



# **Cedar Falls Utilities**

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

**Including Independent Auditors' Reports**

**For The Years Ended  
December 31, 2016 and 2015**





# **Cedar Falls Utilities**

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

**Including Independent Auditors' Reports**

**For The Years Ended  
December 31, 2016 and 2015**



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

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Electric Utility of the City of Cedar Falls, Iowa (Municipal Electric Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Electric Utility as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Utilities Proportionate Share of the Net Pension Liability, Schedule of Utilities Contributions, and Schedule of Funding Progress for the Other Post-Employment Benefits Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 2017 on our consideration of the Municipal Electric Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Electric Utility's internal control over financial reporting and compliance.



Dubuque, Iowa  
May 5, 2017

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

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Management Discussion and Analysis  
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Unaudited

The following discussion and analysis of the Municipal Electric Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2016 and 2015. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

The years 2016 and 2015 had below average winter seasons, but 2016 was milder than 2015 in those winter months. The summer of 2016 was slightly warmer than average, opposite of the 2015 summer that was cooler than average. Retail usage increased from 2015 to 2016 by 11 million kWh or 2.3% and wholesales sales decreased by 43 million kWh or 11.2%. Wholesale sales weakened from an increase in wind generation resulting in less run time at local and western generating units. Given these factors, slightly higher market prices and no rate increase, the Utility experienced a \$114,000 or 0.2% decrease in operating revenues. Operating expenses increased \$922,000 or 2.0% due in part to an \$839,000, or 6.3% increase in purchased power costs from slightly higher wholesale market prices. The Utility's net position continued to grow due to strong operating income and non-operating revenues.

**Overview of the Financial Statements**

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

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

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

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

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

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**Condensed Financial Information & Analysis**

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

**Condensed Statement of Net Position**

	2016	2015	2014 <i>(Restated)</i>
Capital assets, net	\$161,131,642	\$156,953,311	\$155,670,376
Noncurrent assets	15,361,695	18,608,890	21,346,665
Current assets	64,343,184	62,995,778	63,302,051
Total assets	<u>240,836,521</u>	<u>238,557,979</u>	<u>240,319,092</u>
Deferred outflows of resources	2,008,505	2,037,325	834,175
Total assets and deferred outflows of resources	<u>242,845,026</u>	<u>240,595,304</u>	<u>241,153,267</u>
Long-term debt	36,694,786	40,229,717	42,830,805
Current liabilities	10,630,852	9,949,417	13,123,896
Noncurrent liabilities	11,851,129	8,399,116	7,147,815
Total liabilities	<u>59,176,767</u>	<u>58,578,250</u>	<u>63,102,516</u>
Deferred inflows of resources	15,549,812	19,878,421	22,206,605
Total liabilities and deferred inflows of resources	<u>74,726,579</u>	<u>78,456,671</u>	<u>85,309,121</u>
Net investment in capital assets	121,747,029	114,243,153	109,715,942
Restricted	5,851,553	7,000,449	7,031,590
Unrestricted	40,519,865	40,895,031	39,096,614
Total net position	<u>\$168,118,447</u>	<u>\$162,138,633</u>	<u>\$155,844,146</u>

**2016 Compared to 2015**

- ❖ Total assets and deferred outflows of resources increased \$2.2 million or 0.9% primarily due to:
  - Net capital assets increasing \$4.2 million or 2.7% due to generation upgrade projects, transmission improvements and projects, and overhead to underground distribution system projects and conversions. Net capital assets represent 66.9% of total assets for the Utility in 2016.
  - Decrease in noncurrent assets of \$3.2 million or 17.4% due to:
    - Decrease in tax increment financing (TIF) receivable of \$3.2 million or 17.4% as a result of payments received and additional project expenditures certified by the City of Cedar Falls.
  - Increase in current assets of \$1.3 million or 2.1% primarily due to:
    - Decrease in unrestricted cash and cash equivalents of \$10.2 million or 23.8% due to the use of cash for investments.
    - Increase in unrestricted investments of \$11.7 million or 2334.2%.
    - Increase in customer accounts receivable of \$550,000 or 14.8% due to an increase in customer accounts receivable caused by the combination of higher usage during a colder than average December 2016 and a related increase in cost recoverable through fuel adjustment for higher market prices as well.
    - Decrease in notes receivable of \$183,000 or 100.0% due to receiving the final principal payment for the loan to the Communications Utility.

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- Increase in other receivable from MISO sales of \$271,000 or 52.9%.
- Increase in fuel inventory of oil, coal and allowances of \$563,000 or 11.8% at the Western Units.
- Decrease in deferred outflows of resources of \$29,000 or 1.4% due to:
  - Decrease of \$79,000 or 10.5% in the amortization of the loss on reacquired debt due to the advanced refunding of series 2005 and 2007 debt with series 2015 debt.
  - Increase in pension related deferred outflows of resources of \$51,000 or 4.0% due to application of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
- ❖ Total liabilities and deferred inflows of resources decreased \$3.7 million or 4.8% primarily due to:
  - Decrease of \$3.5 million or 8.8% in long-term debt less current installments primarily due to the payment of principal due plus amortization of debt discounts and premiums.
  - Increase in current liabilities of \$681,000 or 6.8% as a result of:
    - Increase in accounts payable of \$480,000 or 18.8% primarily from an increase in inventory for substation and overhead to underground conversion projects.
    - Increase of \$130,000 or 4.0% in current installments of long term debt.
  - Increase in noncurrent liabilities of \$3.5 million or 41.1% as a result of:
    - Increase in net pension liability, required by The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**, of \$1.2 million or 23.4%.
    - Increase in other liabilities of \$2.1 million or 64.9% primarily due to the increase of unearned revenue prepaid by customers involved in the community solar project by \$2.1 million or 9000.8%.
  - Decrease in deferred inflows of resources of \$4.3 million or 21.8% due to:
    - Decrease in pension related deferred inflows of \$1.1 million or 77.2% from the impact of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
    - Decrease of \$3.2 million or 17.4% in the Tax Increment Financing (TIF) deferred inflows as a result of payments received and additional project expenditures certified by the City of Cedar Falls.

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

## 2015 Compared to 2014

- ❖ Total assets and deferred outflows of resources decreased \$558,000 or 0.2% primarily due to:
  - Net capital assets increasing \$1.3 million or 0.8% due to generation upgrade projects, transmission improvements, and overhead to underground distribution system conversions. Net capital assets represent 65.8% of total assets for the Utility in 2015.
  - Decrease in noncurrent assets of \$2.7 million or 12.8% due to:
    - Decrease in tax increment financing (TIF) receivable of \$2 million or 9.8% as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.
    - Decrease of noncurrent restricted investments of \$500,000.
    - Decrease in note receivable of \$183,000 or 100.0%.
  - Decrease in current assets of \$306,000 or 0.5% primarily due to:
    - Increase in cash and investments of \$4.5 million or 9.6%.
    - Decrease in customer accounts receivable of \$1.1 million or 23.3% due to a decrease in cost recoverable through fuel adjustment from a decrease in market prices in 2015.
    - Decrease in governmental grants receivable of \$3.8 million or 97.4% due to finalization and reimbursement of grant projects.
    - Increase in fuel inventory of oil, coal and allowances of \$416,000 or 9.5% at the Western Units.

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

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

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

	2016	2015	2014 <i>(Restated)</i>
Sales of electricity	\$45,831,458	\$46,379,385	\$56,165,288
Other	3,796,332	3,362,536	2,787,207
Total operating revenues	49,627,790	49,741,921	58,952,495
Fuel and purchased power	19,340,730	19,189,385	27,917,524
Other, Transmission and Distribution	10,739,011	10,774,519	11,027,624
Depreciation and amortization	4,848,144	4,596,566	4,183,539
Services and administrative	11,155,466	10,601,216	10,093,655
Total operating expenses	46,083,351	45,161,686	53,222,342
Operating Income	3,544,439	4,580,235	5,730,153
Interest income	187,524	61,075	69,605
Other, net	2,247,851	1,653,177	9,322,454
Total non-operating revenues (expenses)	2,435,375	1,714,252	9,392,059
Change in net position	5,979,814	6,294,487	15,122,212
Net position, beginning of year	162,138,633	155,844,146	140,721,934
Net position, end of year	\$168,118,447	\$162,138,633	\$155,844,146

**2016 Compared to 2015**

- ❖ Total operating revenues decreased \$114,000 or 0.2% due to:
  - Decrease in electric sales of \$300,000 or 0.8% after the reduction of net energy costs adjustment (Net ECA) pass through revenues of \$1.2 million or 10.3% and the increase in usage of 11,200,000 kWh or 2.3%.
  - Decrease in wholesale revenues of \$248,000 or 2.8% due to decreased market prices and a decrease of 43,493,000 kWh or 11.2% in wholesale unit sales.
  - Increase in other operating revenues of \$434,000 or 12.9% as a result of sales of capacity during 2016.
  
- ❖ Total operating expenses increased \$922,000 or 2.0% due to:
  - Increase in fuel and purchased power costs of \$151,000 or 0.8%.
    - Fuel costs decreased \$687,000 or 11.7% due to Streeter Station and the Western Units generating less.
    - Increase of \$839,000 or 6.3% in purchased power costs due to increased retail usage of 11,200,000 kWh. The Electric Utility purchases all its power needs from MISO, except when conditions in the wholesale market are favorable to generating power at Streeter Station units.
  - Increase of \$70,000 or 3.1% in distribution costs from electrical pole inspections.
  - Increase of \$252,000 or 5.5% in depreciation & amortization expense due to the completion of capital asset projects placed into service in 2015.
  - Increase in services and administrative expenses of \$554,000 or 5.2% due to:
    - Increase in customer service and information expense of \$77,000 or 8.0% from an increase in customer incentive expenses.
    - Increase in administrative & general expenses of \$510,000 or 6.3% due to an

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increase in employee benefits and pensions of \$511,000 or 23.8% from an increase in medical claims and an increase in employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.

- ❖ Interest Income increased \$126,000 or 207.0% due to an increase in the amount of investments held throughout 2016.
- ❖ Other, net increased \$595,000 or 36.0% primarily due to:
  - Increase in miscellaneous net revenues of \$120,000 or 84.7% primarily resulting from medical insurance stop-loss reimbursements.
  - Decrease in governmental grant revenues of \$983,000 or 100.0% due to the completion of the wind mitigation project replacing some overhead distribution lines in 2015.
  - Decrease in interest expense on long term debt of \$456,000 or 22.2% due to the payment of principal.
  - Increase of \$1.2 million or 52.0% in contributed capital mainly due to an increase of \$1.3 million or 62.2% in TIF revenues received from the City of Cedar Falls for certified projects.

#### 2015 Compared to 2014

- ❖ Total operating revenues decreased \$9.2 million or 15.6% due to:
  - Decrease in electric sales of \$5.1 million or 12.0% due to lower energy prices from a decrease of \$5 million or 29.5% in the energy costs adjustment (ECA) which is passed through to revenue and a decrease in retail kWh usage of nearly 17,000,000 or 3.4%.
  - Decrease in wholesale revenues of \$4.7 million or 34.6% due to decreased market prices and a decrease of 30,000,000 kWh or 7.2% in wholesale unit sales.
  - Increase in other operating revenues of \$575,000 or 20.6% as a result of increases in Neal 4 rental income, interdepartmental rents, grant revenues and transmission revenues.
- ❖ Total operating expenses decreased \$8.1 million or 15.1% due to:
  - Decrease in fuel and purchased power costs of \$8.7 million or 31.3%.
    - Fuel costs decreased \$3.3 million or 35.6% due to Streeter Station and the Western Units generating less at lower fuel costs.
    - Decrease of \$5.5 million or 29.1% in purchased power costs due to lower MISO market costs. The Electric Utility purchases all its power needs from MISO, except when conditions in the wholesale market are favorable to generating power at Streeter Station.
  - Decrease of \$278,000 or 11.0% in distribution costs from a reduction in meter socket replacements for the overhead to underground distribution conversion project.
  - Increase of \$413,000 or 9.9% in depreciation & amortization expense due to the completion of capital asset projects placed into service in 2014.
  - Increase in services and administrative expenses of \$508,000 or 5.0% due to:
    - Increase in customer service and information expense of \$187,000 or 24.1% due to an increase in customer incentive expenses.
    - Increase in administrative & general expenses of \$305,000 or 3.9% due to:
      - Decrease in outside services of \$188,000 or 38.4% mostly due to a decrease in legal fees related to arbitration costs of the bag house litigation that was settled in late 2014.
      - Increase in employee insurance & benefits of \$498,000 or 30.1% due to a reallocation of health insurance that increased claims expense for the Utility and an increase in employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.
- ❖ Interest Income decreased \$9,000 or 12.3% due to a reduction in the amount of investments held throughout 2015.

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

**Condensed Statement of Cash Flows**

	2016	2015	2014 <i>(Restated)</i>
Cash Flows from Operating Activities	\$9,951,613	\$9,544,239	\$13,350,001
Cash Flows from Noncapital Financing Activities	(1,084)	(403)	(204)
Cash Flows from Capital and Related Financing Activities	(10,028,310)	(5,776,639)	(10,887,831)
Cash Flows from Investing Activities	(10,341,631)	2,546,426	932,931
Net Change in Cash and Cash Equivalents	(10,419,412)	6,313,623	3,394,897
Cash and Cash Equivalents-Beginning of Year	45,123,385	38,809,762	35,414,865
Cash and Cash Equivalents-End of Year	\$34,703,973	\$45,123,385	\$38,809,762

**2016 Compared to 2015**

- ❖ Cash inflows from operations increased by \$407,000 or 4.3% primarily due to:
  - Decrease in cash received from customers of \$1.8 million or 3.5%.
  - Decrease in cash paid to suppliers of \$2.4 million or 7.2%.
  - Increase in cash paid to employees of \$262,000 or 7.0%.
  - Decrease in payment in lieu of taxes paid to the City of Cedar Falls of \$80,000 or 2.6%.
- ❖ Cash outflows from capital and related financing activities increased by \$4.3 million or 73.6% due to:
  - Increase in capital expenditures of \$1.1 million or 14.8%.
  - Decrease in receipts for reimbursement of utility construction costs of \$1.2 million or 52.0%.
  - Decrease in receipts from intergovernmental grants of \$4.8 million or 100.0%.
- ❖ Cash inflows from investing activities decreased \$12.9 million or 506.1% due:
  - Decrease in proceeds from investment maturities of \$1.8 million or 22.2%.
  - Increase in investment purchases of \$11.2 million or 192.7% in 2016.

