

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

DECEMBER 31, 2015

**T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants**

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**OSAGE MUNICIPAL UTILITIES
OFFICIALS**

December 31, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Royce Tack	Chairman	December 2021
Kevin Palsic	Trustee	December 2021
Tom Kenny	Trustee	December 2016
Nan Jakobson	Trustee	December 2018
Jen Frein	Trustee	December 2020
Beverly Schuler	Treasurer	December 2015
Josh Byrnes	General Manager	Indefinite
Jane Michels	Cashier	Indefinite



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Osage Municipal Utilities
Osage, Iowa

We have audited the accompanying financial statements of each major fund of Osage Municipal Utilities (the Utility), a component unit of the City of Osage, Iowa, as of and for the year ended December 31, 2015, and the related Notes to the Financial Statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 of 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Osage Municipal Utilities as of December 31, 2015, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 15 to the financial statements, Osage Municipal Utilities adopted new accounting guidance related to the Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 16 to the financial statements, certain corrections to beginning net position were needed in order to present the financial statements in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters*Required Supplementary Information*

U.S. generally accepted accounting principles require Management’s Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utility’s Proportionate Share of the Net Pension Liability, the Schedule of Utility Contributions, and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 9 and 32 through 38 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Osage Municipal Utilities’ basic financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2016 on our consideration of Osage Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 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 Osage Municipal Utilities' internal control over financial reporting.

T.P. Anderson & Company, P.C.

August 23, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Osage Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2015. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- ◆ The Utilities' operating revenues decreased 6% or approximately \$638 thousand, from 2014 to 2015.
- ◆ Operating expenses decreased 8%, or approximately \$751 thousand, from 2014 to 2015.
- ◆ The Utilities' adjusted net position increased 5% or approximately \$826 thousand during 2015.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Fund Financial Statements report the Utility's operations by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year, the Utility's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

The Supplementary Information in Schedules 1 through 5 provides comparative information and additional detail with respect to the Utility's revenues and expenses.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Fund Financial Statements

Osage Municipal Utilities utilizes one kind of fund:

Proprietary funds account for the Utility's Enterprise Funds. These funds report services for which the Utility charges customers for the service it provides. The Utility maintains three enterprise funds, each considered to be a major fund, to provide separate information for the light and power, gas, and communications activities.

The financial statements required for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position, and a Statement of Cash Flows.

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

Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2015	2014 Not restated
Current and other assets	\$ 9,268	\$ 10,277
Capital assets (net of accumulated depreciation)	14,718	14,707
Total assets	23,986	24,984
Deferred outflows of resources	194	-
Long-term debt outstanding	3,888	3,962
Other liabilities	2,622	2,084
Total liabilities	6,510	6,046
Deferred inflows of resources	288	-
Net position		
Net investment in capital assets	9,593	10,078
Restricted	1,118	946
Unrestricted	6,671	7,914
Total net position	\$ 17,382	\$ 18,938

In 2015, total assets decreased by approximately \$1.0 million and liabilities increased by \$465,000. The changes resulted from a prior period adjusted needed due to implementing GASB 68, from removing from capital assets charges that were previously believed to be capital items, and the current year excess of revenues over expenses.

INDIVIDUAL MAJOR FUND ANALYSIS

As Osage Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$17.4 million, an decrease of approximately \$1.5 million under the prior year total of \$18.9 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

Electric Utility Results of Operations

Light and Power operating revenues increased during 2015 by approximately \$272,000 or 4.9% from the prior year.

Total operating expenses for 2015 increased approximately \$50,000, or 1.0% from 2014. No significant fluctuations in expenses were experienced during 2015.

The combined effect of these two factors resulted in 2015 operating income of \$721,000.

Gas Utility Results of Operations

The Gas Utility experienced favorable natural gas market prices during 2015, as compared to 2014, which lowered the Utility's cost to purchase natural gas and contributed significantly to an \$870 thousand dollar decrease in operating expenses. As a result of the lower cost to purchase natural gas, the Utility lowered the purchased gas adjustment billed to customers, which resulted in a decrease in operating revenues of \$890 thousand dollars.

Communications Utility Results of Operations

The Communications Utility experienced an operating loss for 2015 of \$52,000. Operating revenues were down by \$21,000 while expenses increased \$70,000. These changes were primarily the result of decreased carrier access billing revenues received by the Utility and higher cable programming and retransmission charges incurred by the Utility.

Most of the Communications Utility's capital assets are owned by the Electric Utility. The Communications Utility shares the use of these assets through an operating joint use agreement as outlined in Note 9.

Combined Results of Operations

The following analysis focuses on the change in net position for the combined divisions of Osage Municipal Utilities:

Changes in Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2015	2014 Not restated
Operating revenues	\$ 10,285	\$ 10,922
Operating expenses	9,223	9,974
Operating income	1,062	948
Net non-operating revenues (expenses)	(239)	(262)
Other financing sources	3	2
Change in net position	826	688
Net position beginning of year – unadjusted	18,938	18,250
Prior-period adjustment	(2,382)	-
Net position end of year	\$ 17,382	\$ 18,938

BUDGETARY HIGHLIGHTS

Osage Municipal Utilities did not amend its budget during the year. The Utility's disbursements were within budgeted limits for 2015.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utility's capital assets include land, buildings and improvements, equipment, infrastructure, and vehicles. Capital assets for the Utility totaled \$14.7 million (net of accumulated depreciation) at December 31, 2015. The condensed summary of capital assets shown below presents information on the Utility's capital asset balances:

	Capital Assets of Business Type Activities (Expressed in Thousands)	
	Year ended December 31,	
	2015	2014 Not restated
Land and improvements	\$ 60	\$ 60
Buildings and improvements	1,768	1,768
Equipment and vehicles	12,292	12,838
Construction in progress	598	41
Iowa Stored Energy Project	-	-
Total	\$ 14,718	\$ 14,707

Total capital assets (net of accumulated depreciation) decreased due to a prior period adjustment described earlier. Significant additions in 2015 resulted from a project to reduce emissions from the generation plant.

The Utility had depreciation expense of \$1.1 million in 2015 and total accumulated depreciation of \$18 million at December 31, 2015.

LONG-TERM DEBT

At December 31, 2015, the Utility had \$3,788,000 of outstanding revenue bonds in comparison to \$4,628,000 at December 31, 2014. The reduction in revenue bonds resulted from making principal payments on the remaining revenue bonds as required in the original bond agreements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Utility continued to improve its financial position during the current year. However current economic conditions continue to be a concern. Keeping those concerns in mind, management evaluated electric, gas and telecommunications rates during 2015. Rate increases for electric, gas and telecommunications high speed internet services were implemented during 2015. Telecommunications telephone and cable television rate increases were

implemented in early 2016. The Utility anticipates a balanced budget in 2016. The Utility continues to work with its Electric, Gas and Telecommunications Utility customers, vendors and suppliers to maximize revenues while limiting expenses.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Osage Municipal Utilities' finances and to provide accountability for the money the Utility receives. If you have questions about this report or need additional financial information, contact Josh Byrnes, General Manager, at 720 Chestnut Street, Osage, Iowa.

