues received from the City of Cedar Falls for certified projects.
- ❖ Noncash capital contributions increased \$455,000 or 300.0% due to the increase in distribution extensions during the year.

Condensed Statement of Cash Flows

	2015	2014 <i>(Restated)</i>	2013 <i>(Not Restated)</i>
Cash Flows from Operating Activities	\$ 1,481,680	\$ 1,231,428	\$ 1,114,396
Cash Flows from Capital and Related Financing Activities	(845,683)	(839,638)	(606,112)
Cash Flows from Investing Activities	215	218	215
Net Change in Cash and Cash Equivalents	636,212	392,008	508,499
Cash and Cash Equivalents-Beginning of Year	4,677,011	4,285,003	3,776,504
Cash and Cash Equivalents-End of Year	<u>\$ 5,313,223</u>	<u>\$ 4,677,011</u>	<u>\$ 4,285,003</u>

2015 Compared to 2014

- ❖ Cash inflows from operations increased by \$250,000 or 20.3% primarily due to:
 - Increase in cash received from customers of \$211,000 or 5.2%.
 - Increase in cash paid to suppliers of \$40,000 or 2.0%.
 - Decrease in cash paid to employees for payroll of \$79,000 or 9.0%.
- ❖ Cash outflows from capital and related financing activities increased \$6,000 or 0.7% due to:

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, 2015 and 2014
Unaudited

- Increase in capital expenditures of \$101,000 or 10.2%.
 - Decrease in receipts for reimbursement of utility construction costs of \$58,000 or 35.2%.
 - Increase in receipt of intergovernmental grant funds of \$129,000 or 20527.6%.
- ❖ Cash inflows from investing activities decreased due to:
- Decrease in interest received of \$3 or 1.4%.

2014 Compared to 2013

- ❖ Cash inflows from operations increased by \$117,000 or 10.5% primarily due to:
- Increase in cash received 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%.

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL STATEMENTS

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, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Capital assets: (note 4)		
Capital assets, in service	\$ 34,737,298	\$ 32,544,825
Less accumulated depreciation	10,768,211	10,145,018
Capital assets, net	<u>23,969,087</u>	<u>22,399,807</u>
Construction work in progress	38,658	111,014
Total capital assets, net	<u>24,007,745</u>	<u>22,510,821</u>
Noncurrent assets:		
Loans Receivable	-	1,850
Other (note 8)	254,007	335,786
Total noncurrent assets	<u>254,007</u>	<u>337,636</u>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	5,236,725	4,576,832
Cash and cash equivalents - restricted (note 2 and 3)	76,498	100,179
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$2,895 in 2015 and \$6,424 in 2014	494,844	456,998
Loans receivable	-	624
Government grants (note 11)	-	45,518
Other	-	1,443
Interest	13	12
Material and supplies	113,818	118,497
Prepayments and other	46,538	39,080
Total current assets	<u>5,968,436</u>	<u>5,339,183</u>
Total assets	30,230,188	28,187,640
Deferred outflows of resources:		
Pension related deferred outflows (note 6)	254,634	110,530
Total deferred outflows of resources	<u>254,634</u>	<u>110,530</u>
Total assets and deferred outflows of resources	<u>\$ 30,484,822</u>	<u>\$ 28,298,170</u>

See accompanying notes to financial statements.

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, 2015 and 2014

<u>Liabilities</u>	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Current liabilities:		
Accounts payable	\$ 192,912	\$ 230,238
Accrued wages and vacations	140,413	139,159
Other accrued expenses	1,780	270
Total current liabilities	<u>335,105</u>	<u>369,667</u>
Noncurrent liabilities: (note 5)		
Net pension liability	991,800	839,411
Other liabilities (note 5 and 10)	196,136	201,303
Total noncurrent liabilities	<u>1,187,936</u>	<u>1,040,714</u>
Total liabilities	1,523,041	1,410,381
Deferred inflows of resources:		
Pension related deferred inflows (note 6)	289,085	351,813
TIF related deferred inflows (note 8)	254,007	335,786
Total deferred inflows of resources	<u>543,092</u>	<u>687,599</u>
Total liabilities and deferred inflows of resources	2,066,133	2,097,980
 <u>Net Position</u> 		
Net investment in capital assets	24,007,745	22,510,821
Restricted	62,748	88,019
Unrestricted	4,348,196	3,601,350
Total net position	<u>28,418,689</u>	<u>26,200,190</u>
Total liabilities, deferred inflows or resources and net position	<u>\$ 30,484,822</u>	<u>\$ 28,298,170</u>

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Operating revenues:		
Sales of water:		
Residential	\$ 2,390,322	\$ 2,252,194
Industrial	51,258	58,889
Commercial	1,000,884	969,435
Governmental (note 8)	206,383	196,910
Interdepartmental	9,164	19,018
Total sales of water	<u>3,658,011</u>	<u>3,496,446</u>
Other operating revenues	<u>323,335</u>	<u>253,605</u>
Total operating revenues	<u>3,981,346</u>	<u>3,750,051</u>
 Operating expenses		
Production:		
Purchased power from affiliated utility	150,206	179,288
Other	308,394	318,571
Distribution	802,493	976,353
Depreciation	693,006	659,945
Customer accounts	282,800	306,366
Customer service and information expenses	35,836	33,950
Sales	3,847	5,994
Administrative and general	885,609	935,989
Taxes other than income taxes	96,563	92,277
Total operating expenses	<u>3,258,754</u>	<u>3,508,733</u>
 Operating income	<u>722,592</u>	<u>241,318</u>
 Non-operating revenues (expenses):		
Interest income	216	217
Miscellaneous revenue (expense), net (note 8)	329,980	324,712
Intergovernmental grant funds (note 11)	83,611	-
AFUDC (note 1)	5,788	11,842
Contributed capital (note 8)	107,178	165,333
Total non-operating revenues (expenses)	<u>526,773</u>	<u>502,104</u>
 Income before contributions	<u>1,249,365</u>	<u>743,422</u>
 Noncash Capital contributions	<u>969,134</u>	<u>607,180</u>
 Change in net position	2,218,499	1,350,602
Net position, beginning of year, as restated (note 1)	<u>26,200,190</u>	<u>24,849,588</u>
 Net position, end of year	<u>\$ 28,418,689</u>	<u>\$ 26,200,190</u>

See accompanying notes to financial statements.

MUNICIPAL WATER 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, 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Cash flows from operating activities:		
Cash received from customers	\$ 4,278,133	\$ 4,067,417
Intergovernmental grants	252	-
Cash paid to suppliers	(2,002,479)	(1,962,890)
Cash paid to employees	(794,226)	(873,099)
	<hr/>	<hr/>
Net cash provided by operating activities	1,481,680	1,231,428
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Refunds of customer advances for construction	-	(21,529)
Acquisition, construction and removal cost of capital assets	(1,089,645)	(988,463)
Proceeds from sale of capital assets	7,655	4,395
Reimbursement of utility construction costs	107,178	165,333
Intergovernmental grants	129,129	626
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(845,683)	(839,638)
	<hr/>	<hr/>
Cash flows from investing activities:		
Interest received	215	218
	<hr/>	<hr/>
Net cash provided by investing activities	215	218
	<hr/>	<hr/>
Net increase in cash and cash equivalents	636,212	392,008
Cash and cash equivalents, beginning of year	4,677,011	4,285,003
	<hr/>	<hr/>
Cash and cash equivalents, end of year (note 1)	<u>\$ 5,313,223</u>	<u>\$ 4,677,011</u>