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**2015 Compared to 2014**

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

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## **FINANCIAL STATEMENTS**

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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<u>Assets</u>	<u>2016</u>	<u>2015</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 244,144,977	\$ 239,316,367
Less accumulated depreciation	87,871,254	84,179,837
Capital assets, net	<u>156,273,723</u>	<u>155,136,530</u>
Construction work in progress	4,857,919	1,816,781
Total capital assets, net	<u>161,131,642</u>	<u>156,953,311</u>
Noncurrent assets:		
Loans receivable	33,216	69,811
Other (note 9)	15,219,022	18,429,622
Prepayments and other	109,457	109,457
Total noncurrent assets	<u>15,361,695</u>	<u>18,608,890</u>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	32,717,167	42,931,716
Cash and cash equivalents - restricted (note 2 and 3)	1,986,806	2,191,669
Investments - unrestricted (note 3)	12,171,029	500,000
Investments - restricted (note 2 and 3)	4,815,000	5,790,000
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$25,979 in 2016 and \$35,674 in 2015	4,272,400	3,722,331
Loans receivable	31,310	39,515
Interest	28,279	17,870
Current installment of note receivable (note 9)	-	183,090
Government grants (note 12 and 13)	102,235	102,235
Trade	781,810	511,246
Inventories:		
Fuel	5,351,931	4,789,039
Material and supplies	1,784,684	1,832,520
Prepayments and other	300,533	384,547
Total current assets	<u>64,343,184</u>	<u>62,995,778</u>
Total assets	240,836,521	238,557,979
Deferred outflows of resources:		
Pension related deferred outflows (note 6)	1,328,332	1,277,767
Unamortized loss on reacquired debt	680,173	759,558
Total deferred outflows of resources	<u>2,008,505</u>	<u>2,037,325</u>
Total assets and deferred outflows of resources	<u>\$ 242,845,026</u>	<u>\$ 240,595,304</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Net Position  
December 31, 2016 and 2015

<u>Liabilities</u>	<u>2016</u>	<u>2015</u>
Long-term debt, less current installments (note 5)	\$ 36,694,786	\$ 40,229,717
Current liabilities:		
Accounts payable	3,036,240	2,556,526
Reserve for surplus declaration (note 9)	3,066,000	3,053,920
Accrued wages and vacations	674,464	615,078
Accrued interest	160,723	169,798
Other accrued expenses	323,425	314,095
Current installments of long-term debt (note 5)	3,370,000	3,240,000
Total current liabilities	<u>10,630,852</u>	<u>9,949,417</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	382,700	198,100
Net pension liability	6,114,982	4,954,618
Other liabilities (note 5 and 11)	5,353,447	3,246,398
Total noncurrent liabilities	<u>11,851,129</u>	<u>8,399,116</u>
Total liabilities	<u>59,176,767</u>	<u>58,578,250</u>
Deferred inflows of resources:		
Pension related deferred inflows (note 6)	330,790	1,448,799
TIF related deferred inflows (note 9)	15,219,022	18,429,622
Total deferred inflows of resources	<u>15,549,812</u>	<u>19,878,421</u>
Total liabilities and deferred inflows of resources	74,726,579	78,456,671
 <u>Net Position</u> 		
Net investment in capital assets	121,747,029	114,243,153
Restricted	5,851,553	7,000,449
Unrestricted	40,519,865	40,895,031
Total net position	<u>168,118,447</u>	<u>162,138,633</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 242,845,026</u>	<u>\$ 240,595,304</u>

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MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Revenues, Expenses and Changes in Net Position  
Years ended December 31, 2016, and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Sales of electricity:		
Residential	\$ 15,489,458	\$ 15,505,965
Large industrial & commercial	2,887,464	2,833,070
Small industrial & commercial	15,297,396	15,559,998
Governmental (note 9)	3,404,423	3,462,495
Sales for resale	8,560,083	8,807,738
Interdepartmental	192,634	210,119
Total sales of electricity	<u>45,831,458</u>	<u>46,379,385</u>
Other operating revenues (note 12 and 13)	<u>3,796,332</u>	<u>3,362,536</u>
Total operating revenues	<u>49,627,790</u>	<u>49,741,921</u>
Operating expenses:		
Production and generation:		
Fuel	5,206,661	5,894,065
Purchased power	14,134,069	13,295,320
Other	4,868,589	5,270,326
Transmission	3,552,058	3,255,897
Distribution	2,318,364	2,248,296
Depreciation and amortization	4,848,144	4,596,566
Customer accounts	561,890	609,280
Customer service and information expenses	1,039,694	962,289
Sales	84,751	56,970
Administrative and general (note 9)	8,589,240	8,078,848
Taxes other than income taxes	879,891	893,829
Total operating expenses	<u>46,083,351</u>	<u>45,161,686</u>
Operating income	<u>3,544,439</u>	<u>4,580,235</u>
Non-operating revenues (expenses):		
Interest income (note 9)	187,524	61,075
Miscellaneous revenue (expense), net (note 9)	261,878	141,768
Intergovernmental grant funds (note 12 and 13)	-	983,093
Interest expense on long-term debt	(1,597,710)	(2,053,859)
AFUDC (note 1)	99,203	290,207
Contributed capital (note 9)	3,487,876	2,294,366
Interest income (expense) on security deposits	(3,396)	(2,398)
Total nonoperating revenues (expenses)	<u>2,435,375</u>	<u>1,714,252</u>
Change in net position	<u>5,979,814</u>	<u>6,294,487</u>
Net position, beginning of year	<u>162,138,633</u>	<u>155,844,146</u>
Net position, end of year	<u>\$ 168,118,447</u>	<u>\$ 162,138,633</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Cash Flows  
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$ 48,956,258	\$ 50,723,423
Intergovernmental grants	-	90,274
Cash paid to suppliers	(31,486,434)	(33,933,979)
Cash paid to employees	(4,011,357)	(3,748,944)
Payment in lieu of taxes to the City of Cedar Falls	(3,053,920)	(3,134,241)
Property tax paid	(452,934)	(452,294)
	<u>9,951,613</u>	<u>9,544,239</u>
Cash flows from noncapital financing activities:		
Interest paid on customer deposits	(1,084)	(403)
	<u>(1,084)</u>	<u>(403)</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of capital loan notes	-	26,395,000
Premium on issuance of capital loan notes	-	3,125,072
Discount on issuance of capital loan notes	-	(31,950)
Cost of issuance of capital loan notes	-	(340,469)
Recall of 2005 & 2007 revenue bonds	-	(29,298,167)
Principal payments on long-term debt	(3,240,000)	(3,390,000)
Interest paid	(1,694,642)	(1,768,605)
Proceeds from customer advances for construction	300,900	164,900
Refunds of customer advances for construction	(116,300)	(106,000)
Acquisition, construction and removal cost of capital assets	(8,800,656)	(7,662,800)
Proceeds from sale of capital assets	34,512	40,650
Reimbursement of utility construction costs	3,487,876	2,294,366
Intergovernmental grants	-	4,801,364
	<u>(10,028,310)</u>	<u>(5,776,639)</u>
Cash flows from investing activities:		
Proceeds from repayment of loan by associated utility	183,090	185,000
Proceeds from maturities of investment securities	6,290,000	8,090,000
Purchase of investment securities	(16,945,000)	(5,790,000)
Interest received	130,279	61,426
	<u>(10,341,631)</u>	<u>2,546,426</u>
Net increase (decrease) in cash and cash equivalents	(10,419,412)	6,313,623
Cash and cash equivalents, beginning of year	45,123,385	38,809,762
Cash and cash equivalents, end of year (note 1)	<u>\$ 34,703,973</u>	<u>\$ 45,123,385</u>

See accompanying notes to financial statements.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Cash Flows, Continued  
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 3,544,439	\$ 4,580,235
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of capital assets	4,848,144	4,596,566
Other Income (expense), net	261,878	141,768
(Increase) decrease in accounts receivable	(820,633)	1,653,191
(Increase) decrease in loans receivable	44,800	51,631
(Increase) decrease in inventories	(515,056)	(599,727)
(Increase) decrease in prepayments and other	84,014	(64,343)
Increase (decrease) in accounts payable	318,586	(943,068)
Increase (decrease) in reserve for surplus declaration	12,080	(80,321)
Increase (decrease) in accrued wages and vacation	59,386	37,447
Increase (decrease) in other accrued expenses	9,330	3,310
Increase (decrease) in other liabilities	<u>2,104,645</u>	<u>167,550</u>
Net cash provided by operating activities	<u>\$ 9,951,613</u>	<u>\$ 9,544,239</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	99,203	290,207
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	32,717,167	42,931,716
Cash - restricted	<u>1,986,806</u>	<u>2,191,669</u>
Cash and cash equivalents	<u>\$ 34,703,973</u>	<u>\$ 45,123,385</u>

See accompanying notes to financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

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

**Organization and Basis of Accounting**

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

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

The Utility's present capacity consists of one wholly owned natural gas and coal-fired plant and three jointly owned coal-fired plants, Walter Scott Energy Center Unit 3, Walter Scott Energy Center Unit 4, and George Neal Generating Station Unit 4 (Western Units) and one assigned by contract for a combined generating capacity of 111.9 megawatts. The Utility owns two combustion turbines with a generating capacity of 43.4 megawatts. The Utility jointly owns 1.5 megawatts of generating capacity in a wind turbine facility. The Utility also has contractual rights for the purchase of 6 megawatts of wind energy which expires in 2022. The Utility also has contractual rights to 1.5 megawatts of solar energy. The Utility owns a total of 164.3 megawatts of generating capacity.

**Accounting Changes**

The Government Accounting Standards Board (GASB) Statement No. 68, "***Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27***" was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state and local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions.

**Capital Assets and Depreciation**

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 3.26% in 2016 and 3.02% 2015. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: land improvements 45 years; infrastructure 19 to 60 years; buildings and improvements 45 to 70 years; and equipment 10 to 30 years. The depreciation provisions were equivalent to an overall composite rate of 2.3% and 2.2% of depreciable assets for 2016 and 2015, respectively.

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

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

**Cash and Investments**

Investments are stated at their fair value except for the investment in the Iowa Public Agency Investment Trust (IPAIT) and non-negotiable certificates of deposits which are valued at amortized cost.

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December

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

**Cash and Investments, continued**

31, 2016 and 2015 were \$-0- and \$2,750,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

**Accounts Receivable and Allowance for Doubtful Accounts**

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

**Inventories**

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

**Deferred Outflows of Resources**

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

**Pensions**

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

**Deferred Inflows of Resources**

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

**Bond Premiums and Discounts**

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

**Net Position**

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

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. The composition of restricted net position as of December 31, 2016 and 2015 was as follows:

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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December 31, 2016 and 2015

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

**Net Position, continued**

	<b>2016</b>	<b>2015</b>
Restricted for/by		
Bond Ordinance	\$ 5,599,399	\$ 6,214,175
Health Insurance	248,129	786,274
Landfill Closure	4,025	-
	<b>\$ 5,851,553</b>	<b>\$ 7,000,449</b>
Total restricted net position	<b>\$ 5,851,553</b>	<b>\$ 7,000,449</b>

**Operating Revenues and Expenses**

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

Revenues from the sale of electricity are based on billing rates, which are applied to customers' consumption of electricity. The Utility records estimated unbilled revenue, including amounts to be billed under a fuel adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2016 and 2015, were \$1,940,704, and \$1,796,171, respectively, and are recorded in customer accounts receivable. The Utility uses a fuel adjustment clause whereby increases or decreases in fuel costs and purchase power costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

**Estimates**

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

**Budgetary Information**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on the total of all four utilities as a whole. In 2016, there were no budget amendments. During 2015, there was a budget amendment of \$11,141,186 primarily due to the unbudgeted refunding of debt.

**Grants**

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

**Employee Benefits**

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

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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December 31, 2016 and 2015

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

**Employee Benefits, continued**

The Electric Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay only applies to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date are not entitled to the benefit. As of December 31, 2016 and 2015 the accrued liability was \$885,287 and \$831,930, respectively.

**Customer Advances**

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

**Reclassifications**

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

**(2) Restricted Assets**

The composition of restricted assets as of December 31, 2016 and 2015 was as follows:

<b>2016</b>	<b>Cash</b>	<b>Investments</b>	<b>Total</b>
Current Assets - Restricted			
Bond Reserve	\$ 503,566	\$ 3,815,000	\$ 4,318,566
Bond and Interest	410,666	-	410,666
Streeter Landfill	744,375	-	744,375
Self Insured Dental	42,777	-	42,777
Self Insured Medical	285,422	-	285,422
Improvement and Extension	-	1,000,000	1,000,000
Total current assets - restricted	<u>\$ 1,986,806</u>	<u>\$ 4,815,000</u>	<u>\$ 6,801,806</u>
Total restricted assets	<u>\$ 1,986,806</u>	<u>\$ 4,815,000</u>	<u>\$ 6,801,806</u>

<b>2015</b>	<b>Cash</b>	<b>Investments</b>	<b>Total</b>
Current Assets - Restricted			
Bond Reserve	\$ 286	\$ 4,290,000	\$ 4,290,286
Bond and Interest	1,065,109	-	1,065,109
Streeter Landfill	775,000	-	775,000
Self Insured Dental	41,470	-	41,470
Self Insured Medical	309,804	500,000	809,804
Improvement and Extension	-	1,000,000	1,000,000
Total current assets - restricted	<u>\$ 2,191,669</u>	<u>\$ 5,790,000</u>	<u>\$ 7,981,669</u>
Total restricted assets	<u>\$ 2,191,669</u>	<u>\$ 5,790,000</u>	<u>\$ 7,981,669</u>

The monies deposited into the various funds have been invested in interest-bearing securities as required by the bond resolutions or legal requirement. Amounts deposited in the bond reserve, bond interest, construction, and improvement and extension funds may only be used for the purpose of paying principal and interest on the bonds when due or such other purposes as set forth in the bond resolutions and as a result are

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**(2) Restricted Assets, continued**

classified as restricted. Amounts deposited in the Streeter Landfill fund may only be used to cover costs related to the closure of the ash landfill. Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

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

**Cash on Hand**

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2016 and 2015 was \$345.

**Deposits**

At December 31, 2016, the Utility's carrying amount of deposits, including \$5,815,000 of certificates of deposits and \$20,089,438 of money market accounts, was \$40,518,628. At December 31, 2015, the Utility's carrying amount of deposits, including \$6,290,000 of certificates of deposits and \$16,657,391 of money market accounts, was \$48,663,040.

**Investments**

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

As of December 31, 2016, the Utility had \$11,171,029 of Federal Agency Obligations investments. The Federal Obligations all mature within twelve months of year end. As of December 31, 2015, the Utility had no Federal Agency Obligations investments.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$-0- and \$2,750,000 at December 31, 2016 and 2015, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The Utility uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The Federal Agency Obligations are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and other market assumptions (Level 2 inputs).

**Interest Rate Risk**

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

**Credit Risk**

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2016 or 2015. The Utility's investments in Federal Agency Obligations were rated AAA by Standard & Poor's and by Moody's Investors Services. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have significant credit risk. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

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

**Concentration of Credit Risk**

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2016 or 2015.

**Custodial Credit Risk – Deposits**

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

**Custodial Credit Risk – Investments**

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

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

	<b>2016</b>	<b>2015</b>
Cash on hand	\$ 345	\$ 345
Carrying amount of deposits	40,518,628	48,663,040
Carrying amount of federal agency obligations	11,171,029	-
Carrying amount of Iowa Public Agency Investment Trust	-	2,750,000
<b>Total</b>	<b>\$ 51,690,002</b>	<b>\$ 51,413,385</b>

	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash & cash equivalents - unrestricted	\$ 32,717,167	\$ 42,931,716
Unrestricted Investments	12,171,029	500,000
Restricted Cash	1,986,806	2,191,669
Cash & cash equivalents - restricted	4,815,000	5,790,000
<b>Total</b>	<b>\$ 51,690,002</b>	<b>\$ 51,413,385</b>

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

	<b>2016</b>	<b>2015</b>
<b>Unrestricted Cash and Investments</b>		
Board Designated		
Western Units Landfill	\$ 973,539	\$ 860,518
Security Deposits	307,080	295,931
Operating	43,607,577	42,275,267
<b>Total Cash and Investments Unrestricted</b>	<b>\$ 44,888,196</b>	<b>\$ 43,431,716</b>

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**(4) Capital Assets**

A summary of capital assets activity for the years ended December 31, 2016 and 2015 follows:

2016	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,876,804	\$ 2,003	\$ -	\$ 1,878,807
Construction work in progress	1,816,781	9,426,910	6,385,772	4,857,919
Total capital assets, not being depreciated	3,693,585	9,428,913	6,385,772	6,736,726
Capital assets, being depreciated:				
Infrastructure	183,699,774	4,783,410	702,684	187,780,500
Buildings and improvements	32,933,803	429,530	220,522	33,142,811
Equipment	20,805,986	1,170,828	633,955	21,342,859
Total capital assets, being depreciated	237,439,563	6,383,768	1,557,161	242,266,170
Less accumulated depreciation for:				
Infrastructure	61,673,577	3,592,808	947,689	64,318,696
Buildings and improvements	10,824,728	379,518	221,012	10,983,234
Equipment	11,681,532	1,521,664	633,872	12,569,324
Total accumulated depreciation	84,179,837	5,493,990	1,802,573	87,871,254
Total capital assets, being depreciated, net	153,259,726	889,778	(245,412)	154,394,916
Capital assets, net	\$ 156,953,311	\$ 10,318,691	\$ 6,140,360	\$ 161,131,642
2015	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,373,577	\$ 503,227	\$ -	\$ 1,876,804
Construction work in progress	10,205,174	6,128,600	14,516,993	1,816,781
Total capital assets, not being depreciated	11,578,751	6,631,827	14,516,993	3,693,585
Capital assets, being depreciated:				
Infrastructure	171,616,108	12,596,828	513,162	183,699,774
Buildings and improvements	32,176,437	793,238	35,872	32,933,803
Equipment	20,432,498	623,700	250,212	20,805,986
Total capital assets, being depreciated	224,225,043	14,013,766	799,246	237,439,563
Less accumulated depreciation for:				
Infrastructure	59,283,511	3,328,831	938,765	61,673,577
Buildings and improvements	10,492,054	369,499	36,825	10,824,728
Equipment	10,357,853	1,573,821	250,142	11,681,532
Total accumulated depreciation	80,133,418	5,272,151	1,225,732	84,179,837
Total capital assets, being depreciated, net	144,091,625	8,741,615	(426,486)	153,259,726
Capital assets, net	\$ 155,670,376	\$ 15,373,442	\$ 14,090,507	\$ 156,953,311