**OSAGE MUNICIPAL UTILITIES
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STATEMENT OF NET POSITION

DECEMBER 31, 2015

	ENTERPRISE LIGHT AND POWER
Assets	
Current assets:	
Cash and cash equivalents	\$ 4,199,149
Accounts receivable (net of allowance for uncollectibles)	622,476
Unbilled usage	358,984
Certificates of deposit	124,962
Inventory	434,924
Prepaid expenses	16,454
Revolving loan receivable (current portion)	-
Total current assets	5,756,949
Non-current assets:	
Capital assets (net of accumulated depreciation)	10,873,943
Revolving loan receivable (net of current portion)	-
Restricted cash:	
Revolving loan	-
Certificates of deposit	788,499
Sinking and reserve funds	73,530
Total non-current assets	11,735,972
Total assets	17,492,921
Deferred Outflows of Resources	
Pension related deferred outflows	102,157
Liabilities	
Current liabilities:	
Accounts payable	802,235
Accounts payable - City of Osage	127,820
Customer meter deposits	23,963
Customer budget billing	18,994
Accrued expenses	78,126
Accrued interest payable	7,417
Deferred revenue	-
Revenue bonds payable (current portion)	720,466
Total current liabilities	1,779,021
Non-current liabilities:	
Revenue bonds (net of current portion)	2,637,796
Accrued wind expenses	57,000
Net pension liability	345,928
Net OPEB liability	47,605
Total non-current liabilities	3,088,329
Total liabilities	4,867,350
Deferred Inflows of Resources	
Unavailable revenues:	
Pension related deferred outflows	131,927
Net Position	
Net investment in capital assets	7,515,681
Restricted for:	
Bond covenants	862,029
Revolving loan	-
Unrestricted	4,218,091
Total net position	\$ 12,595,801

See notes to financial statements.

FUNDS		
GASWORKS	COMMUNICATIONS	TOTAL
1,029,037	1,644,439	6,872,625
259,682	153,512	1,035,670
221,682	-	580,666
	-	124,962
39,231	48,005	522,160
129,957	11,924	158,335
37,512	-	37,512
<u>1,717,101</u>	<u>1,857,880</u>	<u>9,331,930</u>
2,032,793	474,848	13,381,584
155,104	-	155,104
		-
171,213		171,213
-	-	788,499
84,574	-	158,104
<u>2,443,684</u>	<u>474,848</u>	<u>14,654,504</u>
4,160,785	2,332,728	23,986,434
36,307	56,325	194,789
213,046	77,119	1,092,400
-	-	127,820
39,308	26,086	89,357
134,280	-	153,274
29,423	43,492	151,041
898	-	8,315
-	140,414	140,414
140,000	-	860,466
<u>556,955</u>	<u>287,111</u>	<u>2,623,087</u>
290,000	-	2,927,796
-	-	57,000
191,696	218,133	755,757
62,352	37,577	147,534
<u>544,048</u>	<u>255,710</u>	<u>3,888,087</u>
1,101,003	542,821	6,511,174
73,107	83,190	288,224
1,602,793	474,848	9,593,322
84,574	-	946,603
171,213	-	171,213
<u>1,164,402</u>	<u>1,288,194</u>	<u>6,670,687</u>
<u>3,022,982</u>	<u>1,763,042</u>	<u>17,381,825</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION**

YEAR ENDED DECEMBER 31, 2015

	ENTERPRISE LIGHT AND POWER
Operating revenues:	
Charges for service	\$ 5,819,283
Operating expenses:	
Business type activities:	
Cost of sales and services	4,137,618
Depreciation	960,243
Total operating expenses	5,097,861
Operating income (loss)	721,422
Non-operating revenues (expenses):	
Interest income	20,344
Interest expense	(102,908)
Donations	(154,560)
Other income	40,339
Net non-operating revenues (expenses)	(196,785)
Other financing sources (uses):	
Gain (loss) on sale of capital assets	(2,686)
Change in net position	521,951
Net position, beginning of year, as restated	12,073,850
Net position, end of year	\$ 12,595,801

See notes to the financial statements.

FUNDS		
GASWORKS	COMMUNICATIONS	TOTAL
2,658,942	1,806,624	10,284,849
2,156,596	1,809,413	8,103,627
111,068	47,696	1,119,007
2,267,664	1,857,109	9,222,634
391,278	(50,485)	1,062,215
6,048	5,568	31,960
(12,632)	(67)	(115,607)
(85,280)	(3,130)	(242,970)
47,617	-	87,956
(44,247)	2,371	(238,661)
4,182	1,196	2,692
351,213	(46,918)	826,246
2,671,769	1,809,960	16,555,579
3,022,982	1,763,042	17,381,825

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015

	ENTERPRISE LIGHT AND POWER
Cash flows from operating activities:	
Cash receipts from customers	\$ 5,617,281
Cash receipts from other funds	143,523
Cash payments to suppliers	(3,309,315)
Cash payments to employees	(577,776)
Cash payments to other funds	-
Net cash provided by operating activities	1,873,713
Cash flows from non-capital financing activities:	
Miscellaneous non-operating revenue	40,339
Donations	(154,560)
Net cash used by non-capital financing activities	(114,221)
Cash flows from capital and related financing activities:	
Acquisition/construction of capital assets	(646,253)
Proceeds from sale of assets	-
Repayment of revenue bonds	(704,466)
Cash payments for interest	(104,172)
Net cash used by capital and related financing activities	(1,454,891)
Cash flows from investing activities:	
Purchases of investments	(70,190)
Collections on revolving loan fund	-
Income from investments	20,344
Net cash provided by investing activities	(49,846)
Net increase (decrease) in cash and cash equivalents	254,755
Cash and cash equivalents, beginning of year	3,944,394
Cash and cash equivalents, end of year	\$ 4,199,149
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 721,422
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	960,243
Change in accounts receivable	(53,989)
Change in meter deposits and unbilled usage	(4,490)
Change in inventory	3,508
Change in prepaid expenses	10,498
Change in accounts payable and other liabilities	260,754
Change in net pension liability	(131,654)
Change in deferred outflows of resources	(24,506)
Change in deferred inflows of resources	131,927
Net cash provided by operating activities	\$ 1,873,713

See notes to the financial statements.

FUNDS		
GASWORKS	COMMUNICATIONS	TOTAL
2,886,922	1,828,202	10,332,405
-	-	143,523
(1,882,399)	(1,299,544)	(6,491,258)
(279,983)	(388,158)	(1,245,917)
-	(143,523)	(143,523)
<u>724,540</u>	<u>(3,023)</u>	<u>2,595,230</u>
47,617	-	87,956
(85,280)	(3,130)	(242,970)
<u>(37,663)</u>	<u>(3,130)</u>	<u>(155,014)</u>
(235,983)	(193,823)	(1,076,059)
4,182	-	4,182
(135,000)	-	(839,466)
(12,801)	(67)	(117,040)
<u>(379,602)</u>	<u>(193,890)</u>	<u>(2,028,383)</u>
(171,673)	-	(241,863)
37,474	-	37,474
6,048	5,568	31,960
<u>(128,151)</u>	<u>5,568</u>	<u>(172,429)</u>
179,124	(194,475)	239,404
849,913	1,838,914	6,633,221
<u>1,029,037</u>	<u>1,644,439</u>	<u>6,872,625</u>
391,278	(50,485)	1,062,215
111,068	47,696	1,119,007
48,378	9,014	3,403
187,226	3,299	186,035
(4,173)	(16,352)	(17,017)
69,502	(8,429)	71,571
(64,121)	31,512	228,145
(88,861)	(94,504)	(315,019)
1,136	(7,964)	(31,334)
73,107	83,190	288,224
<u>724,540</u>	<u>(3,023)</u>	<u>2,595,230</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Osage Municipal Utilities (Utility) is a component unit of the City of Osage whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. The Utility is governed by a separate Board of Trustees and operates under the authority of Chapter 388 of the Code of Iowa. The Utility provides electric, gas, cable, telephone, internet, and wireless internet services on a user charge basis to the general public and other governmental units within Mitchell County, Iowa.