MUNICIPAL WATER 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, 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 722,592	\$ 241,318
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation of capital assets	693,006	659,945
Other Income (expense), net	329,980	324,712
(Increase) decrease in accounts receivable	(37,846)	(35,381)
(Increase) decrease in loans receivable	2,474	623
(Increase) decrease in materials and supplies	4,679	5,757
(Increase) decrease in prepayments and other	(6,015)	21,907
Increase (decrease) in accounts payable	(170,344)	52,762
Increase (decrease) in accrued wages and vacation	1,254	(45,148)
Increase (decrease) in other accrued expenses	(52,933)	(187)
Increase (decrease) in other liabilities	(5,167)	5,120
Net cash provided by operating activities	<u>\$ 1,481,680</u>	<u>\$ 1,231,428</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	5,788	11,842
Contributions from contractors in aid of construction	969,134	607,180
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 5,236,725	\$ 4,576,832
Cash - restricted	76,498	100,179
Cash and cash equivalents	<u>\$ 5,313,223</u>	<u>\$ 4,677,011</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

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, 2015 and 2014

(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 Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”*** was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state and local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, the 2014 beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by GASB Statement No. 71, ***“Pension Transition for Contributions Made Subsequent to the Measurement Date”***. The 2014 beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Water Utility
Net position December 31, 2013	
as previously reported	\$ 25,926,941
Net pension liability	
at December 31, 2013	(1,134,980)
Change in outflows of resources	
related to contributions made after the	
June 30 ,2013 measurement date	57,627
Net position December 31, 2013, as restated	\$ 24,849,588

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 2.75% in 2015 and 3.96% 2014. 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.

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, 2015 and 2014

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

Capital Assets and Depreciation, Continued

The depreciation provisions were equivalent to an overall composite rate of 2.1% and 2.1% of depreciable assets for 2015 and 2014, 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 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, 2015 and 2014 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.

Deferred Outflows of Resources

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

Pensions

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

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, 2015 and 2014

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

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of tax increment financing receivables that will not be recognized as revenue until the year for which they are levied and unrecognized items not yet charged to pension expense.

Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows 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 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, 2015 and 2014, were \$155,615 and \$135,222, 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.

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. Formal and legal budgetary control is based

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, 2015 and 2014

(1) Summary of Significant Accounting Policies, Continued

Budgetary Information, Continued

on the total of all four utilities as a whole. During 2015, there was a budget amendment of \$11,141,186 primarily due to the unbudgeted refunding of debt. In 2014, 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 upon termination of service. 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 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, 2015 and 2014 the accrued liability was \$105,642 and \$100,625, 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, 2015 and 2014 was as follows:

2015	Cash	Investments	Total
Current Assets - Restricted			
Self-Insured Medical and Dental	\$ 76,498	\$ -	\$ 76,498
2014	Cash	Investments	Total
Current Assets - Restricted			
Self-Insured Medical and Dental	\$100,179	\$ -	\$ 100,179

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

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, 2015 and 2014

(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, 2015 and 2014 was \$45.

Deposits

At December 31, 2015, the Utility's carrying amount of deposits, including \$700,000 of money market accounts, was \$3,843,178. At December 31, 2014, the Utility's carrying amount of deposits, including \$700,000 of money market accounts, was \$3,206,966.

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, 2015 and 2014, 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, 2015 and 2014, 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 2015 or 2014. 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 2015 or 2014.

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, 2015 and 2014

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

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:

	2015	2014
Cash on hand	\$ 45	\$ 45
Carrying amount of deposits	3,843,178	3,206,966
Carrying amount of Iowa Public Agency Investment Trust	1,470,000	1,470,000
Total	\$ 5,313,223	\$ 4,677,011
Current Assets		
Cash and cash equivalents - unrestricted	\$ 5,236,725	\$ 4,576,832
Cash and cash equivalents - restricted	76,498	100,179
Total	\$ 5,313,223	\$ 4,677,011

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

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, 2015 and 2014

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2015 and 2014 follows:

2015	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	111,014	2,192,464	2,264,820	38,658
Total capital assets, not being depreciated	174,480	2,192,464	2,264,820	102,124
Capital assets, being depreciated:				
Infrastructure	29,142,140	2,185,684	72,347	31,255,477
Buildings and improvements	2,000,283	53,298	-	2,053,581
Equipment	1,338,936	25,838	-	1,364,774
Total capital assets, being depreciated	32,481,359	2,264,820	72,347	34,673,832
Less accumulated depreciation	10,145,018	702,861	79,668	10,768,211
Total capital assets, being depreciated, net	22,336,341	1,561,959	(7,321)	23,905,621
Capital assets, net	\$ 22,510,821	\$ 3,754,423	\$ 2,257,499	\$ 24,007,745
<hr/>				
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	\$ 21,569,594	\$ 2,561,821	\$ 1,620,594	\$ 22,510,821

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, 2015 and 2014

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2015 and 2014 was as follows:

2015	Beginning			Ending
	Balance	Additions	Reductions	Balance
Customer advances for construction	\$ -	\$ -		\$ -
Net pension liability	839,411	152,389		991,800
Accrued severance and OPEB	201,303	24,527	29,694	196,136
Total noncurrent liabilities	<u>\$ 1,040,714</u>	<u>\$ 176,916</u>	<u>\$ 29,694</u>	<u>\$ 1,187,936</u>

2014	Beginning			Ending
	Balance	Additions	Reductions	Balance
Customer advances for construction	\$ 21,529	\$ -	\$ 21,529	\$ -
Net pension liability	-	\$839,411		839,411
Accrued severance and OPEB	196,183	22,870	17,750	201,303
Total noncurrent liabilities	<u>\$ 217,712</u>	<u>\$ 862,281</u>	<u>\$ 39,279</u>	<u>\$ 1,040,714</u>

(6) Pension Plan - IPERS

Plan Description

Iowa Public Employee' Retirement System (IPERS) membership is mandatory for employees of Cedar Falls Municipal Water Utility. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.com.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Plan Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the members first month of entitlement benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

Plan Benefits, Continued

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payment.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or lump-sum payments equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015 and 2014, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's total contributions to IPERS for the years ended December 31, 2015 and 2014 were \$122,107 and \$130,414, 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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

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

At December 31, 2015 and 2014, the Utility reported a liability of \$991,800 and \$839,411, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility’s proportion of the net pension liability was based on the Utility’s share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utilities’ collective proportion was 0.190318 percent which was a decrease of 0.010180 percent from its proportion measured as of June 30, 2014 of 0.200498 percent.

For the years ended December 31, 2015 and 2014, the Utility recognized pension expense of \$67,664 and \$133,755, respectively. At December 31, 2015 and 2014 the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,991	\$ -	\$ 9,123	\$ -
Changes of assumptions	27,331	-	37,046	-
Net difference between projected and actual earnings on pension plan investments	148,393	231,128	-	320,127
Changes in proportion and differences between Utility’s contributions and proportionate share of contributions	266	57,957	-	31,686
Utility’s contributions subsequent to the measurement date	63,653	-	64,361	-
Total	\$ 254,634	\$ 289,085	\$ 110,530	\$ 351,813

\$63,653 reported as deferred outflows of resources related to pensions resulting from the Utility’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

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

Fiscal Year Ended	2015	2014
December 31, 2015	na	\$ 76,650
December 31, 2016	\$ 42,870	\$ 76,650
December 31, 2017	\$ 42,870	\$ 76,650
December 31, 2018	\$ 42,869	\$ 76,649
December 31, 2019	\$ (32,034)	\$ (955)
December 31, 2020	\$ 1,529	na

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2015 and 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation: (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase: (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return: (effective June 30, 1996)	7.5 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2015 and 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflations) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table from IPERS Comprehensive Annual Financial Reports 2015 (CAFR):

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

Actuarial Assumptions, Continued

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-plus Fixed Income	28%	2.04
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
US TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	-0.71
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Utility’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Utility’s proportionate share of the net pension liability at 6-30-15	\$ 1,736,463	\$ 991,800	\$ 363,251
Utility’s proportionate share of the net pension liability at 6-30-14	\$ 1,586,043	\$ 839,411	\$ 209,176

Pension Plan Fiduciary Net Position

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

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

Payables to the Pension Plan

At December 31, 2015 and 2014, the Utility reported a payable of \$15,949 and \$16,450, respectively to the defined benefit pension plan for legally required employer contributions and a payable of \$9,226 and \$9,670, respectively for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(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 \$78,663 and \$70,696 in 2015 and 2014, 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 \$254,007 and \$335,786 as of December 31, 2015 and 2014, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting deferred inflow of resources at December 31, 2015 and 2014 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$81,778 and \$164,333 in 2015 and 2014, respectively, and is recorded as contributed capital 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 \$315,420 in 2015 and \$314,160 in 2014, 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 individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2015 plan year for aggregate medical claims exceeding \$2.8 million.