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**5) Noncurrent Liabilities**

Noncurrent liabilities activity for the years ended December 31, 2016 and 2015 was as follows:

2016	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Capital Loan Notes:					
Series 2010A	\$ 7,960,000	\$ -	\$ 430,000	\$ 7,530,000	\$ 435,000
Series 2010B	6,020,000	-	670,000	5,350,000	685,000
Series 2015	26,395,000	-	2,140,000	24,255,000	2,250,000
Unamortized premium	3,125,713	-	166,567	2,959,146	
Unamortized discount	(30,996)	-	(1,636)	(29,360)	
	43,469,717	-	3,404,931	40,064,786	<u>\$ 3,370,000</u>
Current installments of long-term debt	(3,240,000)	-	130,000	(3,370,000)	
Long-term debt, less current installments	40,229,717	-	3,534,931	36,694,786	
Customer advances for construction	198,100	300,900	116,300	382,700	
Landfill Closure	1,635,518	113,021	34,650	1,713,889	
Other liabilities	22,950	2,358,614	292,922	2,088,642	
Net pension liability	4,954,618	1,160,364	-	6,114,982	
Accrued severance and OPEB	1,587,930	257,104	294,118	1,550,916	
Noncurrent liabilities	8,399,116	4,190,003	737,990	11,851,129	
Total noncurrent liabilities	<u>\$ 48,628,833</u>	<u>\$ 4,190,003</u>	<u>\$ 4,272,921</u>	<u>\$ 48,545,915</u>	

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

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**(5) Noncurrent Liabilities, continued**

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

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

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

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

The Series 2010A, 2010B and 2015 revenue capital loan notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 2.50% and 5.00%. The bonds and capital loan notes are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

Year	Series 2010A Electric Capital Loan Notes		Series 2010B Electric Refunding Capital Loan Notes	
	December 1	3.00% - 4.75%	December 1	2.50% - 3.80%
	Principal Amount	Interest Amount	Principal Amount	Interest Amount
2017	\$ 435,000	\$ 305,888	\$ 685,000	\$ 171,730
2018	445,000	292,837	710,000	154,605
2019	455,000	279,488	735,000	135,080
2020	470,000	264,700	755,000	113,030
2021	485,000	248,250	790,000	88,870
2022-2026	2,675,000	944,113	1,675,000	94,500
2027-2030	2,565,000	306,012		
	<u>\$ 7,530,000</u>	<u>\$ 2,641,288</u>	<u>\$ 5,350,000</u>	<u>\$ 757,815</u>

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**(5) Noncurrent Liabilities, continued**

<b>Series 2015 Electric</b>		
<b><u>Refunding Capital Loan Notes</u></b>		
<b>December 1</b>		<b>2.50% - 5.00%</b>
<b>Principal</b>		<b>Interest</b>
<b>Year</b>	<b>Amount</b>	<b>Amount</b>
2017	\$ 2,250,000	\$ 1,080,375
2018	2,370,000	967,875
2019	2,490,000	849,375
2020	2,625,000	724,875
2021	2,760,000	593,625
2022-2026	11,760,000	1,043,925
2027-2030		
	<u>\$ 24,255,000</u>	<u>\$ 5,260,050</u>

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

All Utility revenues net of specified operating expenses are pledged as security of the above bonds until the bonds are defeased. Principal and interest paid for 2016 and 2015 were \$4,934,643 and \$5,158,605, respectively. Total sales of electricity gross revenues as defined for the same periods were \$45,831,458 and \$46,379,385. Annual principal and interest payments are expected to require 7.14% of gross revenues on average.

Iowa Administrative Code requires the Utility to place a final cover on its ash landfill site for its Streeter Station Generating Facility when it is closed and thereupon to have in place surveying monuments and an approved groundwater monitoring system. Iowa Administrative Code also requires the Utility to maintain the final cover, monitor ground water, and file reports with the Iowa Department of Natural Resources for ten years following closure of the site if closed by October 19, 2015. Although closure and post closure costs are paid only near or after the date that the landfill is closed, the Utility reports a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. Landfill closure and post closure care costs at December 31, 2016 are estimated to be \$630,000. This represents the cumulative estimated amount to date, based on the use of 100% of the estimated capacity of the landfill, to perform all closure and post closure care in 2016. Currently, the Utility has \$744,375 in restricted funds to cover the cost of the closure (see note 2). Actual costs may be higher due to inflation, changes in technology, or changes in regulations that occur during the closure and post closure. The Utility closed the landfill from ash disposal as of October 16, 2015. The closure is expected to be complete in spring of 2017.

In 2008 the Utility created a Landfill Closure liability for its ownership share of Walter Scott Energy Center - Unit 3, and George Neal Generating Station - Unit 4 generating units. The Walter Scott Energy Center - Unit 3 dry ash landfill is expected to be closed December 1, 2023 and its wet ash landfill is expected to be closed December 1, 2044. The Neal - Unit 4 land fill is expected to be closed December 1, 2022. A liability has been established and funds designated to pay the closing costs in the amount of \$973,539 (see note 3).

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**(6) Pension Plan - IPERS**

**Plan Description**

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

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

**Plan Benefits**

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

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

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

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

**Disability and Death Benefits**

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

**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

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**(6) Pension Plan – IPERS, continued**

**Contributions, continued**

Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2016 and 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.

The Utility's total contributions to IPERS for the years ended December 31, 2016 and 2015 were \$608,381 and \$600,278, respectively.

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

At December 31, 2016 and 2015, the Utility reported a liability of \$6,114,982 and \$4,954,618, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2016, the Utilities' collective proportion was 0.185550 percent which was a decrease of 0.004768 percent from its proportion measured as of June 30, 2015 of 0.190318 percent.

For the years ended December 31, 2016 and 2015, the Utility recognized pension expense of \$600,170 and \$321,974, respectively. At December 31, 2016 and 2015 the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 54,044	\$ 72,978	\$ 75,008	\$ -
Changes of assumptions	93,295	-	137,024	-
Net difference between projected and actual earnings on pension plan investments	871,193	-	741,309	1,158,833
Changes in proportion and differences between Utility's contributions and proportionate share of contributions	1,009	257,812	1,326	289,966
Utility's contributions subsequent to the measurement date	308,791	-	323,100	-
Total	<u>\$ 1,328,332</u>	<u>\$ 330,790</u>	<u>\$ 1,277,767</u>	<u>\$ 1,448,799</u>

\$308,791, reported as deferred outflows of resources related to pensions resulting from the Utility's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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**(6) Pension Plan – IPERS, continued**

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

<u>Fiscal Year Ended</u>	<u>2016</u>	<u>2015</u>
December 31, 2016	na	\$ 215,491
December 31, 2017	\$ 31,496	\$ 215,491
December 31, 2018	\$ 31,496	\$ 215,487
December 31, 2019	\$ 399,579	\$ (160,023)
December 31, 2020	\$ 234,655	\$ 7,686
December 31, 2021	\$ (8,475)	na

There were no non-employer contributing entities at IPERS.

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation: (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase: (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return: (effective June 30, 1996)	7.5 percent, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00 percent per annum based on 3.00 percent inflation And 1.00 percent real wage inflation

The actuarial assumptions used in the June 30, 2016 and 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflations) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table from IPERS Comprehensive Annual Financial Reports 2016 (CAFR):

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**(6) Pension Plan – IPERS, continued**

**Actuarial Assumptions, continued**

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-plus Fixed Income	28%	1.90%
Domestic Equity	24%	5.85%
International Equity	16%	6.32%
Private Equity/Debt	11%	10.31%
Real Estate	8%	3.87%
Credit Opportunities	5%	4.48%
US TIPS	5%	1.36%
Other Real Assets	2%	6.42%
Cash	1%	-0.26%
Total	<u>100%</u>	

**Discount Rate**

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

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

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

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Utility’s proportionate share of the net pension liability at 6-30-16	\$ 9,893,214	\$ 6,114,982	\$ 2,926,106
Utility’s proportionate share of the net pension liability at 6-30-15	\$ 8,674,645	\$ 4,954,618	\$ 1,814,648

**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](http://www.ipers.org).

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**6) Pension Plan – IPERS, continued**

**Payables to the Pension Plan**

At December 31, 2016 and 2015, the Utility reported a payable of \$85,313 and \$78,745, respectively, to the defined benefit pension plan for legally required employer contributions and a payable of \$47,934 and \$46,004, respectively for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**(7) Income Tax Status**

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

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

The Utility's share of jointly owned electric facilities at December 31, 2016 and 2015 is reflected in the following table. These facilities provide approximately 33% of the Utility's total generating capacity. The Utility is required to provide financing for its share of the facilities. The Utility's share of expenses associated with these facilities is included with the appropriate operating expenses in the statements of revenues, expenses and changes in net position.

<u>Facility</u>	<u>Percentage Ownership</u>	<u>Capacity MW</u>	<u>Capital Assets, Net</u>	
			<u>2016</u>	<u>2015</u>
Walter Scott Energy Center Unit 3	3.10%	21	\$ 14,340,507	\$ 13,798,935
Walter Scott Energy Center Unit 4	2.14%	16.9	28,592,823	28,768,255
George Neal Generating Station Unit 4	2.50%	15	11,234,254	11,183,217
Iowa Distributed Wind Generation Project	65.80%	1.5	-	99,963

**(9) Related Party Transactions**

The Utility provides electric service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$582,857 and \$1,014,502 in 2016 and 2015, respectively. Beginning in 2016, the City of Cedar Falls, Iowa no longer paid for the cost of street lighting. The utility now bills individual customers directly for these costs.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2016 to reimburse the Electric Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$15,219,022 and \$18,429,622 as of December 31, 2016 and 2015, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting deferred inflow of resources at December 31, 2016 and 2015 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$3,265,118 and \$2,013,296 in 2016 and 2015, respectively and is recorded as contributed capital in the statements of revenues, expenses and changes in net position.

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2016 and 2015 were \$3,066,000 and \$3,053,920, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2016, the Utility's Board of Trustees approved a payment of \$3,066,000 related to payments in lieu of taxes for 2016.

The Electric Utility extended a loan to the Municipal Communications Utility of the City of Cedar Falls, Iowa (Communications Utility), with an outstanding balance of \$-0- and \$183,090 as of December 31, 2016 and 2015, respectively. Interest accrued on the loan at 2.0% and was paid semi-annually during December and June. Annual principal payments continued through 2016. Accrued interest receivable was \$-0- and \$279 at December 31, 2016 and 2015, respectively. Interest income for the years ended December 31, 2016 and 2015 was \$3,383 and \$7,029 respectively.

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**(10) Risk Management**

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2016 plan year for aggregate medical claims exceeding \$2.8 million.

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

	<u>2016</u>	<u>2015</u>
Unpaid claims and IBNR, beginning of year	\$ 125,000	\$ 152,000
Current year costs including IBNR	3,787,679	3,016,121
Claims paid	<u>(3,755,679)</u>	<u>(3,043,121)</u>
Unpaid claims and IBNR, end of year	<u>\$ 157,000</u>	<u>\$ 125,000</u>

The Electric Utility has recorded \$80,070 and \$65,000 in accounts payable for its share of these unpaid claims at December 31, 2016 and 2015, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 538 governmental entities participate in the Association as of June 30, 2016. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents and investments	\$ 85,992,259	\$ 82,061,911
Receivables	2,150,677	1,944,567
Other assets	1,268,889	773,941
Total assets	<u>\$ 89,411,825</u>	<u>\$ 84,780,419</u>
Total liabilities	\$ 32,692,095	\$ 30,479,705
Total net position	56,719,730	54,300,714
Total liabilities and net assets	<u>\$ 89,411,825</u>	<u>\$ 84,780,419</u>
Total revenues	\$ 6,678,977	\$ 8,506,228
Total expenses	4,259,961	4,353,418
Net increase in net position	<u>\$ 2,419,016</u>	<u>\$ 4,152,810</u>

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

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

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

**Plan Description**

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

**Funding Policy**

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2016 and 2015, the Utilities contributed \$347,691 and \$214,857, respectively and retirees receiving benefits contributed \$75,156 and \$85,269, respectively, through their required contributions.

**Annual OPEB and Net OPEB Obligations**

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

	<u>2016</u>	<u>2015</u>
Annual required contribution	\$ 74,113	\$ 74,113
Interest on Net OPEB Obligation	51,446	51,446
Adjustment to annual required contribution	<u>(39,646)</u>	<u>(39,646)</u>
	\$ 85,913	\$ 85,913
Annual OPEB cost/expense	85,913	85,913
Contributions and payments made	<u>272,534</u>	<u>129,588</u>
Increase in net OPEB obligation	\$ (186,621)	\$ (43,675)
Net OPEB obligation, December 31, 2015	<u>985,254</u>	<u>1,028,929</u>
Net OPEB obligation, December 31, 2016	<u>\$ 798,633</u>	<u>\$ 985,254</u>

The Electric Utility's share of the December 31, 2016 and 2015 Net OPEB obligation is \$665,629 and \$756,000, respectively.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and net OPEB obligation for the years ended December 31, 2016, 2015 and 2014:

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

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

**Annual OPEB and Net OPEB Obligations, continued**

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual</u>		<u>Net OPEB Obligation</u>
		<u>OPEB Cost Contributed</u>		
December 31, 2016	\$ 85,913	317.22%	\$	798,633
December 31, 2015	\$ 85,913	150.84%	\$	985,254
December 31, 2014	\$ 85,392	21.79%	\$	1,028,929

**Funded Status and Funding Progress**

As of January 1, 2015, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$931,950. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of active employees covered by the Plan which was \$13,249,851 in 2016 and the ratio using the January 1, 2015 actuarial valuation UAAL to the covered payroll was 7.0%.

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

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

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2015
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.00%
Healthcare Trend Rate	8.0% declining 0.5% annually to 5%

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

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

**(12) Flood Event**

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, building furnishings and equipment, meters, switches, relays, tools and rendered the Streeter Station power plant units 6 and 7 and coal handling systems inoperable and in need of major repair. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. As of December 31, 2009, damaged Utility administrative facilities were operational. Damaged generation units and power plant office facilities were operational in early 2010. In 2016 and 2015, the Utility has recognized \$-0- and \$1,022,407, respectively, in revenues for FEMA flood recovery reimbursement. As of December 31, 2016 and 2015, the Utility recognized a receivable of \$-0- and \$-0-, respectively, for FEMA flood disaster reimbursement. The Utility concluded its flood work with FEMA in 2015.

**(13) Commitments and Contingencies**

The Utility has joint ownership interest in Walter Scott Energy Center Units 3 and 4, and the George Neal Generating Station Unit 4 (see note 8). Coal procurements are made by the agent for the joint owners on a system portfolio basis, which are a mix of 1, 2, and 3-year purchases to minimize risk. The Utility is obligated to purchase at least the annual amount of coal to operate the Utility's share at minimum load. The Utility's share of coal purchases for the years 2016 and 2015 were \$4,911,737 and \$5,770,742, respectively.

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

As of December 31, 2016, the Utility was involved in several construction projects with an estimated cost to complete of \$14,238,000 and an estimated time frame to complete through 2019.