A. Reporting Entity

For financial reporting purposes, the Utility has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The Utility participates in a jointly governed organization that provides goods and services to the Utility but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating parties. The General Manager serves on the Upper Midwest Municipal Energy Group (UMMEG) board.

B. Basis of Presentation

Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the financial statements.

The Utility reports the following three major funds:

The Light and Power Fund is used to account for delivery of electricity to the citizens and businesses of Osage.

**OSAGE MUNICIPAL UTILITIES
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NOTES TO THE FINANCIAL STATEMENTS

The Gas Fund is used to account for the delivery of natural gas to the citizens and businesses of Osage.

The Communications Fund is used to account for the delivery of telephone, cable, and high speed internet to the citizens and businesses of Osage.

C. Measurement Focus and Basis of Accounting

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

In reporting its financial activity, the Utility applies all GASB pronouncements applicable to proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility result from charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2015, disbursements did not exceed the amount budgeted.

E. The Utility Plant and Depreciation

The Utility's plant is stated at original cost when first placed in service. Expenditures for additions and betterments over \$2,500 (including labor charges) are capitalized, while expenditures for repairs and maintenance are charged to operations as incurred. Interest costs incurred during construction periods are also capitalized. The costs of assets retired or sold and the related accumulated depreciation are eliminated from the accounts in the year of disposal, with the resulting gain or loss credited or charged to operations. The straight-line method is used for computing depreciation with estimated useful lives ranging from two to fifty years.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

F. Revenue, Unbilled Usage, and Deferred Revenue

Revenues are based on billing rates applied to customers' consumption. Unbilled usage represents revenues based upon estimated consumption for the period between the last billing dates and the end of the year. Deferred revenue represents amounts billed for cable, internet, and telephone services that had not yet been provided at the end of the year.

G. Inventory

Inventories, which consist of fuel oil and materials for plant and distribution systems, are stated at the lower of cost (first-in, first-out) or market. Inventories are recorded as expenses when consumed rather than when purchased.

H. Rate Matters

Rates charged by the Utility are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Fair Value of Financial Instruments

The Utility is required to disclose the estimated fair values for all financial instruments for which it is practicable to estimate fair value. For instruments including cash, accounts receivable and payable and accruals, it is estimated that the carrying values approximate fair value because of their short maturities. The carrying amounts of long term debt, which matures through the year 2029, are also assumed to approximate their fair value.

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K. Cash and Cash Equivalents

For the purpose of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

L. Restricted Assets

Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers. The Utility's policy is to utilize restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

M. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period 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.

N. 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.

O. 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. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

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Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

P. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

The Electric and Gas funds of the Utility use the direct write off method to charge off uncollectible accounts receivable which approximates the results that would have been experienced using the allowance method to account for bad debts. A 1.5% per month penalty is charged for accounts older than 30 days. Utilities are shut off for all users when 32 days past due except for utilities purchased under Iowa's Winter Utility Shutoff Moratorium. Therefore, uncollectible accounts are insignificant.

The Communications Fund uses the allowance method to charge off uncollectible accounts receivable. Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for doubtful accounts and related accounts receivable write offs. A 1.5% per month penalty is charged for accounts older than 30 days. As of December 31, 2015 the allowance for doubtful accounts was \$-0-.

NOTE 2 – CASH AND INVESTMENTS

The Utility's deposits at December 31, 2015 (which include certificates of deposit totaling \$913,461) were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district.

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The Utility has funds on deposit with the UMMEG Investment Pool as part of its Shared Transmission System Agreement with Dairyland Power Cooperative. According to the agreement, the funds can be withdrawn at any time, and have been withdrawn in the past. These deposits were \$522,120 as of December 31, 2015. The UMMEG Investment Pool is held outside the State of Iowa. Cash is used in order to invest in transmission improvements and to cover control center costs.

The Utility's investments are categorized to give an indication of the level of risk assumed by the Utility at year-end. The Utility's investments are all category 1, which means that the investments are insured or registered, or the securities are held by the Utility or its agent in the Utility's name.

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

NOTE 3 – REVENUE BONDS PAYABLE

A summary of changes in long-term debt for the year ended December 31, 2015 is as follows:

Light and Power Fund:

	Bal.1/1/15	Issued	Repaid	Bal.12/31/15
Business type activities:				
Revenue bonds—issued November 2008	\$ 963,728	-	120,466	\$ 843,262
Revenue bonds—issued February 2010	369,000	-	19,000	350,000
Revenue bonds—issued February 2010	800,000	-	100,000	700,000
Revenue bonds—issued December 2010	1,930,000	-	465,000	1,465,000
	<u>\$ 4,062,728</u>	<u>-</u>	<u>704,466</u>	<u>\$ 3,358,262</u>

Gas Fund:

	Bal.1/1/15	Issued	Repaid	Bal.12/31/15
Business type activities:				
Revenue bonds—issued August 2013	\$ 565,000	-	135,000	\$ 430,000
	<u>\$ 565,000</u>	<u>-</u>	<u>135,000</u>	<u>\$ 430,000</u>

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A summary of the annual Light and Power Fund principal and interest requirements to maturity by year is as follows:

Year Ending December 31,	Light and Power Series 2008 Interest 1.27%		Light and Power Series 2010 Interest 2-4%		SRF Revenue Bonds Feb 2010 Interest 3%		2010 Refunding Dec 2010 Interest 2-3.25%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	120,466	10,710	100,000	25,000	20,000	10,500	480,000	42,800	720,466	89,010
2017	120,466	9,179	100,000	22,000	21,000	9,900	485,000	30,800	726,466	71,879
2018	120,466	7,650	100,000	18,800	21,000	9,270	500,000	16,250	741,466	51,970
2019	120,466	6,120	100,000	15,400	22,000	8,640	-	-	242,466	30,160
2020- 2024	361,398	9,180	300,000	23,800	122,000	32,790	-	-	783,398	65,770
2025- 2029	-	-	-	-	144,000	13,200	-	-	144,000	13,200
	<u>\$843,262</u>	<u>\$42,839</u>	<u>\$700,000</u>	<u>\$105,000</u>	<u>\$350,000</u>	<u>\$84,300</u>	<u>\$1,465,000</u>	<u>\$89,850</u>	<u>\$3,358,262</u>	<u>\$321,989</u>

A summary of the annual Gas Fund principal and interest requirements to maturity by year is as follows:

Year Ending December 31,	Gas Series 2013 Interest 1.00-3.00%	
	Principal	Interest
2016	140,000	10,775
2017	145,000	7,975
2018	145,000	4,350
2019	-	-
	<u>\$430,000</u>	<u>\$23,100</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to the sinking fund for the purpose of making the note principal and interest payments when due.
- C. Sufficient monthly transfers shall be made to a light and power reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund. The reserve fund set aside amounted to \$688,499 at December 31, 2015.
- D. Sufficient monthly transfers shall be made to a gas reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund. The reserve fund set aside amounted to \$70,000 at December 31, 2015.