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, 2015 and 2014

(9) Risk Management, Continued

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:

	2015	2014
Unpaid claims and IBNR, beginning of year	\$ 152,000	\$ 325,000
Current year costs including IBNR	3,016,121	2,659,707
Claims paid	(3,043,121)	(2,832,707)
Unpaid claims and IBNR, end of year	<u>\$ 125,000</u>	<u>\$ 152,000</u>

The Water Utility has recorded \$13,750 and \$12,160 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2015 and 2014, 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 525 governmental entities participate in the Association as of June 30, 2015. 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, 2015 and 2014:

	2015	2014
Cash and cash equivalents and investments	\$ 82,061,911	\$ 76,450,260
Receivables	1,944,567	1,730,052
Other assets	773,941	828,246
Total assets	<u>\$ 84,780,419</u>	<u>\$ 79,008,558</u>
Total liabilities	\$ 30,479,705	\$ 28,860,654
Total equity	54,300,714	50,147,904
Total liabilities and equity	<u>\$ 84,780,419</u>	<u>\$ 79,008,558</u>
Total revenue	\$ 8,506,228	\$ 10,493,284
Total expenses	4,353,418	4,473,084
Net increase in equity	<u>\$ 4,152,810</u>	<u>\$ 6,020,200</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, 2015 and 2014

(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 \$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, 2015 and 2014, the Utilities contributed \$214,857 and \$124,345, respectively and retirees receiving benefits contributed \$85,269 and \$105,738, 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:

	2015	2014
Annual required contribution	\$ 74,113	\$ 73,136
Interest on net OPEB obligation	51,446	53,435
Adjustment to annual required contribution	(39,646)	(41,179)
Annual OPEB expense	85,913	85,392
Contributions and payments made	129,588	18,607
Increase (Decrease) in net OPEB obligation	\$ (43,675)	\$ 66,785
Net OPEB obligation, December 31, 2014	1,028,929	962,144
Net OPEB obligation, December 31, 2015	<u>\$ 985,254</u>	<u>\$ 1,028,929</u>

The Water Utility's share of the December 31, 2015 and 2014 Net OPEB obligation is \$90,494 and \$100,679, 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, 2015 and 2014

(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, 2015, 2014 and 2013:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	\$ 85,913	150.84%	\$ 985,254
December 31, 2014	\$ 85,392	21.79%	\$ 1,028,929
December 31, 2013	\$ 85,392	248.33%	\$ 962,144

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$931,950. 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 active employees covered by the Plan which was \$13,073,650 in 2015 and the ratio using the January 1, 2015 actuarial valuation UAAL to the covered payroll was 7.1%.

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, 2015 and 2014

(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, 2015
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	8.0% declining 0.5% annually to 5%

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. As of December 31, 2015 and 2014, the Utility recognized revenue of \$83,863 and \$0 and a receivable of \$0 and \$45,518, respectively, for FEMA flood disaster reimbursement. The Utility concluded its work with FEMA in 2015.

(12) Commitments and Contingencies

As of December 31, 2015, the Utility was involved in several construction projects with an estimated cost to complete of \$5,371,000 and an estimated time frame to complete through 2018.

(13) Subsequent Events

Subsequent events for the Utility have been evaluated through May 26, 2016, which is the date that the financial statements were available to be issued.

Effective January 1, 2016, the Board of Trustees approved a 5% water rate increase.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

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

	2015	2014
Utilities proportion of the net pension liability (asset)	0.190318%	0.200498%
Utility's proportionate share of the net pension liability	\$ 991,800	\$ 839,411
Utility's Covered-employee payroll	\$ 1,375,318	\$ 1,384,992
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

*The amounts presented for each fiscal year were determined as of June 30, 2015.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the Utilities will present information for those years for which information is available.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

**Schedule of Utility's Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years**

	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 122,107	\$ 130,414	\$ 116,692	\$ 106,155	\$ 85,369
Contributions in relation to the statutorily required contribution	(122,107)	(130,414)	(116,692)	(106,155)	(85,369)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 1,367,383	\$ 1,460,408	\$ 1,326,580	\$ 1,268,980	\$ 1,138,707
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.80%	8.37%	7.50%
	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 72,841	\$ 68,847	\$ 64,319	\$ 58,083	\$ 55,119
Contributions in relation to the statutorily required contribution	(72,841)	(68,847)	(64,319)	(58,083)	(55,119)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 107,901	\$ 1,060,201	\$ 1,037,352	\$ 985,224	\$ 958,587
Contributions as a percentage of covered-employee payroll	6.80%	6.49%	6.20%	5.90%	5.75%

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

Notes to Required Supplemental Information
Iowa Public Employees' Retirement System

Changes of Benefit Terms

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

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

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. The contribution rates were also changed to be share 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions

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

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

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

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between valuation date and the effective date of the annual actuarial contribution rate.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

Notes to Required Supplemental Information
Iowa Public Employees' Retirement System

Changes of Assumptions, Continued

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

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

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2015	January 1, 2015	\$ -	\$931,950	\$931,950	0.0%	\$13,073,650	7.1%
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%

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

To the Board of Trustees
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 (Municipal Water Utility) as of and for the year ended December 31, 2015, and have issued our report thereon dated May 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Water Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Comments involving statutory and other legal matters about the Municipal Water Utility's operations for the year ended December 31, 2015, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Municipal Water Utility and are reported in Part III of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Dubuque, Iowa
May 26, 2015

Part I: Findings Related to the Financial Statements:

There were no findings to report.

Part II: Findings and Questioned Costs for Federal Awards:

Single audit did not apply for fiscal year 2015.

Part III: Other Findings Related to Required Statutory Reporting:

- 2015-IA-A **Certified Budget** – Disbursements during the year ended December 31, 2015, did not exceed the amount budgeted.
- 2015-IA-B **Questionable Expenditures** – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 2015-IA-C **Travel Expense** – No expenditures of the Utility’s money for travel expenses of spouses of Utility officials or employees were noted.
- 2015-IA-D **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.
- 2015-IA-E **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 insure the coverage is adequate for current operations.
- 2015-IA-F **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2015-IA-G **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility’s investment policy were noted.
- 2015-IA-H **Revenue Bonds** – No instances of noncompliance with the provisions of the Utility’s revenue bond resolutions were noted.
- 2015-IA-I **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

THIS PAGE INTENTIONALLY LEFT BLANK



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, 2015 and 2014**

THIS PAGE INTENTIONALLY LEFT BLANK

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

Table of Contents

Independent Auditors’ Report

Management Discussion and Analysis1

Statements of Net Position9

Statements of Revenues, Expenses and Changes in Net Position11

Statements of Cash Flows12

Notes to Financial Statements14

Schedule of the Utility’s Proportionate Share of the Net Pension Liability – Iowa Public
Employee’s Retirement System.....34

Schedule of Funding Progress for the Other Post Employment
Benefits Plan.....38

Independent Auditors’ 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 Standards39

Schedule of Findings Related to Government Auditing Standards and Required
Statutory Reporting..... 41

THIS PAGE INTENTIONALLY LEFT BLANK



Independent Auditor's 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 the 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, 2015, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 Communications Utility as of December 31, 2015 and the respective changes in financial position and, where, applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 6 to the financial statements, the Municipal Communications Utility has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of January 1, 2014. 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, Schedule of Utilities Proportionate Share of the Net Pension Liability, Schedule of Utilities Contributions, and Schedule of Funding Progress for the Other Post-Employment Benefits Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

Restatement of Prior Year Financial Statements

The financial statements of the Municipal Communications Utility as of December 31, 2014, were audited by other auditors, whose report dated March 27, 2015, expressed an unmodified opinion on those statements. As part of our audit of the 2015 financial statements, we also audited adjustments described in Note 1 that were applied to restate the 2014 financial statements for the retroactive implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2014 financial statements of the Municipal Communications Utility other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 26, 2016 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Communications Utility's internal control over financial reporting and compliance.