**(15) Subsequent Events**

Subsequent events for the Utility have been evaluated through May 5, 2017, which is the date that the financial statements were available to be issued.

Effective January 1, 2017, the Board of Trustees approved a residential electric rate restructuring. The kWh usage charges were reduced and equal amounts added to the customer charge. The average net impact of these changes for customers is rate neutral and revenue neutral for the Utility.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Utilities proportion of the net pension liability (asset)	0.185550%	0.190318%	0.200498%
Utility's proportionate share of the net pension liability	\$ 6,114,982	\$ 4,954,618	\$ 4,208,071
Utility's Covered-employee payroll	\$ 6,973,013	\$ 6,870,511	\$ 6,943,138
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.69%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

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

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

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Statutorily required contribution	\$ 608,381	\$ 600,278	\$ 649,951	\$ 611,560	\$ 579,454
Contributions in relation to the statutorily required contribution	(608,381)	(600,278)	(649,951)	(611,560)	(579,454)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 6,812,773	\$ 6,722,036	\$ 7,278,286	\$ 6,950,838	\$ 6,960,430
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.80%	8.33%
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Statutorily required contribution	\$ 512,851	\$ 458,698	\$ 427,457	\$ 388,089	\$ 341,288
Contributions in relation to the statutorily required contribution	(512,851)	(458,698)	(427,457)	(388,089)	(341,288)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 6,815,498	\$ 6,743,466	\$ 6,571,587	\$ 6,261,209	\$ 5,783,294
Contributions as a percentage of covered-employee payroll	7.52%	6.80%	6.51%	6.20%	5.90%

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

**Notes to Required Supplemental Information**  
**Iowa Public Employees' Retirement System**

**Changes of Benefit Terms**

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

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

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

**Changes of Assumptions**

The 2014 valuation incorporated 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 2- year period.

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

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

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

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

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

<b>Fiscal Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
2016	January 1, 2015	\$ -	\$931,950	\$931,950	0.00%	\$13,249,851	7.00%
2015	January 1, 2015	\$ -	\$931,950	\$931,950	0.00%	\$13,073,650	7.10%
2014	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,921,796	6.50%
2013	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,400,936	6.80%
2012	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,133,950	6.90%
2011	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$12,936,933	22.90%
2010	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$12,152,946	24.40%
2009	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$11,587,064	25.60%
2008	January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.00%	\$11,162,424	30.80%

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Municipal Electric Utility of the City of Cedar Falls (Municipal Electric Utility) as of and for the year ended December 31, 2016, and have issued our report thereon dated May 5, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipal Electric Utility’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Electric Utility’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipal Electric Utility’s internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipal Electric Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Municipal Electric Utility's operations for the year ended December 31, 2016, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Municipal Electric Utility and are reported in Part III of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Purpose of this Report**

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa  
May 5, 2017

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

There were no findings to report.

**Part II: Findings and Questioned Costs for Federal Awards:**

Single audit did not apply for fiscal year 2016.

**Part III: Other Findings Related to Required Statutory Reporting:**

- 2016-IA-A     **Certified Budget** – Disbursements during the year ended December 31, 2016, did not exceed the amount budgeted.
- 2016-IA-B     **Questionable Expenditures** – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 2016-IA-C     **Travel Expense** – No expenditures of the Utility’s money for travel expenses of spouses of Utility officials or employees were noted.
- 2016-IA-D     **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.
- 2016-IA-E     **Bond Coverage** – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- 2016-IA-F     **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2016-IA-G     **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility’s investment policy were noted.
- 2016-IA-H     **Revenue Bonds** – No instances of noncompliance with the provisions of the Utility’s revenue bond resolutions were noted.
- 2016-IA-I     **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

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# **Cedar Falls Utilities**

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

**Including Independent Auditors' Reports**

**For The Years Ended  
December 31, 2016 and 2015**



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

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## **Independent Auditor's Report**

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

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

We have audited the accompanying financial statements of the Municipal Gas Utility of the City of Cedar Falls, Iowa (Municipal Gas Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Gas Utility as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Utilities Proportionate Share of the Net Pension Liability, Schedule of Utilities Contributions, and Schedule of Funding Progress for the Other Post-Employment Benefits Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 2017 on our consideration of the Municipal Gas Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Gas Utility's internal control over financial reporting and compliance.



Dubuque, Iowa  
May 5, 2017

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

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2016 and 2015  
Unaudited

The following discussion and analysis of the Municipal Gas Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2016 and 2015. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

The years 2016 and 2015 had below average winter seasons, but 2016 was milder than 2015 in those winter months. The summer of 2016 was slightly warmer than average, opposite of the 2015 summer that was cooler than average. 2016 usage increased over 2015 by 169,000 MCF or 9.7% and the Utility experienced a \$499,000 or 4.3% decrease in operating revenues. Operating expenses decreased \$44,000 or 0.4% primarily due to decreased natural gas purchases and lower average natural gas costs per MCF. Net operating income decreased \$455,000 or 100.6% in 2016. There were no rate adjustments in 2016. The Utility's net position remained strong along with a continued strong cash position.

**Overview of the Financial Statements**

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

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

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

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

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

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**Condensed Financial Information & Analysis**

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

**Condensed Statement of Net Position**

	2016	2015	2014 <i>(Restated)</i>
Capital assets, net	\$13,502,336	\$13,542,877	\$13,436,058
Noncurrent assets	1,353,428	1,954,648	2,845,240
Current assets	15,205,183	13,664,794	12,720,878
Total assets	<u>30,060,947</u>	<u>29,162,319</u>	<u>29,002,176</u>
Deferred outflows of resources	401,941	369,294	161,643
Total assets and deferred outflows of resources	<u>30,462,888</u>	<u>29,531,613</u>	<u>29,163,819</u>
Current liabilities	1,994,666	1,356,275	1,769,163
Noncurrent liabilities	2,724,208	2,332,581	2,163,641
Total liabilities	<u>4,718,874</u>	<u>3,688,856</u>	<u>3,932,804</u>
Deferred inflows of resources	210,645	463,718	631,347
Total liabilities and deferred inflows of resources	<u>4,929,519</u>	<u>4,152,574</u>	<u>4,564,151</u>
Net investment in capital assets	13,502,336	13,542,876	13,436,058
Restricted	78,233	83,590	176,943
Unrestricted	11,952,800	11,752,573	10,986,667
Total net position	<u>\$25,533,369</u>	<u>\$25,379,039</u>	<u>\$24,599,668</u>

**2016 Compared to 2015**

- ❖ Total assets and deferred outflows of resources increased \$931,000 or 3.2% primarily due to:
  - Net capital assets decreasing \$41,000 or 0.30%. Net capital assets represent 44.9% of total assets for the Utility in 2016.
  - Decrease in noncurrent assets of \$601,000 or 30.8% due to:
    - Decrease of \$600,000 or 100.0% in noncurrent investments in associated companies due to the current installment for the 2012 loan of \$3.0 million to the Communications Utility.
    - Increase of \$56,000 or 104.0% in tax increment financing (TIF) receivable as a result of payments received and additional project expenditures certified by the City of Cedar Falls.
    - Decrease in prepaid border station amortization of \$46,000 or 3.4%.
    - Decrease of \$12,000 or 57.9% in long term loans receivable.
  - Increase in current assets of \$1.5 million or 11.3% primarily due to:
    - Decrease in unrestricted cash and cash equivalents of \$3.4 million or 29.2% due to use of cash for investments.

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- Increase in unrestricted investments of \$3.8 million or 100%.
  - Increase of \$1.1 million or 114.3% in receivables mainly from an increase in customer accounts receivable caused by the combination of higher usage and gas costs during a colder than average December 2016.
  - Increase in deferred outflows of resources of \$33,000 or 8.8% due to the application of The Government Accounting Standards Board (GASB) Statement No. 68, “**Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27**”.
- ❖ Total liabilities and deferred inflows of resources increased \$777,000 or 18.7% primarily due to:
- Increase in current liabilities of \$638,000 or 47.1% primarily due to an increase in accounts payable of \$646,000 or 80.8% mainly caused by the combination of higher usage and gas costs during a colder than average December 2016.
  - Increase in noncurrent liabilities of \$392,000 or 16.8% primarily due to a \$430,000 or 30.4% increase in the net pension liability required by The Government Accounting Standards Board (GASB) Statement No. 68, “**Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27**”.
  - Decrease in deferred inflows of resources of \$253,000 or 54.6% due to:
    - Decrease in pension related deferred inflows of \$310,000 or 75.6% due the impact of The Government Accounting Standards Board (GASB) Statement No. 68, “**Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27**”.
    - Increase of \$57,000 or 104.0% in the Tax Increment Financing (TIF) liability as a result of payments received and additional project expenditures certified by the City of Cedar Falls.

*Additional detail on the change in capital assets Note 4. Additional detail on GASB No. 68 accounting for pensions in Note 6. The utility has no long-term debt in 2016 or 2015.*

#### 2015 Compared to 2014

- ❖ Total assets and deferred outflows of resources increased \$368,000 or 1.3% primarily due to:
- Net capital assets increasing \$107,000 or 0.80%. Net capital assets represent 46.4% of total assets for the Utility in 2015.
  - Decrease in noncurrent assets of \$891,000 or 31.3% due to:
    - Decrease of \$600,000 or 50.0% in noncurrent investments in associated companies due to the current installment for the 2012 loan of \$3.0 million to the Communications Utility.
    - Decrease of \$273,000 or 17.0% in prepaid assets for amortization of the construction costs of the 2014 town border station built by Northern Natural Gas for the sole benefit of the Gas Utility and a decrease of \$79,000 or 59.3% in tax increment financing (TIF) receivable as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.
  - Increase in current assets of \$944,000 or 7.4% primarily due to:
    - Increase in unrestricted cash and cash equivalents of \$2.7 million or 29.4% mostly from net income, a decrease in cash paid to suppliers and a repayment of the \$600,000 in principal by the Municipal Communications Utility for the current portion of the note receivable.
    - Decrease of \$1.6 million or 78.2% in receivables mainly from a decrease in customer accounts receivable caused by the combination of lower usage and lower gas costs during 2015.
  - Increase in deferred outflows of resources of \$208,000 or 128.5% due to the application of The Government Accounting Standards Board (GASB) Statement No. 68, “**Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27**”.
- ❖ Total liabilities and deferred inflows of resources decreased \$412,000 or 9.0% primarily due to:
- Decrease in current liabilities of \$413,000 or 23.3% as a result of a decrease in accounts payable of \$560,000 or 41.2% mainly from lower inventory purchases due to completion of projects.

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- Increase in noncurrent liabilities of \$169,000 or 7.8% primarily due to an increase in the net pension liability required by The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
- Decrease in deferred inflows of resources of \$168,000 or 26.6% due to:
  - Decrease in pension related deferred inflows of \$88,000 or 17.8% due the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
  - Decrease of \$79,000 or 59.3% in the Tax Increment Financing (TIF) liability as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.

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

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

	2016	2015	2014 <i>(Restated)</i>
Sales of gas	\$11,151,161	\$11,638,137	\$18,116,167
Other	38,448	50,426	48,138
Total operating revenues	<u>11,189,609</u>	<u>11,688,563</u>	<u>18,164,305</u>
Natural gas purchased for resale	6,174,417	6,515,687	12,711,223
Operation & maintenance	1,363,796	1,269,121	1,256,812
Depreciation and amortization	982,360	939,583	817,910
Services and administrative	2,671,857	2,511,690	2,194,537
Total operating expenses	<u>11,192,430</u>	<u>11,236,081</u>	<u>16,980,482</u>
Operating Income	<u>(2,821)</u>	<u>452,482</u>	<u>1,183,823</u>
Interest income	58,070	35,507	47,509
Other, net	99,081	291,382	298,345
Total non-operating revenues (expenses)	<u>157,151</u>	<u>326,889</u>	<u>345,854</u>
Change in net position	154,330	779,371	1,529,677
Net position, beginning of year	<u>25,379,039</u>	<u>24,599,668</u>	<u>23,069,991</u>
Net position, end of year	<u>\$25,533,369</u>	<u>\$25,379,039</u>	<u>\$24,599,668</u>

**2016 Compared to 2015**

- ❖ Total operating revenues decreased \$499,000 or 4.3% due to:
  - Decrease in gas sales of \$487,000 or 4.2% due to a milder heating season than 2015, however, usage increased 169,000 MCF or 9.7% due to the University of Northern Iowa and CFU Electric Utility increasing generation by 296,000 MCF or 173.4% and a decrease in gas costs passed on to customers through the PGA of \$341,000 or 5.2%.
  - Decrease in other operating revenues of \$12,000 or 23.8% primarily due to an increase of \$10,000 or 31.0% in interdepartmental rents.
- ❖ Total operating expenses decreased \$44,000 or 0.4% primarily due to:

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- Decrease in natural gas purchased for resale of \$341,000 or 5.2% from a decrease in the average gas purchase price of \$0.50 per MCF from \$3.72 in 2015 to \$3.22 in 2016.
  - Increase in operation & maintenance expenses of \$95,000 or 7.5% due to an overall increase in load dispatching costs and supervision & engineering and meter & regulator expenses.
  - Increase in depreciation & amortization expense of \$43,000 or 4.6% due to the completion of capital asset projects placed into service in 2015.
  - Increase in services and administrative expenses of \$160,000 or 6.4% primarily due to:
    - Decrease in customer accounts expense of \$20,000 or 6.4% mainly due to the decrease in uncollectible accounts of \$14,000 or 191.0%.
    - Increase in customer service & informational expenses of \$24,000 or 5.6% mainly from the increase in energy efficiency rebates and incentives.
    - Increase in administrative & general expenses of \$156,000 or 9.6% mainly due to an increase in employee benefits and pensions of \$145,000 or 24.4% due to an increase in employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.
- ❖ Interest income increased \$23,000 or 63.5% due to slightly increased interest rates in money market funds and improved investment opportunities in federal government agency notes.
- ❖ Other, net decreased by \$192,000 or 66.0% primarily due to:
- Decrease of \$173,000 or 100.0% in intergovernmental grant funds revenue due to the completion of grant funded projects.
  - Decrease of \$53,000 or 59.4% in contributed capital mainly due to a decrease of \$50,000 or 62.7% in TIF revenues received from the City of Cedar Falls for certified projects.

#### 2015 Compared to 2014

- ❖ Total operating revenues decreased \$6.5 million or 35.7% due to:
- Decrease in gas sales of \$6.5 million or 35.8% due to a warmer heating season than the much colder weather of 2014, resulting in a decrease of 303,540 MCF or 14.8% and a decrease in gas costs passed on to customers through the PGA of \$6.2 million or 48.7%.
  - Increase in other operating revenues of \$2,000 or 4.8% primarily due to an increase of \$6,000 or 23.0% in interdepartmental rents and a decrease in forfeited discounts (late fee revenue) of \$5,000 or 28.2%.
- ❖ Total operating expenses decreased \$5.7 million or 33.8% primarily due to:
- Decrease in natural gas purchased for resale of \$6.2 million or 48.7% from a decrease in the average gas purchase price of \$2.47 per MCF from \$6.19 in 2014 to \$3.72 in 2015.
  - Increase in operation & maintenance expenses of \$12,000 or 1.0% due to an overall increase in load dispatching costs offset by decreases in supervision & engineering and meter & regulator expenses.
  - Increase in depreciation & amortization expense of \$122,000 or 14.9% due to the completion of capital asset projects placed into service in 2014 and amortization of the new town border station.
  - Increase in services and administrative expenses of \$317,000 or 14.5% primarily due to:
    - Decrease in customer accounts expense of \$35,000 or 10.3% mainly due to the decrease in uncollectible accounts of \$26,000 or 77.8%.
    - Increase in customer service & informational expenses of \$27,000 or 6.7% from the increase in energy efficiency rebates and incentives.
    - Increase of \$316,000 or 24.3% in administrative & general expenses primarily due to a reallocation of health insurance that increased claims expense for the utility and an increase in employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.