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- E. Sufficient monthly transfers shall be made to a light and power improvement fund to be used solely for the purpose of paying principal or interest on the bonds should insufficient money be available in the sinking and reserve funds; and to the extent not required for the foregoing purposes to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, or capital improvements to the system. The required minimum balance in the reserve is \$100,000 and has been achieved as of December 31, 2015.

NOTE 4 – INTEREST COSTS

During the year ended December 31, 2015, the interest incurred and expensed is as follows:

	December 31, 2015
Light and Power	\$ 102,908
Gas	\$ 12,632
Communications	\$ 67

NOTE 5 - PENSION AND RETIREMENT BENEFITS

Plan Description – IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. 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 P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, 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 member’s first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

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- 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 payments.

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

Contributions – 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, 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. Protective occupation members contributed 6.76 percent of pay and the Utility contributed 10.14 percent for a total rate of 16.80 percent.

The Utility's total contributions to IPERS for the year ended December 31, 2015 were \$109,668.

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Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2015, the Utility reported a liability of \$755,757 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 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, 2014, the Utility’s collective proportion was .018674 percent which was a decrease of .000238 percent from its proportion measured as of June 30, 2013.

For the year ended December 31, 2015, the Utility recognized pension expense of \$56,567. At December 31, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,214	\$ -
Changes of assumptions	33,354	-
Net difference between projected and actual earnings on pension plan investments	-	288,224
Utility contributions subsequent to the measurement date	153,221	-
	\$ 194,789	\$ 288,224

\$153,221 reported as deferred outflows of resources related to pensions resulting from the Utility 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:

Year Ended December 31,	Total
2016	\$ (63,742)
2017	(63,742)
2018	(63,742)
2019	(63,742)
2020	8,312
	\$ (246,656)

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There were no non-employer contributing entities at IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 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)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 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 inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non-US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
	<hr/> <hr/> <u>100%</u>	

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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	\$ 1,427,980	\$ 755,757	\$ 188,329

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, the Utility reported no payables to the defined benefit pension plan.

NOTE 6 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years. The Utility assumes liability for any deductibles and claims in excess of coverage limitations.

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NOTE 7 – COMPENSATED ABSENCES

The Utility’s employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the proprietary fund financial statements. The Utility’s approximate liability for earned vacation payments payable to employees at December 31, 2015 is as follows:

December 31, 2015	Light and Power	Gas	Communications	Total
Vacation	<u>\$ 47,166</u>	<u>\$ 14,073</u>	<u>\$ 21,061</u>	<u>\$ 82,300</u>

NOTE 8 – INTERFUND TRANSFERS

There were no interfund transfers made during the year ended December 31, 2015.

NOTE 9 – JOINT USE AGREEMENT

The Utility’s Light and Power Fund constructed a Fiber Optic System to facilitate information transmission. Portions of this system are with the Communications Fund under a thirty-year joint use agreement. Required annual payments under this agreement are \$143,523. Future minimum payments due under this agreement are as follows:

Year Ending:	Payment
2016	143,523
2017	143,523
2018	143,523
2019	143,523
2020-2024	717,615
2025-2029	717,615
2030-2034	717,615
2035	143,523
Total	<u>\$ 2,870,460</u>

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015 was as follows:

Light and Power Fund				
Capital Assets	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital Assets not being depreciated:				
Land	\$ 41,029	-	-	\$ 41,029
Construction in progress	20,623	444,967	20,623	444,967
Capital Assets being depreciated:				
Buildings and improvements	1,199,223	23,606	-	1,222,829
Generating equipment and lines	15,837,726	60,013	2,412,878	13,484,861
HFC distribution center	5,882,742	10,070	-	5,892,812
Equipment and vehicles	1,555,747	50,049	-	1,605,796
Broadband room and digital cable	437,447	-	-	437,447
Wind Energy	3,641,323	-	-	3,641,323
Total capital assets	28,615,860	588,705	2,433,501	26,771,064
Less: Accumulated depreciation	16,153,566	960,243	1,216,687	15,897,122
Book value	\$ 12,462,294			\$ 10,873,942

Gas Fund				
Capital Assets	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital Assets not being depreciated:				
Land	\$ 18,956	-	-	\$ 18,956
Construction in progress	20,623		20,623	-
Capital Assets being depreciated:				
Buildings and improvements	569,116	-	-	569,116
Peak shaving plant	254,476	-	-	254,476
Gas plant, lines and meters	1,051,198	171,829	-	1,223,027
VBC gas pipeline	1,187,237	-	-	1,187,237
Equipment and vehicles	512,799	77,152	-	589,951
Total capital assets	3,614,405	248,981	20,623	3,842,763
Less: Accumulated depreciation	1,698,903	111,068	-	1,809,971
Book value	\$ 1,915,502			\$ 2,032,792

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Communications Fund

Capital Assets	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital Assets not being depreciated:				
Construction in progress	\$ 20,623	153,621	20,623	\$ 153,621
Capital Assets being depreciated:				
Equipment and vehicles	475,522	60,821	-	536,343
Organizational costs	40,476	-	-	40,476
Total capital assets	536,621	214,442	20,623	730,440
Less: Accumulated depreciation	207,896	47,696	-	255,592
Book value	<u>\$ 328,725</u>			<u>\$ 474,848</u>

NOTE 11 – RESTRICTED CASH BALANCES

As required by bond resolution, the Light and Power Fund of the Utility has set aside the following reserve and sinking funds for the year ended December 31, 2015:

December 31, 2015

	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	\$ 688,499	\$ 73,464	\$ 100,000	\$ 861,963
Deposits	-	810,794	-	810,794
Withdrawals	-	810,728	-	810,728
Balance, end of year	<u>\$ 688,499</u>	<u>\$ 73,530</u>	<u>\$ 100,000</u>	<u>\$ 862,029</u>

As required by bond resolution, and the revolving loan fund, the Gas Fund of the Utility has set aside the following cash balances for the year ended December 31, 2015:

	Reserve for Debt Service	Reserve for Sinking Fund	Revolving Loan Fund	Total
Balance, beginning of year	\$ 70,000	\$ 13,817	\$ 132,600	\$ 216,417
Deposits	509	148,267	38,613	187,389
Withdrawals	-	148,019	-	148,019
Balance, end of year	<u>\$ 70,509</u>	<u>\$ 14,065</u>	<u>\$ 171,213</u>	<u>\$ 255,787</u>

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NOTE 12 – REVOLVING LOAN FUND RECEIVABLE

The Utility manages a revolving loan fund used to increase economic development in the area. The revolving loan fund was funded through a grant from the USDA. The initial loan made from the fund was to the City of Osage for \$360,000 and as they repay their portion the Utility will develop new programs to loan the money back out. No new loans were made from this fund during the years ended December 31, 2015 or December 31, 2014. As of December 31, 2015 the balance of the receivable was \$192,616. The Utility has a separate bank account specifically for making loans and depositing collections for this revolving loan fund that had a balance at December 31, 2015 of \$171,213.