Dubuque, Iowa
May 26, 2016

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, 2015 and 2014
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, 2015 and 2014. 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 \$851,000 or 5.1% in 2015 due to an average cable TV rate increase of 14.3% with a loss of 54 subscribers and an average internet rate increase of 0.6% with an increase of 674 subscribers. The Utility's operating expenses increased \$680,000 or 5.0% during 2015 mostly due to an increase in head end equipment expense of \$405,000 or 94.6% from an upgrade to Internet Protocol TV and an increase in programming expenses of \$381,000 or 7.2%. 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 deferred outflows and liabilities and deferred inflows 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
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2015 and 2014
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

	2015	2014	2013
		<i>(Restated)</i>	<i>(Not Restated)</i>
Current assets	\$ 9,238,969	\$ 8,036,320	\$ 6,761,789
Noncurrent assets	247,256	178,785	582,139
Capital assets, net	26,835,468	26,554,318	27,622,986
Total assets	36,321,693	34,769,423	34,966,914
Deferred outflows of resources	521,995	234,249	-
Total assets and deferred outflows of resources	36,843,688	35,003,672	34,966,914
Current liabilities	3,843,787	3,476,329	3,985,211
Noncurrent liabilities	2,298,015	1,999,241	255,559
Long-term debt	9,751,248	12,266,862	14,727,441
Total liabilities	15,893,050	17,742,432	18,968,211
Deferred inflows of resources	738,613	898,069	582,139
Total liabilities and deferred inflows of resources	16,631,663	18,640,501	19,550,350
Net investment in capital assets	14,621,130	11,872,456	10,471,048
Restricted	1,804,366	1,748,349	1,717,341
Unrestricted	3,786,529	2,742,366	3,228,175
Total net position	\$ 20,212,025	\$ 16,363,171	\$ 15,416,564

2015 Compared to 2014

- ❖ Total assets and deferred outflows of resources increased \$1.8 million or 5.3% primarily due to:
 - Increase in current assets of \$1.2 million or 15.0% due to:
 - Increase in cash and investments of \$302,000 or 9.4% primarily related to the increase in net income.
 - Decrease in governmental grants receivable of \$123,000 or 100.0% due to the completion and payment in full of the rural broadband grant project.
 - Increase in other accounts receivable of \$930,000 or 680.4% due to the outstanding billings to a 28-E partner for their share of the Internet Protocol TV equipment and constructions costs for a fiber line for a customer.
 - Increase in noncurrent assets of \$68,000 or 38.3% due to the increase of noncurrent investments of \$100,000 and a reduction of the tax increment financing (TIF) receivable of \$32,000 or 17.6% as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.

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, 2015 and 2014
Unaudited

- Increase in net capital assets of \$281,000 or 1.1% primarily due to the Internet Protocol TV upgrade and infrastructure projects. Net capital assets represent 73.9% of total assets for the Utility in 2015.
 - Increase in deferred outflows of resources of \$288,000 or 122.8% due to application of The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.
- ❖ Total liabilities and deferred inflows of resources decreased \$2 million or 10.8% primarily due to:
- Increase in current liabilities of \$367,000 or 10.6% as a result of an increase in accounts payable of \$278,000 or 41.3% due to purchase of Internet Protocol TV equipment later in the year and an increase in reserve for surplus declaration (PILOT) of \$35,000 or 100.0% for its first year of declaration.
 - Increase in noncurrent liabilities of \$299,000 or 14.9% mainly due to an increase in net pension liability, required by The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***, of \$324,000 or 18.9%.
 - Decrease of \$2.5 million or 20.5% in long-term debt less current installments due to:
 - Decrease in long-term note payable, less current installments of \$783,000 or 56.6%. Long-term notes payable, less current installments, is comprised of notes payable to the Municipal Electric Utility and the Municipal Gas Utility. The Utility has an outstanding loan with the Municipal Electric Utility totaling \$183,090 and an outstanding loan with the Municipal Gas Utility totaling \$1,200,000 on December 31, 2015.
 - Decrease in long-term debt less, current installments of \$1.7 million or 15.9% due to principal payments and amortization of debt discounts and premiums.
 - Decrease in deferred inflows of resources of \$159,000 or 17.8% due to:
 - Decrease in pension related deferred inflows of \$128,000 or 17.8% due the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.
 - Decrease of \$32,000 or 17.6% in the Tax Increment Financing (TIF) deferred inflow as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.

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. Additional detail on GASB No. 68 accounting for pensions in Note 6.

2014 Compared to 2013

- ❖ Total assets and deferred outflows of resources increased \$37,000 or 0.1% primarily due to:
- Increase in current assets of \$1.3 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.

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, 2015 and 2014
Unaudited

- Decrease in materials and supplies inventory of \$236,000 or 23.5% due to reduced need for materials on hand after 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 as a result of the 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.
 - Increase in deferred outflows of resources of \$234,000 or 100.0% due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of 2014 financial statements.
- ❖ Total liabilities and deferred inflows of resources decreased \$910,000 or 4.7% 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 of \$2.5 million or 16.7% in long-term debt less current installments due to:
 - Decrease in long-term notes 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 the 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.
 - Increase in noncurrent liabilities of \$1.7 million or 682.3% mainly due to the implementation of a net pension liability as required by The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of 2014 financial statements.
 - Increase in deferred inflows of resources of \$316,000 or 54.3% due to:
 - Decrease of the Tax Increment Financing (TIF) deferred inflow of \$403,000 or 69.3% as a result of the payment by the City of Cedar Falls for TIF debt owed to the Communications Utility for certified expenditures.
 - Increase in pension related deferred inflows of \$719,000 or 100.0% due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”** in 2015 and restatement of 2014 financial statements.

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.

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, 2015 and 2014
Unaudited

Condensed Revenues, Expenses and Changes in Net Position

	2015	2014 <i>(Restated)</i>	2013 <i>(Not Restated)</i>
Cable television	\$ 9,402,556	\$ 9,043,534	\$ 8,666,930
High speed data communications	8,126,804	7,628,894	7,016,679
Other	46,159	52,331	41,504
Total operating revenues	<u>17,575,519</u>	<u>16,724,759</u>	<u>15,725,113</u>
Operation & maintenance	9,018,833	8,188,318	8,012,154
Depreciation and amortization	2,230,304	2,354,882	3,755,349
Sales, customer service, corporate operations	2,916,607	2,942,796	3,141,149
Total operating expenses	<u>14,165,744</u>	<u>13,485,996</u>	<u>14,908,652</u>
Operating Income	<u>3,409,775</u>	<u>3,238,763</u>	<u>816,461</u>
Interest income	9,447	6,942	4,171
Interest expense	(332,174)	(386,804)	(652,923)
Other, net	761,806	507,624	525,858
Total non-operating revenues (expenses)	<u>439,079</u>	<u>127,762</u>	<u>(122,894)</u>
Change in net position	3,848,854	3,366,525	693,567
Net position, beginning of year	<u>16,363,171</u>	<u>12,996,646</u>	<u>14,722,997</u>
Net position, end of year	<u>\$ 20,212,025</u>	<u>\$ 16,363,171</u>	<u>\$ 15,416,564</u>

2015 Compared to 2014

- ❖ Total operating revenues increased \$851,000 or 5.1% due to:
 - Increase in cable television operating revenues of \$359,000 or 4.0% from a rate increase of 14.3% even with a loss of 54 subscribers.
 - Increase in internet operating revenues of \$498,000 or 6.5% from an average internet rate increase of 0.6% and an increase of 674 subscribers.