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- ❖ Interest income decreased \$12,000 or 25.3% due to interest earned on the declining outstanding balance of the \$3.0 million note receivable with the Municipal Communications Utility.
- ❖ Other, net decreased by \$7,000 or 2.3% primarily due to:
  - Increase of \$173,000 or 100.0% in intergovernmental grant funds revenue due to the finalization of grant funded projects.
  - Decrease of \$172,000 or 65.8% in contributed capital mainly due to a decrease of \$175,000 or 68.9% in TIF revenues received from the City of Cedar Falls for certified projects.

**Condensed Statement of Cash Flows**

	2016	2015	2014 <i>(Restated)</i>
Cash Flows from Operating Activities	\$540,037	\$2,540,932	\$887,005
Cash Flows from Capital and Related Financing Activities	(745,989)	(612,531)	179,988
Cash Flows from Investing Activities	(3,198,793)	636,504	648,506
Net Change in Cash and Cash Equivalents	(3,404,745)	2,564,905	1,715,499
Cash and Cash Equivalents-Beginning of Year	11,775,180	9,210,275	7,494,776
Cash and Cash Equivalents-End of Year	\$8,370,435	\$11,775,180	\$9,210,275

**2016 Compared to 2015**

- ❖ Cash inflows from operations decreased by \$2.0 million or 78.7% due to:
  - Decrease in cash received from customers of \$3.0 million or 22.9%.
  - Decrease in cash paid to suppliers of \$1.3 million or 13.5%.
  - Increase in cash paid to employees of \$149,000 or 13.8%.
- ❖ Cash outflows from capital and related financing activities decreased by \$133,000 or 21.8% due to:
  - Decrease in capital expenditures of \$113,000 or 11.3%.
  - Increase in proceeds from customer advances for construction of \$72,000 or 130.0%.
  - Decrease in receipts for reimbursement of utility construction costs of \$53,000 or 59.4%.
  - Decrease in receipts of intergovernmental grant receivables of \$264,000.
- ❖ Cash inflows from investing activities decreased \$3.8 million or 602.6% due to an increase in investment purchases in 2016.

**2015 Compared to 2014**

- ❖ Cash inflows from operations increased by \$1.7 million or 186.5% due to:
  - Decrease in cash received from customers of \$5.4 million or 29.1%.
  - Decrease in cash paid to suppliers of \$7.1 million or 43.3%.
  - Increase in payment in lieu of taxes to the City of Cedar Falls of \$26,000 or 13.1%.

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- ❖ Cash outflows from capital and related financing activities increased by \$793,000 or 440.3% due to:
  - Increase in capital expenditures of \$928,000 or 1357.2%.
  - Decrease in receipts for reimbursement of utility construction costs of \$172,000 or 65.8%.
  - Increase in receipts of intergovernmental grant receivables of \$263,000 or 19109.2%
  
- ❖ Cash inflows from investing activities decreased \$12,000 or 1.9% due to a decrease in interest received of \$12,000 or 24.7%.

## **FINANCIAL STATEMENTS**

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Statements of Net Position  
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<u>Assets</u>	<u>2016</u>	<u>2015</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 25,922,008	\$ 25,321,763
Less accumulated depreciation	12,460,259	11,824,231
Capital assets, net	<u>13,461,749</u>	<u>13,497,532</u>
Construction work in progress	40,587	45,345
Total capital assets, net	<u>13,502,336</u>	<u>13,542,877</u>
Noncurrent assets:		
Loans receivable	8,727	20,747
Note receivable (note 8)	-	600,000
Other (note 8)	<u>1,344,701</u>	<u>1,333,901</u>
Total noncurrent assets	<u>1,353,428</u>	<u>1,954,648</u>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	8,267,082	11,671,590
Cash and cash equivalents - restricted (note 2 and 3)	103,353	103,590
Investments (note 3)	3,848,479	-
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$8,507 in 2016 and \$16,247 in 2015	1,999,394	933,114
Loans receivable	10,665	15,738
Interest	9,199	2,014
Current installment of note receivable (note 8)	600,000	600,000
Trade	679	10,528
Other	26,948	27,365
Inventories:		
Material and supplies	238,767	188,142
Prepayments and other	<u>100,617</u>	<u>112,713</u>
Total current assets	<u>15,205,183</u>	<u>13,664,794</u>
Total assets	30,060,947	29,162,319
Deferred outflows of resources:		
Pension related deferred outflows (note 6)	<u>401,941</u>	<u>369,294</u>
Total deferred outflows of resources	<u>401,941</u>	<u>369,294</u>
Total assets and deferred outflows of resources	<u>\$ 30,462,888</u>	<u>\$ 29,531,613</u>

See accompanying notes to financial statements.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Statements of Net Position  
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<u>Liabilities</u>	<u>2016</u>	<u>2015</u>
Long-term debt, less current installments (note 5)	\$ -	\$ -
Current liabilities:		
Accounts payable	\$ 1,445,893	\$ 799,770
Reserve for surplus declaration (note 8)	299,000	306,080
Accrued wages and vacations	196,875	187,803
Other accrued expenses	52,898	62,622
Total current liabilities	<u>1,994,666</u>	<u>1,356,275</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	189,128	92,388
Net pension liability	1,845,493	1,415,692
Other liabilities (note 5, and 10)	689,587	824,501
Total noncurrent liabilities	<u>2,724,208</u>	<u>2,332,581</u>
 Total liabilities	 4,718,874	 3,688,856
Deferred inflows of resources:		
Pension related deferred inflows (note 6)	99,833	409,406
TIF related deferred inflows (note 8)	110,812	54,312
Total deferred inflows of resources	<u>210,645</u>	<u>463,718</u>
 Total liabilities and deferred inflows of resources	 4,929,519	 4,152,574
 <u>Net Position</u>		
Net investment in capital assets	13,502,336	13,542,876
Restricted	78,233	83,590
Unrestricted	11,952,800	11,752,573
Total net position	<u>25,533,369</u>	<u>25,379,039</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 30,462,888</u>	 <u>\$ 29,531,613</u>

See accompanying notes to financial statements.

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MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Statements of Revenues, Expenses and Changes in Net Position  
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Sales of gas:		
Residential	\$ 5,692,518	\$ 6,292,648
Industrial	849,090	1,020,781
Commercial	2,842,693	3,027,989
Governmental (note 8)	954,557	749,348
Interdepartmental	812,303	547,371
Total sales of gas	11,151,161	11,638,137
Other operating revenues	38,448	50,426
Total operating revenues	11,189,609	11,688,563
Operating expenses:		
Production:		
Natural gas purchased for resale	6,174,417	6,515,687
Other	9,966	154
Distribution	1,353,830	1,268,967
Depreciation and amortization	982,360	939,583
Customer accounts	287,964	307,709
Customer service and information expenses	457,731	433,532
Sales	20,595	19,261
Administrative and general (note 8)	1,773,083	1,617,191
Taxes other than income taxes	132,484	133,997
Total operating expenses	11,192,430	11,236,081
Operating income	(2,821)	452,482
Non-operating revenues (expenses):		
Interest income	58,070	35,507
Miscellaneous revenue (expense), net	58,259	24,066
Intergovernmental grant funds (note 11)	-	172,709
AFUDC (note 1)	4,443	5,094
Contributed capital (note 8)	36,379	89,513
Total non-operating revenues (expenses)	157,151	326,889
Change in net position	154,330	779,371
Net position, beginning of year	25,379,039	24,599,668
Net position, end of year	\$ 25,533,369	\$ 25,379,039

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Statements of Cash Flows  
Years ended December 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$ 10,207,654	\$ 13,242,254
Intergovernmental grants	-	561
Cash paid to suppliers	(8,129,073)	(9,392,520)
Cash paid to employees	(1,232,464)	(1,083,155)
Payment in lieu of taxes to the City of Cedar Falls	(306,080)	(226,208)
	<u>540,037</u>	<u>2,540,932</u>
Cash flows from capital and related financing activities:		
Proceeds from customer advances for construction	126,800	55,140
Refunds of customer advances for construction	(27,060)	(27,660)
Acquisition, construction and removal cost of capital assets	(883,510)	(996,429)
Proceeds from sale of capital assets	1,402	2,586
Reimbursement of utility construction costs	36,379	89,513
Intergovernmental grants	-	264,319
	<u>(745,989)</u>	<u>(612,531)</u>
Cash flows from investing activities:		
Advance to affiliated company	600,000	600,000
Purchase of investment securities	(3,840,000)	-
Interest received	41,207	36,504
	<u>(3,198,793)</u>	<u>636,504</u>
Net increase (decrease) in cash and cash equivalents	(3,404,745)	2,564,905
Cash and cash equivalents, beginning of year	<u>11,775,180</u>	<u>9,210,275</u>
Cash and cash equivalents, end of year (note 1)	<u>\$ 8,370,435</u>	<u>\$ 11,775,180</u>

*See accompanying notes to financial statements.*

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Cash Flows, Continued  
Years ended December 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (2,821)	\$ 452,482
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation of capital assets	982,360	939,583
Other Income (expense), net	55,259	14,496
(Increase) decrease in accounts receivable	(1,056,431)	1,514,613
(Increase) decrease in loans receivable	17,093	24,046
(Increase) decrease in inventory	(50,625)	18,100
(Increase) decrease in prepayments and other	12,513	137,351
Increase (decrease) in accounts payable	636,554	(561,960)
Increase (decrease) in reserve for surplus declaration	(7,080)	79,872
Increase (decrease) in accrued wages and vacation	9,072	32,781
Increase (decrease) in other accrued expenses	79,057	(33,664)
Increase (decrease) in other liabilities	<u>(134,914)</u>	<u>(76,768)</u>
Net cash provided by operating activities	<u>\$ 540,037</u>	<u>\$ 2,540,932</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	4,443	5,094
Contributions from contractors in aid of construction		
Expiration of customer advances for construction	(3,000)	(9,570)
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 8,267,082	\$ 11,671,590
Cash - Restricted	<u>103,353</u>	<u>103,590</u>
Cash and cash equivalents	<u>\$ 8,370,435</u>	<u>\$ 11,775,180</u>

See accompanying notes to financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

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

**Organization and Basis of Accounting**

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

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

**Accounting Changes**

The Government Accounting Standards Board (GASB) Statement No. 68, "***Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27***" was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state and local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions.

**Capital Assets and Depreciation**

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 3.10% in 2016 and 2.75% 2015. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated services and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure – 15 to 50 years, buildings and improvements – 25 to 45 years, and equipment – 11 to 70 years. The depreciation provisions were equivalent to an overall composite rate of 3.7% of depreciable assets for 2016 and 3.7% for 2015.

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

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

**Cash and Investments**

Investments are stated at their fair value except for the investment in the Iowa Public Agency Investment Trust (IPAIT) and non-negotiable certificates of deposits which are valued at amortized cost.

The Utility considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2016 and 2015 were \$-0- and \$2,300,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

**Accounts Receivable and Allowance for Doubtful Accounts**

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

**Inventories**

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

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

**Deferred Outflows of Resources**

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

**Pensions**

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

**Deferred Inflows of Resources**

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

**Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows in the financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of government entities.

Unrestricted net position consists of net positions that do not meet the definition of “net investment in capital assets” or “restricted”.

The Utility’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. The composition of restricted net position as of December 31, 2016 and 2015 was as follows:

	<b>2016</b>	<b>2015</b>
Restricted for/by		
Health Insurance	\$ 78,233	\$ 83,590

**Natural Gas Commodity Purchases**

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

**Operating Revenues and Expenses**

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

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

**Operating Revenues and Expenses, continued**

Revenues from the sale of gas are based on billing rates, which are applied to customers' consumption of gas. The Utility records estimated unbilled revenue, including amounts to be billed under a purchased gas adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2016 and 2015 were \$1,191,156 and \$848,921, respectively, and are recorded in customer accounts receivable. The Utility uses a purchased gas adjustment clause whereby increases and decreases in fuel costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

**Estimates**

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

**Budgetary Information**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on the total of all four utilities as a whole. In 2016, there were no budget amendments. During 2015, there was a budget amendment of \$11,141,186 primarily due to the unbudgeted refunding of debt.

**Grants**

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

**Employee Benefits**

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

The Gas Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay shall apply only to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date shall not be entitled to the benefit. As of December 31, 2016 and 2015 the accrued liability was \$182,678 and \$158,463, respectively.

**Customer Advances**

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

**Reclassifications**

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

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**(2) Restricted Assets**

The composition of restricted assets as of December 31, 2016 and 2015 was as follows:

<b>2016</b>	<b>Cash</b>	<b>Investments</b>	<b>Total</b>
Current Assets - Restricted			
Self Insured Dental	\$ 13,473	\$ -	\$ 13,473
Self Insured Medical	89,880	-	89,880
Total current assets - restricted	<u>\$ 103,353</u>	<u>\$ -</u>	<u>\$ 103,353</u>
Total restricted assets	<u>\$ 103,353</u>	<u>\$ -</u>	<u>\$ 103,353</u>

  

<b>2015</b>	<b>Cash</b>	<b>Investments</b>	<b>Total</b>
Current Assets - Restricted			
Self Insured Dental	\$ 12,361	\$ -	\$ 12,361
Self Insured Medical	91,229	-	91,229
Total current assets - restricted	<u>\$ 103,590</u>	<u>\$ -</u>	<u>\$ 103,590</u>
Total restricted assets	<u>\$ 103,590</u>	<u>\$ -</u>	<u>\$ 103,590</u>

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

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

**Cash on Hand**

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2016 and 2015 was \$100.

**Deposits**

At December 31, 2016, the Utility's carrying amount of deposits, including \$1,540,000 of certificates of deposits and \$4,450,000 of money market accounts, was \$9,910,335. At December 31, 2015, the Utility's carrying amount of deposits, including \$2,750,000 of money market accounts, was \$9,475,080.

**Investments**

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

As of December 31, 2016, the Utility had \$2,308,479 of Federal Agency Obligations investments. The Federal Obligations all mature within twelve months of year end. As of December 31, 2015, the Utility had no Federal Agency Obligations investments.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$-0- and \$2,300,000 at December 31, 2016 and 2015, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The Utility uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets

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

**Investments, continued**

for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The Federal Agency Obligations are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and other market assumptions (Level 2 inputs).

**Interest Rate Risk**

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

**Credit Risk**

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2016 or 2015. The Utility's investments in Federal Agency Obligations were rated AAA by Standard & Poor's and by Moody's Investors Services. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have significant credit risk. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

**Concentration of Credit Risk**

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2016 or 2015.