NOTE 13 - ECONOMIC DEVELOPMENT

The Utility's Board of Trustees has agreed to contribute financially to assist in constructing the Cedar River Recreation & Fine Arts Complex. The contributions for the year ended December 31, 2015 were \$100,000. The annual contributions are anticipated to be \$100,000 per year for the next 7 years. The contributions may only come from surpluses generated by the Utility and are expected to attract economic activity to the region.

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The Utility operates a single-employer health plan which provides medical/prescription drug benefits for employees, retirees, and their spouses. There are 20 active and 1 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the Utility's annual OPEB cost for the year ended December 31, 2015, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

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	Light and Power	Gas	Cable	Total
Annual required contribution	\$8,999	\$ 7,422	\$ 7,786	\$ 24,207
Interest on net OPEB obligation	1,386	1,899	881	4,166
Adjustment to annual required contribution	(1,377)	(1,886)	(876)	(4,139)
Annual OPEB cost	9,008	7,435	7,791	24,234
Contributions made	(2,543)	(1)	1	2,543
Increase in net OPEB obligation	6,465	7,434	7,792	21,691
Net OPEB obligation beginning of year	41,139	54,918	29,786	125,843
Net OPEB obligation end of year	\$ 47,604	\$ 62,352	\$ 37,578	\$ 147,534

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2014. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2015.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 28,722	22.9%	\$ 104,152
December 31, 2014	\$ 24,234	10.5%	\$ 125,843
December 31, 2015	\$ 24,234	10.5%	\$ 147,534

Funded Status and Funding Progress – As of January 1, 2014, the most recent actuarial valuation date for the period January 1, 2014 through December 31, 2015, the actuarial accrued liability was \$184,322, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$184,322. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,099,225 and the ratio of the UAAL to covered payroll was 16.8%. As of December 31, 2015 there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the January 1, 2014 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the Utility's funding policy. The projected annual medical trend rate is 9%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the SOA RPH 2014 Total Dataset Mortality fully generational using Scale MP-2014. Annual retirement probability 100% at age 60 and termination probabilities were developed based on national averages.

Projected claim costs of the medical plan for retirees are \$792 per month for the Traditional Plan and \$542 for the HSA Plan. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 15 – ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board 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 or 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, 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 Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

	Electric Utility	Gas Utility	Communications Utility
Net Position December 31, 2014, as previously reported	\$ 13,905,625	\$ 2,914,883	\$ 2,117,313
Net pension liability at December 31, 2014	(477,582)	(280,557)	(312,637)
Change in outflows of resources Related to contributions made after June 30, 2013 measurement date	77,651	37,443	48,361
Net position January 1, 2015 as restated prior to correction of errors	\$ 13,505,694	\$ 2,671,769	\$ 1,853,037

NOTE 16 – CORRECTION OF ERROR

A close investigation by management revealed that certain contributions in aid of construction required by the shared transmission system (STS) funding agreement with Dairyland Power Cooperative paid by the Electric Utility should have been expensed. The STS expenses were however capitalized, and therefore the correction listed below was posted to the client's accounting records to restate net position as of January 1, 2015.

It was noted that certain telephone and cable TV subscriber and programming expenses had been recorded in the wrong period in the Communications Utility. The correction listed below was recorded to restate the beginning net position as of January 1, 2015.

	Electric Utility	Gas Utility	Communications Utility
Net Position December 31, 2014, as restated (see Note 15)	\$ 13,505,694	\$ 2,671,769	\$ 1,853,037
Correction STS payments	(1,431,844)	-	-
Correction the timing of telephone and cable TV expenses	-	-	(43,077)
Net position January 1, 2015 as restated and corrected	\$ 12,073,850	\$ 2,671,769	\$ 1,809,960

NOTE 17 – SUBSEQUENT EVENTS

Subsequent to December 31, 2015, OMU has agreed to and contracted for a solar photovoltaic project. This project is estimated to cost \$1.9 million in total and is anticipated to be completed by November 1, 2016. A contract for a significant portion of this project has been approved with the contractor for approximately \$1.5 million. This project is being paid for out of cash reserves and potentially from customer investments. The project is anticipated to generate 768kW in electricity. In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through August 22, 2016, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES – BUDGET AND ACTUAL**

YEAR ENDED DECEMBER 31, 2015

	Proprietary Funds		Final to Actual Variance
	Actual	Final	
Receipts:			
Use of money and property	\$ 31,960	\$ 35,000	\$ (3,040)
Charges for service	10,284,849	10,514,506	(229,657)
Miscellaneous	90,648	42,000	48,648
Total receipts	<u>10,407,457</u>	<u>10,591,506</u>	<u>(181,009)</u>
Disbursements:			
Business type activities	9,581,630	9,985,215	403,585
Total disbursements	<u>9,581,630</u>	<u>9,985,215</u>	<u>403,585</u>
Excess (deficiency) of receipts over (under) disbursements	825,827	606,291	(584,594)
Other financing sources, net	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	825,827	606,291	219,536
Balances, beginning of year	<u>16,555,998</u>	<u>19,622,805</u>	<u>(3,066,807)</u>
Balances, end of year	<u>\$ 17,381,825</u>	<u>20,229,096</u>	<u>(2,847,271)</u>

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
(In Thousands)**

DECEMBER 31, 2015

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major Proprietary Fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual 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 upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the all Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Utility did not amend the budget during the year.

During the year ended December 31, 2015, disbursements did not exceed the amounts budgeted.

See accompanying independent auditor's report.

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM
LAST FISCAL YEAR*

	<u>2015</u>
Utility's proportion of the net pension liability	0.018674%
Utility's proportionate share of the net pension liability	\$755,757
Utility's covered-employee payroll	\$1,190,828
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	63.46%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

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

See accompanying independent auditor's report.

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

SCHEDULE OF UTILITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 9 FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 109,668	106,046	108,665	99,361
Contributions in relation to the statutorily required contribution	<u>(109,668)</u>	<u>(106,046)</u>	<u>(108,665)</u>	<u>(99,361)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$1,221,252	1,187,525	1,234,907	1,186,392
Contributions as a percentage of covered-employee payroll	8.98%	8.93%	8.80%	8.38%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See Accompanying Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
87,420	74,475	72,428	66,508	61,869
<u>(87,420)</u>	<u>(74,475)</u>	<u>(72,428)</u>	<u>(66,508)</u>	<u>(61,869)</u>
<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
1,164,048	1,095,221	1,114,177	1,099,313	1,047,972
7.51%	6.80%	6.50%	6.05%	5.90%

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

YEAR ENDED DECEMBER 31, 2015

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 a 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. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

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

- Decreased the inflation assumption from 3.25 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 the valuation date and the effective date of the annual actuarial contribution rate.

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 the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(In Thousands)**

DECEMBER 31, 2015

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
2010	January 1, 2009	-	182	182	0.0%	\$1,164	15.6%
2011	January 1, 2011	-	204	204	0.0%	1,084	18.8%
2012	January 1, 2011	-	204	204	0.0%	1,198	17.0%
2013	January 1, 2011	-	204	204	0.0%	1,234	16.5%
2014	January 1, 2014	-	184	184	0.0%	1,099	16.8%
2015	January 1, 2014	-	184	184	0.0%	1,260	14.6%

See Note 14 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost and Net OPEB Obligation, funded status and funding progress.