- ❖ Total operating expenses increased \$680,000 or 5.0% primarily due to:
 - Increase in operation & maintenance expenses of \$831,000 or 10.1% mostly due to a \$381,000 or 7.2% increase in programming expense and \$405,000 or 94.6% increase in head end equipment expense.
 - Decrease in depreciation expense of \$125,000 or 5.3% due to having written off the coax cable system in 2014 that was replaced by the fiber to the premise system in 2013.
 - Decrease in sales of \$152,000 or 30.6% due to the outsourcing of television ad sales.
 - Increase in corporate operations of \$80,000 or 4.7% mainly due to an increase in employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.

- ❖ Interest Income increased \$3,000 or 36.1% due to slightly improved interest rates for investments accounts.

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, 2015 and 2014
Unaudited

- ❖ Interest expense decreased \$55,000 or 14.1% due to the continued payment of debt obligations.
- ❖ Other, net increased \$254,000 or 50.1% primarily due to:
 - Increase of \$16,000 or 25.5% in intergovernmental grant revenues due to final completion of grant projects.
 - Increase of \$211,000 or 44.2% in contributed capital mainly due to an increase of \$583,000 or 777.4% in contributions in aid of construction-cash due to the Utility building a fiber line for a customer and a decrease of \$372,000 or 92.2% in TIF revenues received from the City of Cedar Falls for certified projects.
 - Decrease in interest expense on affiliated note payable of \$16,000 or 27.2% due to the payment of principal thus reducing the outstanding note balance.

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% even 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% and an increase of 312 subscribers.
- ❖ Total operating expenses decreased \$1.4 million or 9.5% primarily due to:
 - Increase in operation & maintenance expenses 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 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.
 - Decrease in sales, customer services, corporate operations expenses of \$198,000 or 6.3% 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.
 - Decrease in corporate operations of \$224,000 or 11.7% mainly due to a decrease in employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*** in 2015 and restatement of the 2014 financial statements.
- ❖ 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%.

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, 2015 and 2014
Unaudited

- Increase of \$113,000 or 30.9% in contributed capital mainly due to an increase of \$33,000 or 77.3% in contributions in aid of construction-cash from customers and an increase of \$80,000 or 24.8% in TIF revenues received from the City of Cedar Falls for certified projects.
- Decrease in interest expense on affiliated note payable of \$16,000 or 21.3% due to the payment of principal thus reducing the outstanding notes balance.

Condensed Statement of Cash Flows

	2015	2014 <i>(Restated)</i>	2013 <i>(Not Restated)</i>
Cash Flows from Operating Activities	\$ 4,731,338	\$ 5,440,258	\$ 4,531,644
Cash Flows from Noncapital Financing Activities	(828,362)	(844,061)	(867,476)
Cash Flows from Capital and Related Financing Activities	(3,558,100)	(3,180,398)	(4,344,385)
Cash Flows from Investing Activities	7,959	80,422	53,527
Net Change in Cash and Cash Equivalents	352,835	1,496,221	(626,690)
Cash and Cash Equivalents-Beginning of Year	3,470,969	1,974,748	2,601,438
Cash and Cash Equivalents-End of Year	\$ 3,823,804	\$ 3,470,969	\$ 1,974,748

2015 Compared to 2014

- ❖ Cash inflows from operations decreased by \$709,000 or 13.0% due to:
 - Decrease of \$128,000 or 0.8% in cash received from customers due to fewer cable subscribers and an increase in accounts receivable.
 - Increase in payments made to suppliers of \$732,000 or 7.7%.
 - Decrease in payments made to employees of \$151,000 or 8.4%.
- ❖ Cash outflows from noncapital financing activities decreased by \$16,000 or 1.9% due to:
 - Decrease of \$16,000 or 26.6% in interest paid on the note payable.
- ❖ Cash outflows from capital and related financing activities increased \$378,000 or 11.9% and include:
 - Increase in capital expenditures by \$821,000 or 51.1%.
 - Increase in reimbursements of utility construction costs of \$211,000 or 44.2%
 - Increase in receipts of intergovernmental grants by \$199,000 or 49776.7%.
- ❖ Cash inflows from investing activities decreased \$72,000 or 90.1% primarily related to the net proceeds of investment securities.

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, 2015 and 2014
Unaudited

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.

- ❖ 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%.
 - Increase in reimbursements of utility construction costs of \$113,000 or 30.9%
 - 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.

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	\$ 3,505,817	\$ 3,203,867
Cash and cash equivalents - restricted (note 2 and 3)	317,987	267,102
Investments - restricted (note 2 and 3)	1,441,000	1,541,000
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$22,184 in 2015 and \$18,389 in 2014	1,945,804	1,864,322
Interest	3,958	2,470
Government grants	-	122,645
Other	1,066,501	136,659
Material and supplies	804,666	768,692
Prepayments and other	153,236	129,563
Total current assets	<u>9,238,969</u>	<u>8,036,320</u>
Noncurrent assets:		
Noncurrent investments: (note 3)	100,000	
Other (note 8)	147,256	178,785
Total noncurrent assets	<u>247,256</u>	<u>178,785</u>
Capital assets: (note 4)		
Capital assets, in service	35,809,878	34,233,300
Less accumulated depreciation	9,675,675	8,229,817
Capital assets, net	<u>26,134,203</u>	<u>26,003,483</u>
Construction work in progress	701,265	550,835
Total capital assets, net	<u>26,835,468</u>	<u>26,554,318</u>
Total assets	36,321,693	34,769,423
Deferred outflows of resources:		
Pension related deferred outflows (note 6)	521,995	234,249
Total deferred outflows of resources	<u>521,995</u>	<u>234,249</u>
Total assets and deferred outflows of resources	<u>\$ 36,843,688</u>	<u>\$ 35,003,672</u>

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, 2015 and 2014

<u>Liabilities</u>	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Current liabilities:		
Accounts payable	\$ 951,203	\$ 672,979
Reserve for surplus declaration (note 8)	35,000	-
Accrued wages and vacation	225,986	214,411
Accrued interest	30,645	35,997
Other accrued liabilities	137,863	137,942
Current installments of note payable (note 5)	783,090	785,000
Current installments of long-term debt (note 5)	1,680,000	1,630,000
Total current liabilities	<u>3,843,787</u>	<u>3,476,329</u>
Noncurrent liabilities: (note 5)		
Other liabilities (note 5 and 10)	242,174	265,737
Net pension liability (note 6)	2,040,514	1,716,179
Customer advances for construction	15,327	17,325
Total noncurrent liabilities	<u>2,298,015</u>	<u>1,999,241</u>
Long-term Debt:		
Long-term note payable, less current installments (note 5)	600,000	1,383,090
Long-term debt, less current installments (note 5)	9,151,248	10,883,772
Total long-term debt	<u>9,751,248</u>	<u>12,266,862</u>
Total liabilities	<u>15,893,050</u>	<u>17,742,432</u>
Deferred inflows of resources:		
Pension related deferred inflows (note 6)	591,357	719,284
TIF related deferred inflows (note 8)	147,256	178,785
Total deferred inflows of resources	<u>738,613</u>	<u>898,069</u>
Total liabilities and deferred inflows of resources	16,631,663	18,640,501
<u>Net Position</u>		
Net investment in capital assets	14,621,130	11,872,456
Restricted	1,804,366	1,748,349
Unrestricted	3,786,529	2,742,366
Total net position	<u>20,212,025</u>	<u>16,363,171</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 36,843,688</u>	<u>\$ 35,003,672</u>