**Custodial Credit Risk – Deposits**

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

**Custodial Credit Risk – Investments**

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

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

	<b>2016</b>	<b>2015</b>
Cash on hand	\$ 100	\$ 100
Carrying amount of deposits	9,910,335	9,475,080
Carrying amount of federal agency obligations	2,308,479	-
Carrying amount of Iowa Public Agency Investment Trust	-	2,300,000
Total	<u>\$ 12,218,914</u>	<u>\$ 11,775,180</u>

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

**Custodial Credit Risk – Investments, continued**

Current Assets	<u>2016</u>	<u>2016</u>
Cash & cash equivalents	\$ 8,267,082	\$ 11,671,590
Unrestricted Investments	3,848,479	-
Restricted Cash	103,353	103,590
Total	<u>\$ 12,218,914</u>	<u>\$ 11,775,180</u>

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

Unrestricted Cash and Investments	<u>2016</u>	<u>2015</u>
Board Designated		
Capital Replacement	\$ 1,543,700	\$ 771,850
Operating	\$ 10,571,861	\$ 10,899,740
Total Cash and Investments Unrestricted	<u>\$ 12,115,561</u>	<u>\$ 11,671,590</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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**(4) Capital Assets**

A summary of capital assets activity for the years ended December 31, 2016 and 2015 follows:

2016	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 25,617	\$ -	\$ -	\$ 25,617
Construction work in progress	45,345	873,365	878,123	40,587
Total capital assets, not being depreciated	70,962	873,365	878,123	66,204
Capital assets, being depreciated:				
Infrastructure	21,370,947	790,138	116,959	22,044,126
Buildings and improvements	3,270,858	62,802	31,836	3,301,824
Equipment	654,341	25,182	129,082	550,441
Total capital assets, being depreciated	25,296,146	878,122	277,877	25,896,391
Less accumulated depreciation for:				
Infrastructure	10,956,007	814,677	141,117	11,629,567
Buildings and improvements	516,273	86,195	31,836	570,632
Equipment	351,951	37,191	129,082	260,060
Total accumulated depreciation	11,824,231	938,063	302,035	12,460,259
Total capital assets, being depreciated, net	13,471,915	(59,941)	(24,158)	13,436,132
Capital assets, net	\$ 13,542,877	\$ 813,424	\$ 853,965	\$ 13,502,336
2015	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 25,867	\$ -	\$ 250	\$ 25,617
Construction work in progress	89,592	1,000,926	1,045,173	45,345
Total capital assets, not being depreciated	115,459	1,000,926	1,045,423	70,962
Capital assets, being depreciated:				
Infrastructure	20,511,245	942,723	83,021	21,370,947
Buildings and improvements	3,196,800	99,533	25,475	3,270,858
Equipment	651,424	2,917	-	654,341
Total capital assets, being depreciated	24,359,469	1,045,173	108,496	25,296,146
Less accumulated depreciation for:				
Infrastructure	10,258,972	782,670	85,634	10,956,008
Buildings and improvements	464,632	77,115	25,475	516,272
Equipment	315,266	36,685	-	351,951
Total accumulated depreciation	11,038,870	896,470	111,109	11,824,231
Total capital assets, being depreciated, net	13,320,599	148,703	(2,613)	13,471,915
Capital assets, net	\$ 13,436,058	\$ 1,149,629	\$ 1,042,810	\$ 13,542,877

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**(5) Noncurrent Liabilities**

Noncurrent liabilities activity for the years ended December 31, 2016 and 2015 was as follows:

2016	Beginning Balance	Additions	Reductions	Ending Balance
Customer advances for construction	\$ 92,388	\$ 126,800	\$ 30,060	\$ 189,128
Other liabilities	544,962	-	125,312	419,650
Net pension liability	1,415,692	429,801	-	1,845,493
Accrued severance and OPEB	279,539	48,409	58,011	269,937
Total noncurrent liabilities	<u>\$ 2,332,581</u>	<u>\$ 605,010</u>	<u>\$ 213,383</u>	<u>\$ 2,724,208</u>

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

**(6) Pension Plan - IPERS**

**Plan Description**

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

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

**Plan Benefits**

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

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

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

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**(6) Pension Plan – IPERS, continued**

**Plan Benefits, continued**

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

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

**Disability and Death Benefits**

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

**Contributions**

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

In fiscal year 2016 and 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.

The Utility's total contributions to IPERS for the years ended December 31, 2016 and 2015 were \$185,043 and \$176,125, respectively.

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

At December 31, 2016 and 2015, the Utility reported a liability of \$1,845,493 and \$1,415,692, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2016, the Utilities' collective proportion was 0.185550 percent which was a decrease of 0.004768 percent from its proportion measured as of June 30, 2015 of 0.190318 percent.

For the years ended December 31, 2016 and 2015, the Utility recognized pension expense of \$272,625 and \$107,808 respectively. At December 31, 2016 and 2015 the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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6) **Pension Plan – IPERS, continued**

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

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,311	\$ 22,026	\$ 21,312	\$ -
Changes of assumptions	28,157	-	38,661	-
Net difference between projected and actual earnings on pension plan investments	262,924	-	211,815	326,974
Changes in proportion and differences between Utility's contributions and proportionate share of contributions	305	77,807	379	82,432
Utility's contributions subsequent to the measurement date	94,244	-	97,127	-
Total	<u>\$ 401,941</u>	<u>\$ 99,833</u>	<u>\$ 369,294</u>	<u>\$ 409,406</u>

\$94,244, reported as deferred outflows of resources related to pensions resulting from the Utility's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended	2016	2015
December 31, 2016	na	\$ 60,250
December 31, 2017	\$ 9,506	\$ 60,250
December 31, 2018	\$ 9,506	\$ 60,254
December 31, 2019	\$ 120,592	\$ (45,706)
December 31, 2020	\$ 70,819	\$ 2,191
December 31, 2021	\$ (2,559)	na

There were no non-employer contributing entities at IPERS.

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**6) Pension Plan – IPERS, continued**

**Actuarial Assumptions**

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

Rate of Inflation: (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase: (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return: (effective June 30, 1996)	7.5 percent, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00 percent per annum based on 3.00 percent inflation And 1.00 percent real wage inflation

The actuarial assumptions used in the June 30, 2016 and 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflations) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table from IPERS Comprehensive Annual Financial Reports 2016 (CAFR):

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-plus Fixed Income	28%	1.90%
Domestic Equity	24%	5.85%
International Equity	16%	6.32%
Private Equity/Debt	11%	10.31%
Real Estate	8%	3.87%
Credit Opportunities	5%	4.48%
US TIPS	5%	1.36%
Other Real Assets	2%	6.42%
Cash	1%	-0.26%
Total	<u>100%</u>	

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**6) Pension Plan – IPERS, continued**

**Discount Rate**

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

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

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

	<b>1% Decrease (6.5%)</b>	<b>Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
Utility’s proportionate share of the net pension liability at 6-30-16	\$ 2,985,758	\$ 1,845,493	\$ 883,095
Utility’s proportionate share of the net pension liability at 6-30-15	\$ 2,478,621	\$ 1,415,692	\$ 518,503

**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](http://www.ipers.org).

**Payables to the Pension Plan**

At December 31, 2016 and 2015, the Utility reported a payable of \$25,782 and \$24,561, respectively to the defined benefit pension plan for legally required employer contributions and a payable of \$14,591 and \$14,263, respectively for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**(7) Income Tax Status**

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

**(8) Related Party Transactions**

The Utility provides gas service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$95,545 and \$123,687 in 2016 and 2015, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2016 to reimburse the Gas Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$110,812 and \$54,312 as of December 31, 2016 and 2015, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting deferred inflow of resources at December 31, 2016 and 2015 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$29,500 and \$79,165 in 2016 and 2015, respectively, and is recorded as contributed capital in the statements of revenues, expenses and changes in net position.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

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

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2016 and 2015 were \$299,000 and \$306,080 respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2016, the Utility's Board of Trustees approved a payment of \$299,000 related to payments in lieu of taxes for 2016.

The Gas Utility has extended a loan to the Municipal Communications Utility of the City of Cedar Falls, Iowa (Communications Utility), with an outstanding balance of \$600,000 and \$1,200,000 as of December 31, 2016 and 2015, respectively. Interest accrues on the loan at 2.0% and is paid semi-annually during December and June. Annual principal payments continue through 2017. Accrued interest receivable was \$997 and \$1,995 at December 31, 2016 and 2015, respectively. Interest income for the years ended December 31, 2016 and 2015 was \$23,003 and \$35,003, respectively.

**(9) Risk Management**

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2016 plan year for aggregate medical claims exceeding \$2.8 million.

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

	2016	2015
Unpaid claims and IBNR, beginning of year	\$ 125,000	\$ 152,000
Current year costs including IBNR	3,787,679	3,016,121
Claims paid	(3,755,679)	(3,043,121)
Unpaid claims and IBNR, end of year	\$ 157,000	\$ 125,000

The Gas Utility has recorded \$25,120 and \$20,000 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2016 and 2015, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 538 governmental entities participate in the Association as of June 30, 2016. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2016 and 2015:

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

**(9) Risk Management, continued**

	<b>2016</b>	<b>2015</b>
Cash and cash equivalents and investments	\$ 85,992,259	\$ 82,061,911
Receivables	2,150,677	1,944,567
Other assets	1,268,889	773,941
Total assets	<u>\$ 89,411,825</u>	<u>\$ 84,780,419</u>
Total liabilities	\$ 32,692,095	\$ 30,479,705
Total net position	<u>56,719,730</u>	<u>54,300,714</u>
Total liabilities and net assets	<u>\$ 89,411,825</u>	<u>\$ 84,780,419</u>
Total revenues	\$ 6,678,977	\$ 8,506,228
Total expenses	<u>4,259,961</u>	<u>4,353,418</u>
Net increase in net position	<u>\$ 2,419,016</u>	<u>\$ 4,152,810</u>

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

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

**Plan Description**

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

**Funding Policy**

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2016 and 2015, the Utilities contributed \$347,691 and \$214,857, respectively and retirees receiving benefits contributed \$75,156 and \$85,269, respectively, through their required contributions.

**Annual OPEB and Net OPEB Obligations**

The Plan's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of General Accounting Standards Board (GASB) Statement No 45. This standard was implemented in 2008.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following schedule shows the components of the annual OPEB expense for the year, the amount actually contributed to the Plan, and changes in the net OPEB obligation:

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

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

**Annual OPEB and Net OPEB Obligations, continued**

	<u>2016</u>	<u>2015</u>
Annual required contribution	\$ 74,113	\$ 74,113
Interest on Net OPEB Obligation	51,446	51,446
Adjustment to annual required contribution	<u>(39,646)</u>	<u>(39,646)</u>
	\$ 85,913	\$ 85,913
Annual OPEB cost/expense	85,913	85,913
Contributions and payments made	<u>272,534</u>	<u>129,588</u>
Increase in net OPEB obligation	\$ (186,621)	\$ (43,675)
Net OPEB obligation, December 31, 2015	<u>985,254</u>	<u>1,028,929</u>
Net OPEB obligation, December 31, 2016	<u>\$ 798,633</u>	<u>\$ 985,254</u>

The Gas Utility's share of the December 31, 2016 and 2015 Net OPEB obligation is \$87,258 and \$121,076, respectively.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and net OPEB obligation for the year ended December 31, 2016, 2015 and 2014:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual</u>		<u>Net OPEB Obligation</u>
		<u>OPEB Cost Contributed</u>		
December 31, 2016	\$ 85,913	317.22%	\$	798,633
December 31, 2015	\$ 85,913	150.84%	\$	985,254
December 31, 2014	\$ 85,392	21.79%	\$	1,028,929

**Funded Status and Funding Progress**

As of January 1, 2015, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$931,950. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of active employees covered by the Plan which was \$13,249,851 in 2016 and the ratio using the January 1, 2015 actuarial valuation UAAL to the covered payroll was 7.0%.

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

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

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

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

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

**Funded Status and Funding Progress, continued**

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2015
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.00%
Healthcare Trend Rate	8.0% declining 0.5% annually to 5%

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

**(11) Flood Event**

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, regulators, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. As of December 31, 2009, damaged Utility facilities were operational. In 2016 and 2015, the Utility has recognized \$-0- and \$173,270, respectively, in revenues for FEMA flood recovery reimbursement. As of December 31, 2016 and 2015, the Utility recognized a receivable of \$-0- and \$-0-, respectively, for FEMA flood disaster reimbursement. The Utility concluded its work with FEMA in 2015.

**(12) Commitments and Contingencies**

The Utility has a natural gas transportation contract with a pipeline, which expires in 2022. Total payments include transportation charges and commodity charges. Minimum transportation payments for 2017 are expected to be approximately \$973,024 at current rates.

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

As of December 31, 2016, the Utility was involved in several construction projects with an estimated cost to complete of \$523,000 and an estimated time frame to complete through 2018.

**(13) Subsequent Events**

Subsequent events for the Utility have been evaluated through May 5, 2017, which is the date that the financial statements were available to be issued.

In January 2017 the Board of Trustees adopted resolution No. 5880 approving the continuation of the annual interest rate on the notes between the Communications Utility and Gas Utility at 2.0% as reflective of the investment and borrowing markets.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Utilities proportion of the net pension liability (asset)	0.185550%	0.190318%	0.200498%
Utility's proportionate share of the net pension liability	\$ 1,845,493	\$ 1,415,692	\$1,716,179
Utility's Covered-employee payroll	\$ 2,104,446	\$ 1,963,123	\$2,831,621
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.69%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

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

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

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Statutorily required contribution	\$ 185,043	\$ 176,125	\$ 181,269	\$ 166,363	\$ 149,413
Contributions in relation to the statutorily required contribution	<u>(185,043)</u>	<u>(176,125)</u>	<u>(181,269)</u>	<u>(166,363)</u>	<u>(149,413)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Utility's covered-employee payroll	\$ 2,072,155	\$ 1,972,286	\$ 2,029,885	\$ 1,888,585	\$ 1,785,728
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.81%	8.70%
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Statutorily required contribution	\$ 135,767	\$ 141,229	\$ 128,938	\$ 119,626	\$ 111,999
Contributions in relation to the statutorily required contribution	<u>(135,767)</u>	<u>(141,229)</u>	<u>(128,938)</u>	<u>(119,626)</u>	<u>(111,999)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Utility's covered-employee payroll	\$ 1,805,319	\$ 2,076,679	\$ 1,982,300	\$ 1,929,397	\$ 1,898,153
Contributions as a percentage of covered-employee payroll	7.52%	6.80%	6.51%	6.20%	5.90%

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

**Notes to Required Supplemental Information  
Iowa Public Employees' Retirement System**

**Changes of Benefit Terms**

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

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

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

**Changes of Assumptions**

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

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

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

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

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

<b>Fiscal Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
2016	January 1, 2015	\$ -	\$931,950	\$931,950	0.00%	\$13,249,851	7.00%
2015	January 1, 2015	\$ -	\$931,950	\$931,950	0.00%	\$13,073,650	7.10%
2014	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,921,796	6.50%
2013	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,400,936	6.80%
2012	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,133,950	6.90%
2011	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$12,936,933	22.90%
2010	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$12,152,946	24.40%
2009	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$11,587,064	25.60%
2008	January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.00%	\$11,162,424	30.80%

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Municipal Gas Utility of the City of Cedar Falls (Municipal Gas Utility) as of and for the year ended December 31, 2016, and have issued our report thereon dated May 5, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipal Gas Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Gas Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipal Gas Utility's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipal Gas Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Municipal Gas Utility's operations for the year ended December 31, 2016, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Municipal Gas Utility and are reported in Part III of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

**Purpose of this Report**

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



Dubuque, Iowa  
May 5, 2017

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

There were no findings to report.

**Part II: Findings and Questioned Costs for Federal Awards:**

Single audit did not apply for fiscal year 2016.

**Part III: Other Findings Related to Required Statutory Reporting:**

- 2016-IA-A     **Certified Budget** – Disbursements during the year ended December 31, 2016, did not exceed the amount budgeted.
- 2016-IA-B     **Questionable Expenditures** – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 2016-IA-C     **Travel Expense** – No expenditures of the Utility’s money for travel expenses of spouses of Utility officials or employees were noted.
- 2016-IA-D     **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.
- 2016-IA-E     **Bond Coverage** – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- 2016-IA-F     **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2016-IA-G     **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility’s investment policy were noted.
- 2016-IA-H     **Revenue Bonds** – No instances of noncompliance with the provisions of the Utility’s revenue bond resolutions were noted.
- 2016-IA-I     **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

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# **Cedar Falls Utilities**

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

**Including Independent Auditors' Reports**

**For The Years Ended  
December 31, 2016 and 2015**



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

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Water Utility of the City of Cedar Falls, Iowa (Municipal Water Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Water Utility as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Utilities Proportionate Share of the Net Pension Liability, Schedule of Utilities Contributions, and Schedule of Funding Progress for the Other Post-Employment Benefits Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 2017 on our consideration of the Municipal Water Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Water Utility's internal control over financial reporting and compliance.



Dubuque, Iowa  
May 5, 2017

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
December 31, 2016 and 2015  
Unaudited

The following discussion and analysis of the Municipal Water Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2016 and 2015. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

The years 2016 and 2015 had below average winter seasons, but 2016 was milder than 2015 in those winter months. The summer of 2016 was slightly warmer than average, opposite of the 2015 summer that was cooler than average. So, 2016 and 2015 were, overall, similar with 2016 usage increasing only slightly over 2015 by 127 CCF or 0.01%. The residential and commercial customer class usages decreased by 68,378 CCF or 5.0% which was offset by an increase in the industrial, governmental, and interdepartmental customer classes of 68,505 or 30.3%. Even so, the 5% overall rate increase and increased rents of water property helped the Utility experience a \$240,000 or 6.0% increase in operating revenues. Operating expenses increased \$255,000 or 7.8% mainly due to increased costs for distribution operations and maintenance from increased hydrant maintenance and customer installation expenses related to City of Cedar Falls street reconstruction projects and an increase in administrative and general expenses due to an increase in employee benefits and pensions from an increase in medical claims expense and an increase in IPERS pension expense. Net operating income decreased \$15,000 or 2.1% in 2016. The Utility's net position continued to grow due to strong operations and noncash capital contributions.