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

COMPARATIVE STATEMENT OF NET POSITION

DECEMBER 31, 2015

	ENTERPRISE	
	LIGHT AND POWER	
	2014	
	2015	(not restated)
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,199,149	3,944,394
Accounts receivable (net of allowance for uncollectibles)	622,476	568,487
Unbilled usage	358,984	360,447
Certificates of deposit	124,962	56,868
Inventory	434,924	438,432
Prepaid expenses	16,454	26,952
Revolving loan receivable (current portion)	-	-
Total current assets	5,756,949	5,395,580
Non-current assets:		
Capital assets (net of accumulated depreciation)	10,873,943	12,462,294
Revolving loan receivable (net of current portion)	-	-
Restricted cash:		
Revolving loan	-	-
Certificates of deposit	788,499	788,499
Sinking and reserve funds	73,530	73,464
Total non-current assets	11,735,972	13,324,257
Total assets	17,492,921	18,719,837
Deferred Outflows of Resources		
Pension related deferred outflows	102,157	-
Liabilities		
Current liabilities:		
Accounts payable	802,235	398,076
Accounts payable - City of Osage	127,820	132,006
Customer meter deposits	23,963	25,093
Customer budget billing	18,994	23,817
Accrued expenses	78,126	75,172
Accrued interest payable	7,417	8,681
Deferred revenue	-	-
Revenue bonds payable (current portion)	720,466	704,466
Total current liabilities	1,779,021	1,367,311
Non-current liabilities:		
Revenue bonds (net of current portion)	2,637,796	3,358,262
Accrued wind expenses	57,000	47,500
Net pension liability	345,928	-
Net OPEB liability	47,605	41,139
Total non-current liabilities	3,088,329	3,446,901
Total liabilities	4,867,350	4,814,212
Deferred Inflows of Resources		
Unavailable revenues:		
Pension related deferred outflows	131,927	-
Net Position		
Net investment in capital assets	7,515,681	8,399,566
Restricted for:		
Bond covenants	862,029	861,963
Revolving loan	-	-
Unrestricted	4,218,091	4,644,096
Total net position	\$ 12,595,801	13,905,625

See accompanying independent auditor's report.

FUNDS					
GASWORKS		COMMUNICATIONS		TOTAL	
2015	2014 (not restated)	2015	2014 (not restated)	2015	2014 (not restated)
1,029,037	849,913	1,644,439	1,838,914	6,872,625	6,633,221
259,682	308,060	153,512	162,526	1,035,670	1,039,073
221,682	276,424	-	-	580,666	636,871
-	297	-	-	124,962	57,165
39,231	35,058	48,005	31,653	522,160	505,143
129,957	199,459	11,924	3,495	158,335	229,906
37,512	37,474	-	-	37,512	37,474
<u>1,717,101</u>	<u>1,706,685</u>	<u>1,857,880</u>	<u>2,036,588</u>	<u>9,331,930</u>	<u>9,138,853</u>
2,032,793	1,915,502	474,848	328,725	13,381,584	14,706,521
155,104	192,616	-	-	155,104	192,616
171,213	70,000	-	-	171,213	70,000
-	-	-	-	788,499	788,499
84,574	13,817	-	-	158,104	87,281
<u>2,443,684</u>	<u>2,191,935</u>	<u>474,848</u>	<u>328,725</u>	<u>14,654,504</u>	<u>15,844,917</u>
4,160,785	3,898,620	2,332,728	2,365,313	23,986,434	24,983,770
36,307	-	56,325	-	194,789	-
213,046	299,605	77,119	28,215	1,092,400	725,896
-	-	-	-	127,820	132,006
39,308	40,934	26,086	22,787	89,357	88,814
134,280	7,794	-	-	153,274	31,611
29,423	14,419	43,492	36,063	151,041	125,654
898	1,067	-	-	8,315	9,748
-	-	140,414	131,149	140,414	131,149
140,000	135,000	-	-	860,466	839,466
<u>556,955</u>	<u>498,819</u>	<u>287,111</u>	<u>218,214</u>	<u>2,623,087</u>	<u>2,084,344</u>
290,000	430,000	-	-	2,927,796	3,788,262
-	-	-	-	57,000	47,500
191,696	-	218,133	-	755,757	-
62,352	54,918	37,577	29,786	147,534	125,843
<u>544,048</u>	<u>484,918</u>	<u>255,710</u>	<u>29,786</u>	<u>3,888,087</u>	<u>3,961,605</u>
1,101,003	983,737	542,821	248,000	6,511,174	6,045,949
73,107	-	83,190	-	288,224	-
1,602,793	1,350,502	474,848	328,725	9,593,322	10,078,793
84,574	83,817	-	-	946,603	945,780
171,213	-	-	-	171,213	-
<u>1,164,402</u>	<u>1,480,564</u>	<u>1,288,194</u>	<u>1,788,588</u>	<u>6,670,687</u>	<u>7,913,248</u>
<u>3,022,982</u>	<u>2,914,883</u>	<u>1,763,042</u>	<u>2,117,313</u>	<u>17,381,825</u>	<u>18,937,821</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**COMPARATIVE STATEMENTS OF REVENUES,
EXPENSES, AND CHANGES IN FUND NET POSITION**

YEAR ENDED DECEMBER 31, 2015

	ENTERPRISE	
	LIGHT AND POWER	
	2015	2014 (not restated)
Operating revenues:		
Charges for service	\$ 5,819,283	5,546,543
Operating expenses:		
Business type activities:		
Cost of sales and services	4,137,618	3,913,712
Depreciation	960,243	1,133,409
Total operating expenses	5,097,861	5,047,121
Operating income (loss)	721,422	499,422
Non-operating revenues (expenses):		
Interest income	20,344	18,892
Interest expense	(102,908)	(125,916)
Donations	(154,560)	35,732
Other income	40,339	(153,468)
Net non-operating revenues (expenses)	(196,785)	(224,760)
Other financing sources (uses):		
Gain (loss) on sale of capital assets	(2,686)	-
Change in net position	521,951	274,662
Net position, beginning of year	13,905,625	13,630,963
Prior period adjustment - See notes 15 and 16	(1,831,775)	-
Net position, end of year	\$ 12,595,801	13,905,625

See accompanying independent auditor's report.

FUNDS					
GASWORKS		COMMUNICATIONS		TOTAL	
2015	2014 (not restated)	2015	2014 (not restated)	2015	2014 (not restated)
2,658,942	3,547,799	1,806,624	1,827,453	10,284,849	10,921,795
2,156,596	3,030,442	1,809,413	1,767,076	8,103,627	8,711,230
111,068	104,724	47,696	24,471	1,119,007	1,262,604
2,267,664	3,135,166	1,857,109	1,791,547	9,222,634	9,973,834
391,278	412,633	(50,485)	35,906	1,062,215	947,961
6,048	4,225	5,568	5,711	31,960	28,828
(12,632)	(14,038)	(67)	(209)	(115,607)	(140,163)
(85,280)	39,160	(3,130)	-	(242,970)	74,892
47,617	(40,332)	-	(31,339)	87,956	(225,139)
(44,247)	(10,985)	2,371	(25,837)	(238,661)	(261,582)
4,182	1,589	1,196	-	2,692	1,589
351,213	403,237	(46,918)	10,069	826,246	687,968
2,914,883	2,511,646	2,117,313	2,107,244	18,937,821	18,249,853
(243,114)	-	(307,353)	-	(2,382,242)	-
3,022,982	2,914,883	1,763,042	2,117,313	17,381,825	18,937,821