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Operating revenues:		
Cable system revenues	\$ 9,402,556	\$ 9,043,534
Data services revenue	7,625,986	7,132,395
Network access revenue	198,113	196,079
Local private line revenue	302,705	300,420
Other operating Income	46,159	52,331
Total operating revenues	<u>17,575,519</u>	<u>16,724,759</u>
Operating expenses:		
Plant specific and programming	7,632,980	6,823,982
Depreciation	2,230,304	2,354,882
Plant nonspecific	1,385,853	1,364,336
Customer operations	795,163	748,919
Sales	344,905	496,883
Corporate operations (note 8)	1,776,539	1,696,994
Total operating expenses	<u>14,165,744</u>	<u>13,485,996</u>
Operating income	<u>3,409,775</u>	<u>3,238,763</u>
Non-operating revenues (expenses):		
Interest income	9,447	6,942
Miscellaneous revenue (expense), net (note 8)	21,771	12,361
Intergovernmental grant funds	76,363	60,857
Interest expense on long-term debt (note 5)	(332,174)	(386,804)
AFUDC (note 1)	15,926	13,787
Contributed capital (note 8)	689,778	478,376
Interest expense on affiliated note payable (note 5 and 8)	(42,032)	(57,757)
Total non-operating revenues (expenses)	<u>439,079</u>	<u>127,762</u>
Change in net position	3,848,854	3,366,525
Net position, beginning of year, as restated (note 1)	<u>16,363,171</u>	<u>12,996,646</u>
Net position, end of year	<u>\$ 20,212,025</u>	<u>\$ 16,363,171</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, 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Cash flows from operating activities:		
Cash received from customers	\$ 16,589,931	\$ 16,718,202
Cash paid to suppliers	(10,207,906)	(9,475,855)
Cash paid to employees	(1,650,687)	(1,802,089)
	<hr/>	<hr/>
Net cash provided by operating activities	4,731,338	5,440,258
	<hr/>	<hr/>
Cash flows from noncapital financing activities:		
Payments on advance from affiliated utility	(785,000)	(785,000)
Interest paid on note payable	(43,362)	(59,061)
	<hr/>	<hr/>
Net cash used in used in noncapital financing activities	(828,362)	(844,061)
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(1,630,000)	(1,640,000)
Interest payments on long-term debt	(388,720)	(436,353)
Refunds of customer advances for construction	(1,998)	(12,335)
Acquisition, construction and removal cost of capital assets	(2,426,533)	(1,605,625)
Proceeds from sale of capital assets	365	35,140
Reimbursement of utility construction costs	689,778	478,376
Intergovernmental grants	199,008	399
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(3,558,100)	(3,180,398)
	<hr/>	<hr/>
Cash flows from investing activities:		
Proceeds from maturities of investment securities	1,541,000	1,615,000
Purchase of investment securities	(1,541,000)	(1,541,000)
Interest received	7,959	6,422
	<hr/>	<hr/>
Net cash provided by investing activities	7,959	80,422
	<hr/>	<hr/>
Net increase in cash and cash equivalents	352,835	1,496,221
Cash and cash equivalents, beginning of year	3,470,969	1,974,748
	<hr/>	<hr/>
Cash and cash equivalents, end of year (note 1)	<u>\$ 3,823,804</u>	<u>\$ 3,470,969</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, Continued
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 3,409,775	\$ 3,238,763
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	2,230,304	2,354,882
Other income (expense), net	21,771	12,361
(Increase) decrease in accounts receivable	(1,011,324)	(24,845)
(Increase) decrease in materials and supplies	(35,974)	235,636
(Increase) decrease in prepayments and other	(23,673)	(2,123)
Increase (decrease) in accounts payable	208,864	(68,964)
Increase (decrease) in accrued wages and vacation	11,575	(127,296)
Increase (decrease) in other accrued liabilities	(56,417)	(217,994)
Increase (decrease) in other noncurrent liabilities	<u>(23,563)</u>	<u>39,838</u>
Net cash provided by operating activities	<u>\$ 4,731,338</u>	<u>\$ 5,440,258</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	15,926	13,787
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 3,505,817	\$ 3,203,867
Cash - Restricted	<u>317,987</u>	<u>267,102</u>
Cash and cash equivalents	<u>\$ 3,823,804</u>	<u>\$ 3,470,969</u>

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, 2015 and 2014

(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 Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”*** was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state and local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, the 2014 beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by GASB Statement No. 71, ***“Pension Transition for Contributions Made Subsequent to the Measurement Date”***. The 2014 beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Communications Utility
Net position December 31, 2013 as previously reported	\$ 15,416,564
Net pension liability at December 31, 2013	(2,549,358)
Change in outflows of resources related to contributions made after the June 30 ,2013 measurement date	129,440
Net position December 31, 2013, as restated	\$ 12,996,646

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, 2015 and 2014

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

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 2.54% in 2015 and 3.82% in 2014. 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 6.4% and 6.8% of depreciable assets for 2015 and 2014, 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.

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.

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.

Deferred Outflows of Resources

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS.

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, 2015 and 2014

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

Pensions, Continued

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of tax increment financing receivables that will not be recognized as revenue until the year for which they are levied and unrecognized items not yet charged to pension expense.

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 deferred outflows and liabilities and deferred inflows 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.

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, 2015 and 2014, were \$514,090 and \$486,970, 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.

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, 2015 and 2014

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

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. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2015, there was a budget amendment of \$11,141,186 primarily due to the unbudgeted refunding of debt. In 2014, 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 upon termination of service. 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, 2015 and 2014 the accrued liability was \$224,489 and \$226,406, 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 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, 2015 and 2014

(2) Restricted Assets

The composition of restricted assets as of December 31, 2015 and 2014 was as follows:

2015	Cash	Investments	Total
Current Assets – Restricted			
Bond Reserve	\$ 6,928	\$ 1,441,000	\$ 1,447,928
Bond and Interest	168,371	-	168,371
Self-Insured Medical and Dental	142,688	-	142,688
Total Current Assets – Restricted	317,987	1,441,000	1,758,987
Noncurrent Assets - Restricted			
Bond Reserve	\$ -	\$ 100,000	\$ 100,000
Total Noncurrent Assets - Restricted	\$ -	\$ 100,000	\$ 100,000
Total restricted assets	\$ 317,987	\$ 1,541,000	\$ 1,858,987

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

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, 2015 and 2014 was \$60.

Deposits

At December 31, 2015, the Utility's carrying amount of deposits, including \$1,541,000 of certificates of deposits and \$575,000 of money market accounts, was \$5,364,744. 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.

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

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, 2015 and 2014

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

Investments, Continued

investment trusts; and warrants or improvement certificates of a drainage district.

As of December 31, 2015 and 2014, the Utility had no Federal Agency Obligations investments and maturities.

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 2015 or 2014. 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 2015 or 2014.

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.