**Overview of the Financial Statements**

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

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

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

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

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

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**Condensed Financial Information & Analysis**

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

**Condensed Statement of Net Position**

	2016	2015	2014 <i>(Restated)</i>
Capital assets, net	\$25,150,611	\$24,007,745	\$22,510,821
Noncurrent assets	365,922	254,007	337,636
Current assets	6,321,846	5,968,436	5,339,183
Total assets	<u>31,838,379</u>	<u>30,230,188</u>	<u>28,187,640</u>
Deferred outflows of resources	274,614	254,634	110,530
Total assets and deferred outflows of resources	<u>32,112,993</u>	<u>30,484,822</u>	<u>28,298,170</u>
Long-term debt			
Current liabilities	408,733	335,105	369,667
Noncurrent liabilities	1,455,034	1,187,936	1,040,714
Total liabilities	<u>1,863,767</u>	<u>1,523,041</u>	<u>1,410,381</u>
Deferred inflows of resources	434,782	543,092	687,599
Total liabilities and deferred inflows of resources	<u>2,298,549</u>	<u>2,066,133</u>	<u>2,097,980</u>
Net investment in capital assets	25,150,610	24,007,745	22,510,821
Restricted	56,039	62,748	88,019
Unrestricted	4,607,795	4,348,196	3,601,350
Total net position	<u>\$29,814,444</u>	<u>\$28,418,689</u>	<u>\$26,200,190</u>

**2016 Compared to 2015**

- ❖ Total assets and deferred outflows of resources increased \$1.6 million or 5.3% primarily due to:
  - Net capital assets increasing \$1.1 million or 4.8% due to water main extensions plus main and hydrant replacements in conjunction with City street projects. Net capital assets represent 79.0% of total assets for the Utility in 2016.
  - Increase in noncurrent assets of \$112,000 or 44.1% primarily due to the increase in tax increment financing (TIF) receivable as a result of payments received and additional project expenditures certified by the City of Cedar Falls.
  - Increase in current assets of \$353,000 or 5.9% primarily due to:
    - Decrease in unrestricted cash and cash equivalents of \$1.2 million or 22.1% due to use of cash for investments.
    - Increase in unrestricted investments of \$1.5 million or 100%.
    - Increase in customer accounts receivable of \$19,000 or 3.8%.
    - Increase of \$20,000 or 100.0% in trade accounts receivable.
  - Increase in deferred outflows of resources of \$20,000 or 7.8% due to the application of The Government Accounting Standards Board (GASB) Statement No. 68, “**Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27**”.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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- ❖ Total liabilities and deferred inflows of resources increased \$232,000 or 11.2% primarily due to:
  - Increase in current liabilities of \$74,000 or 22.0% as a result of an increase in accounts payable and year-end accrued wages.
  - Increase in noncurrent liabilities of \$267,000 or 22.5% primarily due to an increase in the net pension liability required by The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
  - Decrease in deferred inflows of resources of \$108,000 or 19.9% due to:
    - Decrease in pension related deferred inflows of \$220,000 or 76.2% due to the impact of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
    - Increase of \$112,000 or 44.1% in the Tax Increment Financing (TIF) deferred inflow as a result of payments received and additional project expenditures certified by the City of Cedar Falls.

*Additional detail on the change in capital assets Note 4. Additional detail on GASB No. 68 accounting for pensions in Note 6. The utility has no long-term debt in 2016 or 2015.*

#### 2015 Compared to 2014

- ❖ Total assets and deferred outflows of resources increased \$2.2 million or 7.7% primarily due to:
  - Net capital assets increasing \$1.5 million or 6.6% due to water main extensions and replacements and water tower coating and system replacement. Net capital assets represent 79.4% of total assets for the Utility in 2015.
  - Decrease in noncurrent assets of \$84,000 or 24.8% primarily due to the decrease of \$82,000 or 24.4% in tax increment financing (TIF) receivable as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.
  - Increase in current assets of \$629,000 or 11.8% primarily due to:
    - Increase in unrestricted cash and cash equivalents of \$660,000 or 14.4%.
    - Decrease in restricted cash of \$24,000 or 23.6%.
    - Increase in customer accounts receivable of \$38,000 or 8.3%.
    - Decrease of \$46,000 or 100.0% in government grants receivable due to the completion and reimbursement of grant related projects.
  - Increase in deferred outflows of resources of \$144,000 or 130.4% due to the application of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
- ❖ Total liabilities and deferred inflows of resources decreased \$32,000 or 1.5% primarily due to:
  - Decrease in current liabilities of \$35,000 or 9.3% as a result of a decrease in accounts payable.
  - Increase in noncurrent liabilities of \$147,000 or 14.1% primarily due to an increase in the net pension liability required by The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
  - Decrease in deferred inflows of resources of \$145,000 or 21.0% due to:
    - Decrease in pension related deferred inflows of \$63,000 or 17.8% due the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”**.
    - Decrease of \$82,000 or 24.4% in the Tax Increment Financing (TIF) deferred inflow as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.

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

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

	2016	2015	2014 <i>(Restated)</i>
Sales of water	\$3,854,790	\$3,658,011	\$3,496,446
Other	366,733	323,335	253,605
Total operating revenues	4,221,523	3,981,346	3,750,051
Operation & maintenance	1,350,412	1,261,093	1,474,212
Depreciation and amortization	736,641	693,006	659,945
Services and administrative	1,427,078	1,304,655	1,374,576
Total operating expenses	3,514,131	3,258,754	3,508,733
Operating Income	707,392	722,592	241,318
Interest income	10,593	216	217
Other, net	332,190	526,557	501,887
Total non-operating revenues (expenses)	342,783	526,773	502,104
Income before capital contributions	1,050,175	1,249,365	743,422
Noncash capital contributions	345,580	969,134	607,180
Change in net position	1,395,755	2,218,499	1,350,602
Net position, beginning of year	28,418,689	26,200,190	24,849,588
Net position, end of year	\$29,814,444	\$28,418,689	\$26,200,190

**2016 Compared to 2015**

- ❖ Total operating revenues increased \$240,000 or 6.0% due to:
  - Increase in water sales revenues of \$197,000 or 5.4% mainly due to a 5% rate adjustment.
  - Increase in other operating revenues of \$43,000 or 13.4% as a result of an increase of \$46,000 or 16.2% in water property rents.
- ❖ Total operating expenses increased \$255,000 or 7.8% due to:
  - Increase in operation & maintenance of \$89,000 or 7.1% due to:
    - Decrease of \$13,000 or 8.5% in purchased power from affiliated utility expense.
    - Increase of \$30,000 or 9.9% in other power and pumping labor costs.
    - Increase of \$72,000 or 8.9% in distribution operation & maintenance expenses mainly due the replacement of customer water services due to City street repair and replacement projects.
  - Depreciation & amortization expense increased by \$44,000 or 6.3% due to the completion of capital asset projects placed into service in 2015.
  - Increase in services and administrative expenses of \$130,000 or 14.7% primarily due to:
    - Increase in employee benefits and pensions of \$123,000 or 32.6% due to an increase in medical claims expense and the impact of The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.
- ❖ Interest income increased \$10,000 from slightly increased interest rates in money market funds and improved investment opportunities in federal government agency notes.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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- ❖ Other, net decreased by \$194,000 or 36.9% primarily due to:
  - Decrease of \$98,000 or 29.8% in miscellaneous revenues mainly due to the decrease in City billing revenues due to changes in billing methodology.
  - Decrease of \$84,000 or 100.0% in intergovernmental grant revenues due to the completion of grant projects.
  - Decrease of \$25,000 or 23.1% in contributed capital mainly due to a decrease of \$22,000 or 86.5% in cash contributions in aid of construction.
  
- ❖ Noncash capital contributions decreased \$624,000 or 64.3% due to a decrease in distribution extensions from developments during the year.

#### 2015 Compared to 2014

- ❖ Total operating revenues increased \$231,000 or 6.2% due to:
  - Increase in water sales revenues of \$162,000 or 4.6% due to 5% rate adjustment which offset a decrease in usage of nearly 53,000 CCF or 3.2%.
  - Increase in other operating revenues of \$70,000 or 27.5% as a result of an increase of \$69,000 or 31.8% in water property rents.
  
- ❖ Total operating expenses decreased \$250,000 or 7.1% due to:
  - Decrease in operation & maintenance of \$213,000 or 14.5% due to:
    - Decrease of \$29,000 or 16.2% in purchased power from affiliated utility expense.
    - Decrease of \$10,000 or 3.2% in other pumping and water treatment expenses.
    - Decrease of \$174,000 or 17.8% in distribution operation & maintenance expenses.
  - Depreciation & amortization expense increased by \$33,000 or 5.0% due to the completion of capital asset projects placed into service in 2014.
  - Decrease in services and administrative expenses of \$70,000 or 5.1% primarily due to:
    - Decrease in customer accounts of \$24,000 or 7.7% mainly due to decreased supervisory and uncollectable account expenses.
    - Decrease in administrative & general expenses of \$50,000 or 5.4% mainly due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.
  
- ❖ Interest income decreased \$1 or 0.5% due to low interest rates, and difficulty getting banks to bid on placement of investments. Funds remained deposited in money market accounts waiting a strengthening in the investment markets.
  
- ❖ Other, net increased by \$25,000 or 4.9% primarily due to:
  - Increase of \$84,000 or 100.0% in intergovernmental grant revenues due to the finalization of grant projects.
  - Decrease of \$58,000 or 35.2% in contributed capital mainly due to a decrease of \$83,000 or 50.2% in TIF revenues received from the City of Cedar Falls for certified projects.
  
- ❖ Noncash capital contributions increased \$362,000 or 59.6% due to the increase in distribution extensions from developments during the year.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
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**Condensed Statement of Cash Flows**

	2016	2015	2014 <i>(Restated)</i>
Cash Flows from Operating Activities	\$1,602,804	\$1,481,680	\$1,231,428
Cash Flows from Capital and Related Financing Activities	(1,295,269)	(845,683)	(839,638)
Cash Flows from Investing Activities	(1,465,580)	215	218
Net Change in Cash and Cash Equivalents	(1,158,045)	636,212	392,008
Cash and Cash Equivalents-Beginning of Year	5,313,223	4,677,011	4,285,003
Cash and Cash Equivalents-End of Year	\$4,155,178	\$5,313,223	\$4,677,011

**2016 Compared to 2015**

- ❖ Cash inflows from operations increased by \$121,000 or 8.2% primarily due to:
  - Increase in cash received from customers of \$134,000 or 3.1%.
  - Decrease in cash paid to suppliers of \$74,000 or 3.7%.
  - Increase in cash paid to employees for payroll of \$87,000 or 10.9%.
- ❖ Cash outflows from capital and related financing activities increased \$450,000 or 53.2% due to:
  - Increase in capital expenditures of \$292,000 or 26.8%.
  - Decrease in receipts for reimbursement of utility construction costs of \$25,000 or 23.1%.
  - Decrease in receipt of intergovernmental grant funds of \$129,000 or 100.0%.
- ❖ Cash inflows from investing activities decreased due to:
  - Increase in investments purchased of \$1.5 million or 100.0%.
  - Increase in interest received of \$4,000.

**2015 Compared to 2014**

- ❖ Cash inflows from operations increased by \$250,000 or 20.3% primarily due to:
  - Increase in cash received from customers of \$211,000 or 5.2%.
  - Increase in cash paid to suppliers of \$40,000 or 2.0%.
  - Decrease in cash paid to employees for payroll of \$79,000 or 9.0%.
- ❖ Cash outflows from capital and related financing activities increased \$6,000 or 0.7% due to:
  - Increase in capital expenditures of \$101,000 or 10.2%.
  - Decrease in receipts for reimbursement of utility construction costs of \$58,000 or 35.2%.
  - Increase in receipt of intergovernmental grant funds of \$129,000 or 20527.6%.
- ❖ Cash inflows from investing activities decreased due to:
  - Decrease in interest received of \$3 or 1.4%.

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## **FINANCIAL STATEMENTS**

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Net Position  
December 31, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 35,733,676	\$ 34,737,298
Less accumulated depreciation	11,413,187	10,768,211
Capital assets, net	<u>24,320,489</u>	<u>23,969,087</u>
Construction work in progress	830,122	38,658
Total capital assets, net	<u>25,150,611</u>	<u>24,007,745</u>
Noncurrent assets:		
Other (note 8)	365,922	254,007
Total noncurrent assets	<u>365,922</u>	<u>254,007</u>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	4,080,299	5,236,725
Cash and cash equivalents - restricted (note 2 and 3)	74,879	76,498
Unrestricted investments: (note 2)	1,475,419	-
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$2,252 in 2016 and \$2,895 in 2015	513,551	494,844
Other	20,252	-
Interest	-	13
Material and supplies	120,596	113,818
Prepayments and other	36,850	46,538
Total current assets	<u>6,321,846</u>	<u>5,968,436</u>
Total assets	31,838,379	30,230,188
Deferred outflows of resources:		
Pension related deferred outflows (note 6)	274,614	254,634
Total deferred outflows of resources	<u>274,614</u>	<u>254,634</u>
Total assets and deferred outflows of resources	<u>\$ 32,112,993</u>	<u>\$ 30,484,822</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Statements of Net Position  
December 31, 2016 and 2015

<u>Liabilities</u>	<u>2016</u>	<u>2015</u>
Current liabilities:		
Accounts payable	\$ 233,300	\$ 192,912
Accrued wages and vacations	170,658	140,413
Other accrued expenses	4,775	1,780
Total current liabilities	<u>408,733</u>	<u>335,105</u>
Noncurrent liabilities: (note 5)		
Net pension liability	1,272,933	991,800
Other liabilities (note 5 and 10)	182,101	196,136
Total noncurrent liabilities	<u>1,455,034</u>	<u>1,187,936</u>
 Total liabilities	 1,863,767	 1,523,041
Deferred inflows of resources:		
Pension related deferred inflows (note 6)	68,860	289,085
TIF related deferred inflows (note 8)	365,922	254,007
Total deferred inflows of resources	<u>434,782</u>	<u>543,092</u>
 Total liabilities and deferred inflows of resources	 2,298,549	 2,066,133
 <u>Net Position</u>		
Net investment in capital assets	25,150,610	24,007,745
Restricted	56,039	62,748
Unrestricted	4,607,795	4,348,196
Total net position	<u>29,814,444</u>	<u>28,418,689</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 32,112,993</u>	 <u>\$ 30,484,822</u>

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MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Revenues, Expenses and Changes in Net Position  
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Sales of water:		
Residential	\$ 2,522,067	\$ 2,390,322
Industrial	56,958	51,258
Commercial	1,002,146	1,000,884
Governmental (note 8)	258,206	206,383
Interdepartmental	15,413	9,164
Total sales of water	3,854,790	3,658,011
Other operating revenues	366,733	323,335
Total operating revenues	4,221,523	3,981,346
Operating expenses		
Production:		
Purchased power from affiliated utility	137,418	150,206
Other	338,778	308,394
Distribution	874,216	802,493
Depreciation	736,641	693,006
Customer accounts	279,636	282,800
Customer service and information expenses	30,224	35,836
Sales	7,064	3,847
Administrative and general	1,015,533	885,609
Taxes other than income taxes	94,621	96,563
Total operating expenses	3,514,131	3,258,754
Operating income	707,392	722,592
Non-operating revenues (expenses):		
Interest income	10,593	216
Miscellaneous revenue (expense), net (note 8)	231,796	329,980
Intergovernmental grant funds (note 11)	-	83,611
AFUDC (note 1)	17,925	5,788
Contributed capital (note 8)	82,469	107,178
Total non-operating revenues (expenses)	342,783	526,773
Income before contributions	1,050,175	1,249,365
Noncash Capital contributions	345,580	969,134
Change in net position	1,395,755	2,218,499
Net position, beginning of year	28,418,689	26,200,190
Net position, end of year	\$ 29,814,444	\$ 28,418,689