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015

	ENTERPRISE	
	LIGHT AND POWER	
	2015	2014 (not restated)
Cash flows from operating activities:		
Cash receipts from customers	\$ 5,617,281	5,393,653
Cash receipts from other funds	143,523	143,523
Cash payments to suppliers	(3,309,315)	(3,261,825)
Cash payments to employees	(577,776)	(502,689)
Cash payments to other funds	-	-
Net cash provided by operating activities	1,873,713	1,772,662
Cash flows from non-capital financing activities:		
Miscellaneous non-operating revenue	40,339	35,731
Donations	(154,560)	(153,468)
Net cash used by non-capital financing activities	(114,221)	(117,737)
Cash flows from capital and related financing activities:		
Acquisition/construction of capital assets	(646,253)	(523,447)
Construction refund received	-	-
Proceeds from sale of assets	-	-
Repayment of revenue bonds	(704,466)	(683,466)
Cash payments for interest	(104,172)	(127,041)
Net cash used by capital and related financing activities	(1,454,891)	(1,333,954)
Cash flows from investing activities:		
Purchases of investments	(70,190)	(6,632)
Collections on revolving loan fund	-	-
Income from investments	20,344	18,892
Net cash provided by investing activities	(49,846)	12,260
Net increase (decrease) in cash and cash equivalents	254,755	333,231
Cash and cash equivalents, beginning of year	3,944,394	3,611,163
Cash and cash equivalents, end of year	\$ 4,199,149	3,944,394
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 721,422	499,422
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	960,243	1,133,409
Change in accounts receivable	(53,989)	(10,970)
Change in meter deposits and unbilled usage	(4,490)	1,603
Change in inventory	3,508	(8,021)
Change in prepaid expenses	10,498	3,588
Change in accounts payable and other liabilities	260,754	153,631
Change in net pension liability	(131,654)	-
Change in deferred outflows of resources	(24,506)	-
Change in deferred inflows of resources	131,927	-
Net cash provided by operating activities	\$ 1,873,713	1,772,662

See accompanying independent auditor's report.

FUNDS					
GASWORKS		COMMUNICATIONS		TOTAL	
2015	2014 (not restated)	2015	2014 (not restated)	2015	2014 (not restated)
2,886,922	3,542,451	1,828,202	1,864,013	10,332,405	10,800,117
-	-	-	-	143,523	143,523
(1,882,399)	(2,801,248)	(1,299,544)	(1,210,937)	(6,491,258)	(7,274,010)
(279,983)	(311,000)	(388,158)	(365,318)	(1,245,917)	(1,179,007)
-	-	(143,523)	(143,523)	(143,523)	(143,523)
<u>724,540</u>	<u>430,203</u>	<u>(3,023)</u>	<u>144,235</u>	<u>2,595,230</u>	<u>2,347,100</u>
47,617	39,160	-	-	87,956	74,891
(85,280)	(40,332)	(3,130)	(31,339)	(242,970)	(225,139)
<u>(37,663)</u>	<u>(1,172)</u>	<u>(3,130)</u>	<u>(31,339)</u>	<u>(155,014)</u>	<u>(150,248)</u>
(235,983)	(117,660)	(193,823)	(166,600)	(1,076,059)	(807,707)
-	135,879	-	-	-	135,879
4,182	4,772	-	-	4,182	4,772
(135,000)	(135,000)	-	-	(839,466)	(818,466)
(12,801)	(14,150)	(67)	(209)	(117,040)	(141,400)
<u>(379,602)</u>	<u>(126,159)</u>	<u>(193,890)</u>	<u>(166,809)</u>	<u>(2,028,383)</u>	<u>(1,626,922)</u>
(171,673)	(1,685)	-	-	(241,863)	(8,317)
37,474	37,439	-	-	37,474	37,439
6,048	4,226	5,568	5,711	31,960	28,829
<u>(128,151)</u>	<u>39,980</u>	<u>5,568</u>	<u>5,711</u>	<u>(172,429)</u>	<u>57,951</u>
179,124	342,852	(194,475)	(48,202)	239,404	627,881
849,913	507,061	1,838,914	1,887,116	6,633,221	6,005,340
<u>1,029,037</u>	<u>849,913</u>	<u>1,644,439</u>	<u>1,838,914</u>	<u>6,872,625</u>	<u>6,633,221</u>
391,278	412,633	(50,485)	35,906	1,062,215	947,961
111,068	104,724	47,696	24,471	1,119,007	1,262,604
48,378	(24,862)	9,014	69,978	3,403	34,146
187,226	19,334	3,299	4,189	186,035	25,126
(4,173)	(27,398)	(16,352)	2,446	(17,017)	(32,973)
69,502	(35,327)	(8,429)	319	71,571	(31,420)
(64,121)	(18,901)	31,512	6,926	228,145	141,656
(88,861)	-	(94,504)	-	(315,019)	-
1,136	-	(7,964)	-	(31,334)	-
73,107	-	83,190	-	288,224	-
<u>724,540</u>	<u>430,203</u>	<u>(3,023)</u>	<u>144,235</u>	<u>2,595,230</u>	<u>2,347,100</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

COMBINING & COMPARATIVE SCHEDULE OF OPERATING REVENUE

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2015	2014 (not restated)
Operating revenues:		
Rural	\$ 123,361	127,519
Residential sales	1,486,726	1,493,549
Commercial and industrial	3,853,087	3,614,507
Public buildings	52,845	37,014
Interruptibles	-	-
Bookkeeping fee - City of Osage	9,000	9,000
Pipeline revenue	-	-
Other operating fees	294,264	264,954
	<u>\$ 5,819,283</u>	<u>5,546,543</u>

See accompanying independent auditor's report.

FUNDS					
GAS		COMMUNICATIONS		TOTAL	
2015	2014 (not restated)	2015	2014 (not restated)	2015	2014 (not restated)
-	-	-	-	123,361	127,519
930,832	1,448,754	1,768,419	1,819,688	4,185,977	4,761,991
719,951	1,027,126	-	-	4,573,038	4,641,633
-	-	-	-	52,845	37,014
490,259	659,922	-	-	490,259	659,922
9,000	9,000	-	-	18,000	18,000
473,942	356,104	-	-	473,942	356,104
34,958	46,893	38,205	7,765	367,427	319,612
<u>2,658,942</u>	<u>3,547,799</u>	<u>1,806,624</u>	<u>1,827,453</u>	<u>10,284,849</u>	<u>10,921,795</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

COMPARATIVE SCHEDULE OF OPERATING EXPENSES

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2015	2014 (not restated)
Operating expenses:		
Plant expenses:		
Supervision and labor	\$ 134,024	128,216
Payroll taxes	22,521	21,967
Fuel	9,821	12,879
Insurance	32,791	29,500
Supplies	5,745	4,782
Power purchased	2,880,652	2,640,510
Maintenance and materials	4,286	3,436
Miscellaneous	6,805	5,711
Total plant expenses	<u>3,096,645</u>	<u>2,847,001</u>
Wind expenses:		
Supervision and labor	6,356	8,101
Insurance	1,589	2,025
Supplies	8,261	3,822
Maintenance	10,324	12,257
School and travel	-	595
Property lease	5,121	5,121
Total wind expenses	<u>31,651</u>	<u>31,921</u>
Distribution expenses:		
Supervision and labor	220,410	224,389
Payroll taxes	20,884	43,432
Insurance	41,499	42,695
Truck expense	25,861	27,405
Supplies	65,637	97,436
Maintenance, repairs and labor	29,519	12,601
Natural gas purchases	-	-
Internet, cable and phone	-	-
Utilities	109	462
Miscellaneous	18,403	8,136
Total distribution expenses	<u>422,322</u>	<u>456,556</u>

See accompanying independent auditor's report.