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, 2015 and 2014

(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:

	2015	2014
Cash on hand	\$ 60	\$ 60
Carrying amount of deposits	5,364,744	5,011,909
Total	\$ 5,364,804	\$ 5,011,969
Current Assets		
Cash and cash equivalents - unrestricted	\$ 3,505,817	\$ 3,203,867
Cash and cash equivalents - restricted	317,987	267,102
Restricted investments	1,441,000	1,541,000
Noncurrent Investments		
Restricted	100,000	-
Total	\$ 5,364,804	\$ 5,011,969

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, 2015 and 2014 follows:

	2015	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		550,835	2,494,489	2,344,059	701,265
Total capital assets, not being depreciated		553,012	2,494,489	2,344,059	703,442
Capital assets, being depreciated:					
Infrastructure		16,809,957	1,081,456	267,331	17,624,082
Equipment		17,421,166	1,262,603	500,150	18,183,619
Total capital assets, being depreciated		34,231,123	2,344,059	767,481	35,807,701
Less accumulated depreciation		8,229,817	2,232,016	786,158	9,675,675
Total capital assets, being depreciated, net		26,001,306	112,043	(18,677)	26,132,026
Capital assets, net		\$ 26,554,318	\$ 2,606,532	\$ 2,325,382	\$ 26,835,468

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, 2015 and 2014

(4) Capital Assets, Continued

2014	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	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	<u>\$ 27,622,986</u>	<u>\$ 94,954</u>	<u>\$ 1,163,622</u>	<u>\$ 26,554,318</u>

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, 2015 and 2014

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2015 and 2014 was as follows:

2015	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation capital loan notes:					
Series 2009B	\$ 1,275,000	\$ -	\$ 105,000	\$ 1,170,000	\$ 110,000
Note payable to the Municipal Electric Utility	368,090	-	185,000	183,090	183,090
Note payable to the Municipal Gas Utility	1,800,000	-	600,000	1,200,000	600,000
Capital loan notes:					
Series 2009	1,955,000	-	165,000	1,790,000	170,000
Series 2010	8,930,000	-	1,360,000	7,570,000	1,400,000
Unamortized premium	358,627	-	52,930	305,697	-
Unamortized discount	(4,855)	-	(406)	(4,449)	-
	<u>14,681,862</u>	<u>-</u>	<u>2,467,524</u>	<u>12,214,338</u>	<u>\$ 2,463,090</u>
Current installments of long-term debt	(2,415,000)	-	48,090	(2,463,090)	
Long-term debt, less current installments	<u>12,266,862</u>	<u>-</u>	<u>2,515,614</u>	<u>9,751,248</u>	
Customer advances for constuction	17,325	-	1,998	15,327	
Net pension liability	1,716,179	324,335	-	2,040,514	
Accrued severance and OPEB	265,737	68,090	91,653	242,174	
Noncurrent liabilities	<u>1,999,241</u>	<u>392,425</u>	<u>93,651</u>	<u>2,298,015</u>	
Total noncurrent liabilities	<u>\$ 14,266,103</u>	<u>\$ 392,425</u>	<u>\$ 2,609,265</u>	<u>\$ 12,049,263</u>	

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 to the Municipal Electric Utility	553,090	-	185,000	368,090	185,000
Note payable to the 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>-</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 constuction	29,660	-	12,335	17,325	
Net pension liability	-	1,716,179	-	1,716,179	
Accrued severance and OPEB	225,899	74,368	34,530	265,737	
Noncurrent liabilities	<u>255,559</u>	<u>1,790,547</u>	<u>46,865</u>	<u>1,999,241</u>	
Total noncurrent liabilities	<u>\$ 14,983,000</u>	<u>\$ 1,800,547</u>	<u>\$ 2,517,444</u>	<u>\$ 14,266,103</u>	

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, 2015 and 2014

(5) Noncurrent Liabilities, Continued

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 2.70% 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:

Year	General Obligation Capital Loan Notes, Series 2009B	
	December 1 Principal Amount	2.70% - 3.80% Interest Amount
2016	\$ 110,000	\$ 39,340
2017	115,000	36,370
2018	120,000	33,035
2019	125,000	29,315
2020	130,000	25,315
2021 – 2024	570,000	53,700
	\$ 1,170,000	\$ 217,075

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 Principal Amount	3.00% - 4.30% Interest Amount	December 1 Principal Amount	3.00% Interest Amount
	2016	\$ 170,000	\$ 74,010	\$ 1,400,000
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	195,000	45,410	1,635,000	49,050
2021 – 2024	880,000	95,993	-	-
	\$ 1,790,000	\$ 395,843	\$ 7,570,000	\$ 698,850

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 notes mature in 2024 and interest rates throughout the term of the notes range between 3.00% and 4.30%.

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, 2015 and 2014

(5) Noncurrent Liabilities, Continued

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 2015 and 2014 were \$1,871,860 and \$1,866,110, respectively. Total customer gross revenues as defined for the same periods were \$17,529,360 and \$16,672,428. Annual principal and interest payments are expected to require 7.51% of gross revenues on average.

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, 2015 and 2014 outstanding balances on this loan were \$183,090 and \$368,090, 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 2014 the Board of Trustees of the Municipal Electric and Gas Utilities adopted resolution No. 5419 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 2015 the Board of Trustees of the Municipal Electric and Gas Utilities adopted resolution No. 5574 approving the continuation of the annual rate at 2.0%. The December 31, 2015 and 2014 outstanding balances on this loan were \$1,200,000 and \$1,800,000 respectively. Total debt service requirements are as follows:

Notes Payable to Municipal Electric Utility			Notes Payable to Municipal Gas Utility		
Year	Principal Amount	Interest Amount	Year	Principal Amount	Interest Amount
2016	183,090	3,351	2016	600,000	24,000
2017	-	-	2017	600,000	12,000
	\$ 183,090	\$ 3,351		\$ 1,200,000	\$ 36,000

(6) Pension Plan - IPERS

Plan Description

Iowa Public Employee' Retirement System (IPERS) membership is mandatory for employees of Cedar Falls Municipal Communications Utility. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.com.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

Plan Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the members first month of entitlement benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payment.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or lump-sum payments equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

Contributions, Continued

In fiscal year 2015 and 2014, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility’s total contributions to IPERS for the years ended December 31, 2015 and 2014 were \$242,354 and \$263,284, respectively.

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

At December 31, 2015 and 2014, the Utility reported a liability of \$2,040,514 and \$1,716,179, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility’s proportion of the net pension liability was based on the Utility’s share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utilities’ collective proportion was 0.190318 percent which was a decrease of 0.010180 percent from its proportion measured as of June 30, 2014 of 0.200498 percent.

For the years ended December 31, 2015 and 2014, the Utility recognized pension expense of \$151,016 and \$44,580, respectively. At December 31, 2015 and 2014 the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 30,751	\$ -	\$ 18,651	
Changes of assumptions	55,862	-	75,739	
Net difference between projected and actual earnings on pension plan investments	305,302	472,428		654,501
Changes in proportion and differences between Utility’s contributions and proportionate share of contributions	547	118,929		64,783
Utility’s contributions subsequent to the measurement date	129,533	-	139,859	
Total	<u>\$ 521,995</u>	<u>\$ 591,357</u>	<u>\$ 234,249</u>	<u>\$ 719,284</u>

\$129,533 reported as deferred outflows of resources related to pensions resulting from the Utility’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

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

deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended	2015	2014
December 31, 2015	na	\$ 156,709
December 31, 2016	\$ 87,210	\$ 156,709
December 31, 2017	\$ 87,210	\$ 156,709
December 31, 2018	\$ 87,210	\$ 156,706
December 31, 2019	\$ (65,884)	\$ (1,939)
December 31, 2020	\$ 3,149	na

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2015 and 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation: (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase: (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return: (effective June 30, 1996)	7.5 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2015 and 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflations) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table from IPERS Comprehensive Annual Financial Reports 2015 (CAFR):

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

Actuarial Assumptions, Continued

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-plus Fixed Income	28%	2.04
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
US TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	-0.71
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Utility's proportionate share of the net pension liability at 6-30-15	\$ 3,572,573	\$ 2,040,514	\$ 747,346
Utility's proportionate share of the net pension liability at 6-30-14	\$ 3,242,671	\$ 1,716,179	\$ 427,661

Pension Plan Fiduciary Net Position

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

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, 2015 and 2014

(6) Pension Plan – IPERS, Continued

Payables to the Pension Plan

At December 31, 2015, the Utility reported a payable of \$31,169 and \$33,517, respectively to the defined benefit pension plan for legally required employer contributions and a payable of \$18,118 and \$20,000, respectively for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(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 communications service to the City. Operating revenues from the service provided amounted to \$39,985 and \$44,720 in 2015 and 2014, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2014 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 \$147,256 and \$178,785 as of December 31, 2015 and 2014, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting deferred inflow of resources at December 31, 2015 and 2014 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$31,529 and \$403,354 in 2015 and 2014, respectively and is recorded as contributed capital 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 2015 and 2014 were \$35,000 and \$0, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2015, the Utility's Board of Trustees approved a payment of \$35,000 related to payments in lieu of taxes for 2015.

Outstanding loan balances from the Municipal Electric Utility are \$183,090, and \$368,090 as of December 31, 2015, and 2014, 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 \$279 and \$612 at December 31, 2015 and 2014, respectively. Interest expense for the years ended December 31, 2015 and 2014 was \$7,029 and \$10,754 respectively.

Outstanding loan balances from the Municipal Gas Utility are \$1,200,000, and \$1,800,000 as of December 31, 2015, and 2014, 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 \$1,995 and \$2,992 at December 31, 2015 and 2014, respectively. Interest expense for the years ended December 31, 2015 and 2014 was \$35,003 and \$47,003 respectively.

See note 5 for description of debt with the City. The interest expense related to this debt to the City was \$41,650 and \$44,961 for the years ended December 31, 2015 and 2014, respectively. The accrued interest related to this debt was \$3,278 and \$3,488 at December 31, 2015 and 2014, 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, 2015 and 2014

(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 2015 plan year for aggregate medical claims exceeding \$2.8 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:

	2015	2014
Unpaid claims and IBNR, beginning of year	\$ 152,000	\$ 325,000
Current year costs including IBNR	3,016,121	2,659,707
Claims paid	(3,043,121)	(2,832,707)
Unpaid claims and IBNR, end of year	<u>\$ 125,000</u>	<u>\$ 152,000</u>

The Communications Utility has recorded \$26,250 and \$27,360 in accounts payable for its share of these unpaid claims at December 31, 2015 and 2014, 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 525 governmental entities participate in the Association as of June 30, 2015. 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.

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, 2015 and 2014

(9) Risk Management, Continued

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2015 and 2014:

	2015	2014
Cash and cash equivalents and investments	\$ 82,061,911	\$ 76,450,260
Receivables	1,944,567	1,730,052
Other assets	773,941	828,246
Total assets	<u>\$ 84,780,419</u>	<u>\$ 79,008,558</u>
Total liabilities	\$ 30,479,705	\$ 28,860,654
Total equity	54,300,714	50,147,904
Total liabilities and equity	<u>\$ 84,780,419</u>	<u>\$ 79,008,558</u>
Total revenue	\$ 8,506,228	\$ 10,493,284
Total expenses	4,353,418	4,473,084
Net increase in equity	<u>\$ 4,152,810</u>	<u>\$ 6,020,200</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 \$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, 2015 and 2014, the Utilities contributed \$214,857 and \$124,345, respectively and retirees receiving benefits contributed \$85,269 and \$105,738, respectively, through their required contributions.

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, 2015 and 2014

(10) 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:

	2015	2014
Annual required contribution	\$ 74,113	\$ 73,136
Interest on net OPEB obligation	51,446	53,435
Adjustment to annual required contribution	(39,646)	(41,179)
Annual OPEB expense	85,913	85,392
Contributions and payments made	129,588	18,607
Increase (Decrease) in net OPEB obligation	\$ (43,675)	\$ 66,785
Net OPEB obligation, December 31, 2014	1,028,929	962,144
Net OPEB obligation, December 31, 2015	\$ 985,254	\$ 1,028,929

The Communications Utility's share of the December 31, 2015 and 2014 Net OPEB obligation is \$17,685 and \$39,330, 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, 2015, 2014 and 2013:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	\$ 85,913	150.84%	\$ 985,254
December 31, 2014	\$ 85,392	21.79%	\$ 1,028,929
December 31, 2013	\$ 85,392	248.33%	\$ 962,144

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 \$931,950. 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 active employees covered by the Plan which was \$13,073,650 in 2015 and the ratio using the January 1, 2015 actuarial valuation UAAL to the covered payroll was 7.1%.

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.

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, 2015 and 2014

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

Funded Status and Funding Progress, Continued

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, 2015
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	8.0% declining 0.5% annually to 5%

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, 2015, the Utility was involved in several construction projects with an estimated cost to complete of \$1,616,000 and an estimated time frame to complete through 2018.

(12) Subsequent Events

Subsequent events for the Utility have been evaluated through May 26, 2016, which is the date that the financial statements were available to be issued.

Effective January 2, 2016, the Board of Trustees approved the following rate increases per month per subscriber: \$2.00 or 8.7%, for Basic Lifeline and \$2.50 or 6.2%, for Basic Plus.

In January 2016 the Board of Trustees adopted resolution No. 5722 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 COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

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

	2015	2014
Utilities proportion of the net pension liability (asset)	0.190318%	0.200498%
Utility's proportionate share of the net pension liability	\$ 2,040,514	\$ 1,716,179
Utility's Covered-employee payroll	\$ 2,829,557	\$ 2,831,621
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

*The amounts presented for each fiscal year were determined as of June 30, 2015.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the Utilities will present information for those years for which information is available.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

**Schedule of Utility's Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years**

	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 242,354	\$ 263,284	\$ 258,040	\$ 251,418	\$ 215,512
Contributions in relation to the statutorily required contribution	(242,354)	(263,284)	(258,040)	(251,418)	(215,512)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 2,713,925	\$ 2,948,304	\$ 2,932,777	\$ 2,999,286	\$ 2,864,678
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.80%	8.38%	7.52%
	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 138,226	\$ 118,351	\$ 100,992	\$ 83,095	\$ 77,117
Contributions in relation to the statutorily required contribution	(138,226)	(118,351)	(100,992)	(83,095)	(77,117)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 2,028,925	\$ 1,819,321	\$ 1,627,291	\$ 1,408,697	\$ 1,341,169
Contributions as a percentage of covered-employee payroll	6.81%	6.51%	6.21%	5.90%	5.75%

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

Notes to Required Supplemental Information
Iowa Public Employees' Retirement System

Changes of Benefit Terms

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

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

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. The contribution rates were also changed to be share 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions

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

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

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

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between valuation date and the effective date of the annual actuarial contribution rate.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

Notes to Required Supplemental Information
Iowa Public Employees' Retirement System

Changes of Assumptions, Continued

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Required Supplemental Information
December 31, 2015 and 2014

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

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2015	January 1, 2015	\$ -	\$931,950	\$931,950	0.0%	\$13,073,650	7.1%
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%

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

To the Board of Trustees
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 (Municipal Communications Utility) as of and for the year ended December 31, 2015, and have issued our report thereon dated May 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Communications Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Comments involving statutory and other legal matters about the Municipal Communications Utility's operations for the year ended December 31, 2015, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Municipal Communications Utility and are reported in Part III of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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.



Dubuque, Iowa
May 26, 2015

Part I: Findings Related to the Financial Statements:

There were no findings to report.

Part II: Findings and Questioned Costs for Federal Awards:

Single audit did not apply for fiscal year 2015.

Part III: Other Findings Related to Required Statutory Reporting:

- 2015-IA-A **Certified Budget** – Disbursements during the year ended December 31, 2015, did not exceed the amount budgeted.

- 2015-IA-B **Questionable Expenditures** – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

- 2015-IA-C **Travel Expense** – No expenditures of the Utility’s money for travel expenses of spouses of Utility officials or employees were noted.

- 2015-IA-D **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.

- 2015-IA-E **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 insure the coverage is adequate for current operations.

- 2015-IA-F **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

- 2015-IA-G **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility’s investment policy were noted.

- 2015-IA-H **Revenue Bonds** – No instances of noncompliance with the provisions of the Utility’s revenue bond resolutions were noted.

- 2015-IA-I **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.