FUNDS					
GAS		COMMUNICATIONS		TOTAL	
2015	2014 (not restated)	2015	2014 (not restated)	2015	2014 (not restated)
-	-	-	-	134,024	128,216
-	-	-	-	22,521	21,967
-	-	-	-	9,821	12,879
-	-	-	-	32,791	29,500
-	-	-	-	5,745	4,782
-	-	-	-	2,880,652	2,640,510
-	-	-	-	4,286	3,436
-	-	-	-	6,805	5,711
-	-	-	-	3,096,645	2,847,001
-	-	-	-	6,356	8,101
-	-	-	-	1,589	2,025
-	-	-	-	8,261	3,822
-	-	-	-	10,324	12,257
-	-	-	-	-	595
-	-	-	-	5,121	5,121
-	-	-	-	31,651	31,921
200,273	174,792	293,064	214,618	713,747	613,799
16,953	29,919	28,441	37,872	66,278	111,223
42,869	38,149	63,999	45,092	148,367	125,936
9,119	12,212	7,623	10,674	42,603	50,291
19,660	10,380	22,573	34,627	107,870	142,443
42,909	40,123	26,366	55,652	98,794	108,376
1,509,207	2,422,475	-	-	1,509,207	2,422,475
-	-	875,319	798,500	875,319	798,500
185	185	29,560	28,173	29,854	28,820
17,052	14,437	10,651	3,555	46,106	26,128
1,858,227	2,742,672	1,357,596	1,228,763	3,638,145	4,427,991

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

COMBINING & COMPARATIVE SCHEDULE OF OPERATING REVENUE (continued)

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2015	2014 (not restated)
Office and administration expenses:		
Office salaries	165,224	148,448
Payroll taxes	27,264	33,272
Use tax	3,317	2,397
Property taxes	2,498	2,459
Trustee fees	2,393	1,780
Professional fees	13,331	9,344
Building supplies	-	-
Insurance	131,161	158,687
Global warming assessment	5,510	5,449
Office supplies and postage	20,188	27,587
Janitorial services	1,188	5,353
Office equipment expense	4,301	4,564
Dues	11,916	13,472
Contributions in lieu of taxes	116,542	117,268
Energy efficiency	60,582	16,361
Bad debts	5,487	14,369
Joint lease expense	-	-
Miscellaneous	16,098	17,424
Total office and administration expenses	<u>587,000</u>	<u>578,234</u>
Other expenses:		
Depreciation	960,243	1,008,693
Amortization	-	124,716
Total other expenses	<u>960,243</u>	<u>1,133,409</u>
Total operating expenses	<u><u>5,097,861</u></u>	<u><u>5,047,121</u></u>

See accompanying independent auditor's report.

FUNDS					
GAS		COMMUNICATIONS		TOTAL	
2015	2014 (not restated)	2015	2014 (not restated)	2015	2014 (not restated)
87,144	143,642	102,885	158,492	355,253	450,582
14,016	14,471	15,180	24,774	56,460	72,517
3,168	1,729	2,636	6,545	9,121	10,671
-	-	(4,185)	5,325	(1,687)	7,784
2,393	1,780	2,393	1,780	7,179	5,340
15,177	4,740	16,922	4,740	45,430	18,824
33	67	-	-	33	67
67,173	47,410	70,191	54,010	268,525	260,107
3,564	2,506	-	-	9,074	7,955
19,802	26,435	9,645	12,811	49,635	66,833
1,184	5,326	676	-	3,048	10,679
4,011	3,748	2,688	1,937	11,000	10,249
6,800	6,589	4,119	5,347	22,835	25,408
-	-	-	-	116,542	117,268
63,723	12,208	-	-	124,305	28,569
1,649	5,603	660	37,743	7,796	57,715
-	-	143,523	143,523	143,523	143,523
8,532	11,516	84,484	81,286	109,114	110,226
<u>298,369</u>	<u>287,770</u>	<u>451,817</u>	<u>538,313</u>	<u>1,337,186</u>	<u>1,404,317</u>
111,068	104,724	47,696	24,471	1,119,007	1,137,888
-	-	-	-	-	124,716
<u>111,068</u>	<u>104,724</u>	<u>47,696</u>	<u>24,471</u>	<u>1,119,007</u>	<u>1,262,604</u>
<u>2,267,664</u>	<u>3,135,166</u>	<u>1,857,109</u>	<u>1,791,547</u>	<u>9,222,634</u>	<u>9,973,834</u>



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of the
Osage Municipal Utilities:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of Osage Municipal Utilities, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Osage Municipal Utilities' basic financial statements, and have issued our report thereon date August 23, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Osage Municipal Utilities' 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 Osage Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Osage Municipal Utilities' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. 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 Osage Municipal Utilities' 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 object 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*. However, we noted certain instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Osage Municipal Utilities' Response to Findings

Osage Municipal Utilities' response to the findings identified in our audit is described in the accompanying schedule of findings. Osage Municipal Utilities' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

T.P. Anderson & Company, P.C.

August 23, 2016

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

SCHEDULE OF FINDINGS

Part I: Summary of the Independent Auditor's Results

- (a) Unmodified opinions were issued on each major fund.
- (b) No material weaknesses in internal control were noted during the audit of the financial statements.
- (c) The audit did not disclose any non-compliance, which is material to the financial statements.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

SCHEDULE OF FINDINGS

Part II: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Material Weaknesses:

No material weaknesses were noted

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

SCHEDULE OF FINDINGS

Part III: Other Findings Related to Statutory Reporting:

- III-A-15 Certified Budget - Disbursements during the year ended December 31, 2015 were within the budgeted limits.
- III-B-15 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-15 Travel Expense – No disbursements of the Utilities’ money for travel expenses of spouses of Utilities’ officials or employees were noted.
- III-D-15 Business Transactions – No business transactions between the Utilities and the Utilities’ officials or employees were noted.
- III-E-15 Bond Coverage – Surety bond coverage of the Utilities’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-15 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not. We did identify 2 instances where the minutes of the board of trustees were published 20 days after the meetings were held.

Criteria – Chapter 372.13 requires that when a meeting of the board of trustees is held, the minutes of that meeting should be published within 15 days of the meeting.

Cause – The publications were published in 20 days subsequent to the meetings. It was an administrative oversight.

Effect – The Utility did not comply with the letter of the statute.

Recommendation – Every effort should be made to publish the minutes in accordance with the requirements laid out in the Code of Iowa.

Response – We make every effort to publish the minutes as required by the Code of Iowa and will continue to do so.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

SCHEDULE OF FINDINGS

- III-G-15 Revenue Bonds – No violations of revenue bond resolution requirements were noted.

- III-H-15 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policy.

- III-I-15 Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.