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Cash Flows  
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,412,552	\$ 4,278,133
Intergovernmental grants	-	252
Cash paid to suppliers	(1,928,957)	(2,002,479)
Cash paid to employees	(880,791)	(794,226)
	<u>1,602,804</u>	<u>1,481,680</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Acquisition, construction and removal cost of capital assets	(1,381,827)	(1,089,645)
Proceeds from sale of capital assets	4,089	7,655
Reimbursement of utility construction costs	82,469	107,178
Intergovernmental grants	-	129,129
	<u>(1,295,269)</u>	<u>(845,683)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities:		
Purchase of investment securities	(1,470,000)	-
Interest received	4,420	215
	<u>(1,465,580)</u>	<u>215</u>
Net cash provided by (used in) investing activities		
Net increase (decrease) in cash and cash equivalents	(1,158,045)	636,212
Cash and cash equivalents, beginning of year	<u>5,313,223</u>	<u>4,677,011</u>
Cash and cash equivalents, end of year (note 1)	<u>\$ 4,155,178</u>	<u>\$ 5,313,223</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Cash Flows, Continued  
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 707,392	\$ 722,592
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation of capital assets	736,641	693,006
Other Income (expense), net	231,796	329,980
(Increase) decrease in accounts receivable	(18,707)	(37,846)
(Increase) decrease in loans receivable	-	2,474
(Increase) decrease in materials and supplies	(6,778)	4,679
(Increase) decrease in prepayments and other	(10,564)	(6,015)
Increase (decrease) in accounts payable	(97,877)	(170,344)
Increase (decrease) in accrued wages and vacation	30,245	1,254
Increase (decrease) in other accrued expenses	44,691	(52,933)
Increase (decrease) in other liabilities	<u>(14,035)</u>	<u>(5,167)</u>
Net cash provided by operating activities	<u>\$ 1,602,804</u>	<u>\$ 1,481,680</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	17,925	5,788
Contributions from contractors in aid of construction	345,580	969,134
Expiration of customer advances for construction		
Intergovernmental grants		
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 4,080,299	\$ 5,236,725
Cash - restricted	<u>74,879</u>	<u>76,498</u>
Cash and cash equivalents	<u>\$ 4,155,178</u>	<u>\$ 5,313,223</u>

## **NOTES TO FINANCIAL STATEMENTS**

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
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**(1) Summary of Significant Accounting Policies**

**Organization and Basis of Accounting**

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

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

**Accounting Changes**

The Government Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*" was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state and local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions.

**Capital Assets and Depreciation**

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 3.10% in 2016 and 2.75% 2015. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure – approximately 75 years, buildings and improvements – 24 to 75 years, and equipment – 11 to 47 years.

The depreciation provisions were equivalent to an overall composite rate of 2.1% and 2.1% of depreciable assets for 2016 and 2015, respectively.

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

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

**Cash and Investments**

Investments are stated at their fair value except for the investment in the Iowa Public Agency Investment Trust (IPAIT) and non-negotiable certificates of deposits which are valued at amortized cost.

The Utility considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2016 and 2015 were \$-0- and \$1,470,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

**Accounts Receivable and Allowance for Doubtful Accounts**

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

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

**Inventories**

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

**Deferred Outflows of Resources**

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

**Pensions**

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

**Deferred Inflows of Resources**

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

**Net Position**

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

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. The composition of restricted net position as of December 31, 2016 and 2015 was as follows:

	2016	2015
Restricted for/by		
Health Insurance	\$ 56,039	\$ 62,748

**Operating Revenues and Expenses**

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

Revenues from the sale of water are based on billing rates, which are applied to customers' consumption of water. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed as of December 31, 2016 and 2015, were \$149,955 and \$155,615, respectively, and are recorded in customer accounts receivable.

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

**Capital Contributions**

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

**Estimates**

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

**Budgetary Information**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on the total of all four utilities as a whole. In 2016, there were no budget amendments. During 2015, there was a budget amendment of \$11,141,186 primarily due to the unbudgeted refunding of debt.

**Grants**

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

**Employee Benefits**

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

The Water Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay shall apply only to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date shall not be entitled to the benefit. As of December 31, 2016 and 2015 the accrued liability was \$112,417 and \$105,642, respectively.

**Customer Advances**

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

**Reclassifications**

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

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**(2) Restricted Assets**

The composition of restricted assets as of December 31, 2016 and 2015 was as follows:

<b>2016</b>	<b>Cash</b>	<b>Investments</b>	<b>Total</b>
Current Assets - Restricted			
Self Insured Dental	\$ 9,753	\$ -	9,753
Self Insured Medical	\$ 65,126	-	65,126
Total current assets - restricted	<u>\$ 74,879</u>	<u>\$ -</u>	<u>\$ 74,879</u>
Total restricted assets	<u>\$ 74,879</u>	<u>\$ -</u>	<u>\$ 74,879</u>

<b>2015</b>	<b>Cash</b>	<b>Investments</b>	<b>Total</b>
Current Assets - Restricted			
Self Insured Dental	\$ 8,978	\$ -	\$ 8,978
Self Insured Medical	67,520	-	67,520
Total current assets - restricted	<u>\$ 76,498</u>	<u>\$ -</u>	<u>\$ 76,498</u>
Total restricted assets	<u>\$ 76,498</u>	<u>\$ -</u>	<u>\$ 76,498</u>

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

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

**Cash on Hand**

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2016 and 2015 was \$45.

**Deposits**

At December 31, 2016, the Utility's carrying amount of deposits, including \$1,110,000 of money market accounts, was \$4,155,132. At December 31, 2015, the Utility's carrying amount of deposits, including \$700,000 of money market accounts, was \$3,843,178.

**Investments**

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

As of December 31, 2016, the Utility had \$1,475,419 of Federal Agency Obligations investments. The Federal Obligations all mature within twelve months of year end. As of December 31, 2015, the Utility had no Federal Agency Obligations investments.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$-0- and \$1,470,000 at December 31, 2016 and 2015, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

**Investments, continued**

The Utility uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The Federal Agency Obligations are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and other market assumptions (Level 2 inputs).

**Interest Rate Risk**

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

**Credit Risk**

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2016 or 2015. The Utility's investments in Federal Agency Obligations were rated AAA by Standard & Poor's and by Moody's Investors Services. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have significant credit risk. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

**Concentration of Credit Risk**

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2016 or 2015.

**Custodial Credit Risk – Deposits**

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

**Custodial Credit Risk – Investments**

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

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

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

**Custodial Credit Risk – Investments, continued**

	<b>2016</b>	<b>2015</b>
Cash on hand	\$ 45	\$ 45
Carrying amount of deposits	4,155,133	3,843,178
Carrying amount of federal agency obligations	1,475,419	-
Carrying amount of Iowa Public Agency Investment Trust	-	1,470,000
<b>Total</b>	<b>\$ 5,630,597</b>	<b>\$ 5,313,223</b>
<b>Current Assets</b>	<b>2016</b>	<b>2015</b>
Cash & cash equivalents	\$ 4,080,299	\$ 5,236,725
Unrestricted Investments	1,475,419	-
Restricted Cash	74,879	76,498
<b>Total</b>	<b>\$ 5,630,597</b>	<b>\$ 5,313,223</b>

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

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**(4) Capital Assets**

A summary of capital assets activity for the years ended December 31, 2016 and 2015 follows:

2016	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 63,466	\$ -	\$ -	\$ 63,466
Construction work in progress	38,658	1,883,216	1,091,752	830,122
Total capital assets, not being depreciated	102,124	1,883,216	1,091,752	893,588
Capital assets, being depreciated:				
Infrastructure	31,255,477	1,028,869	28,311	32,256,035
Buildings and improvements	2,053,581	40,235	17,987	2,075,829
Equipment	1,364,774	22,648	49,076	1,338,346
Total capital assets, being depreciated	34,673,832	1,091,752	95,374	35,670,210
Less accumulated depreciation for:				
Infrastructure	9,650,822	650,986	31,666	10,270,142
Buildings and improvements	429,400	44,571	17,986	455,985
Equipment	687,989	48,148	49,077	687,060
Total accumulated depreciation	10,768,211	743,705	98,729	11,413,187
Total capital assets, being depreciated, net	23,905,621	348,047	(3,355)	24,257,023
Capital assets, net	\$ 24,007,745	\$ 2,231,263	\$ 1,088,397	\$ 25,150,611

2015	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 63,466	\$ -	\$ -	\$ 63,466
Construction work in progress	111,014	2,192,464	2,264,820	38,658
Total capital assets, not being depreciated	174,480	2,192,464	2,264,820	102,124
Capital assets, being depreciated:				
Infrastructure	29,142,140	2,185,684	72,347	31,255,477
Buildings and improvements	2,000,283	53,298	-	2,053,581
Equipment	1,338,936	25,838	-	1,364,774
Total capital assets, being depreciated	32,481,359	2,264,820	72,347	34,673,832
Less accumulated depreciation for:				
Infrastructure	9,118,329	612,161	79,668	9,650,822
Buildings and improvements	385,991	43,409	-	429,400
Equipment	640,698	47,291	-	687,989
Total accumulated depreciation	10,145,018	702,861	79,668	10,768,211
Total capital assets, being depreciated, net	22,336,341	1,561,959	(7,321)	23,905,621
Capital assets, net	\$ 22,510,821	\$ 3,754,423	\$ 2,257,499	\$ 24,007,745

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**(5) Noncurrent Liabilities**

Noncurrent liabilities activity for the years ended December 31, 2016 and 2015 was as follows:

<b>2016</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Net pension liability	\$ 991,800	\$ 281,133	\$ -	\$ 1,272,933
Accrued severance and OPEB	196,136	22,230	36,265	182,101
Total noncurrent liabilities	<u>\$ 1,187,936</u>	<u>\$ 303,363</u>	<u>\$ 36,265</u>	<u>\$ 1,455,034</u>

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

**(6) Pension Plan - IPERS**

**Plan Description**

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

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

**Plan Benefits**

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

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

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

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(6) **Pension Plan – IPERS, continued**

**Plan Benefits, continued**

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

**Disability and Death Benefits**

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

**Contributions**

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

In fiscal year 2016 and 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.

The Utility's total contributions to IPERS for the years ended December 31, 2016 and 2015 were \$128,351 and \$122,107, respectively.

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

At December 31, 2016 and 2015, the Utility reported a liability of \$1,272,933 and \$991,800, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2016, the Utilities' collective proportion was 0.185550 percent which was a decrease of 0.004768 percent from its proportion measured as of June 30, 2015 of 0.190318 percent.

For the years ended December 31, 2016 and 2015, the Utility recognized pension expense of \$169,279 and \$67,664, respectively. At December 31, 2016 and 2015 the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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**(6) Pension Plan – IPERS, continued**

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

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,250	\$ 15,192	\$ 14,991	\$ -
Changes of assumptions	19,421	-	27,331	-
Net difference between projected and actual earnings on pension plan investments	181,352	-	148,393	231,128
Changes in proportion and differences between Utility’s contributions and proportionate share of contributions	210	53,668	266	57,957
Utility’s contributions subsequent to the measurement date	62,381	-	63,653	-
Total	<u>\$ 274,614</u>	<u>\$ 68,860</u>	<u>\$ 254,634</u>	<u>\$ 289,085</u>

\$62,381, reported as deferred outflows of resources related to pensions resulting from the Utility’s contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended	2016	2015
December 31, 2016	na	\$ 42,870
December 31, 2017	\$ 6,557	\$ 42,870
December 31, 2018	\$ 6,557	\$ 42,869
December 31, 2019	\$ 83,179	\$ (32,034)
December 31, 2020	\$ 48,847	\$ 1,529
December 31, 2021	\$ (1,767)	na

There were no non-employer contributing entities at IPERS.

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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**(6) Pension Plan – IPERS, continued**

**Actuarial Assumptions, continued**

Rate of Inflation: (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase: (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return: (effective June 30, 1996)	7.5 percent, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00 percent per annum based on 3.00 percent inflation And 1.00 percent real wage inflation

The actuarial assumptions used in the June 30, 2016 and 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflations) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table from IPERS Comprehensive Annual Financial Reports 2016 (CAFR):

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-plus Fixed Income	28%	1.90%
Domestic Equity	24%	5.85%
International Equity	16%	6.32%
Private Equity/Debt	11%	10.31%
Real Estate	8%	3.87%
Credit Opportunities	5%	4.48%
US TIPS	5%	1.36%
Other Real Assets	2%	6.42%
Cash	1%	-0.26%
Total	<u>100%</u>	

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

**(6) Pension Plan – IPERS, continued**

**Discount Rate**

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

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

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

	<b>1% Decrease (6.5%)</b>	<b>Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
Utility’s proportionate share of the net pension liability at 6-30-16	\$ 2,059,433	\$ 1,272,933	\$ 609,116
Utility’s proportionate share of the net pension liability at 6-30-15	\$ 1,736,463	\$ 991,800	\$ 363,251

**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](http://www.ipers.org).

**Payables to the Pension Plan**

At December 31, 2016 and 2015, the Utility reported a payable of \$17,415 and \$15,949, respectively to the defined benefit pension plan for legally required employer contributions and a payable of \$9,536 and \$9,226, respectively for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**(7) Income Tax Status**

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

**(8) Related Party Transactions**

The Utility provides water service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$135,871 and \$78,663 in 2016 and 2015, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2016 to reimburse the Water Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$365,922 and \$254,007 as of December 31, 2016 and 2015, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting deferred inflow of resources at December 31, 2016 and 2015 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$79,038 and \$81,778 in 2016 and 2015, respectively, and is recorded as contributed capital in the statements of revenues, expenses and changes in net position.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

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

The Utility also provides billing and collection services to the City for the City's sanitary sewer system, storm water reclamation fees, and garbage and refuse service. Revenues from the service provided amounted to \$191,610 in 2016 and \$315,420 in 2015, and are recorded in miscellaneous non-operating revenue.

**(9) Risk Management**

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2016 plan year for aggregate medical claims exceeding \$2.8 million.

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

	<u>2016</u>	<u>2015</u>
Unpaid claims and IBNR, beginning of year	\$ 125,000	\$ 152,000
Current year costs including IBNR	3,787,679	3,016,121
Claims paid	<u>(3,755,679)</u>	<u>(3,043,121)</u>
Unpaid claims and IBNR, end of year	<u>\$ 157,000</u>	<u>\$ 125,000</u>

The Water Utility has recorded \$18,840 and \$13,750 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2016 and 2015, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 538 governmental entities participate in the Association as of June 30, 2016. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents and investments	\$ 85,992,259	\$ 82,061,911
Receivables	2,150,677	1,944,567
Other assets	1,268,889	773,941
Total assets	<u>\$ 89,411,825</u>	<u>\$ 84,780,419</u>
Total liabilities	\$ 32,692,095	\$ 30,479,705
Total net position	<u>56,719,730</u>	<u>54,300,714</u>
Total liabilities and net assets	<u>\$ 89,411,825</u>	<u>\$ 84,780,419</u>
Total revenues	\$ 6,678,977	\$ 8,506,228
Total expenses	<u>4,259,961</u>	<u>4,353,418</u>
Net increase in net position	<u>\$ 2,419,016</u>	<u>\$ 4,152,810</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

**(9) Risk Management, continued**

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

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

**Plan Description**

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

**Funding Policy**

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2016 and 2015, the Utilities contributed \$347,691 and \$214,857, respectively and retirees receiving benefits contributed \$75,156 and \$85,269, respectively, through their required contributions.

**Annual OPEB and Net OPEB Obligations**

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

	<b>2016</b>	<b>2015</b>
Annual required contribution	\$ 74,113	\$ 74,113
Interest on Net OPEB Obligation	51,446	51,446
Adjustment to annual required contribution	(39,646)	(39,646)
	\$ 85,913	\$ 85,913
Annual OPEB cost/expense	85,913	85,913
Contributions and payments made	272,534	129,588
Increase in net OPEB obligation	\$ (186,621)	\$ (43,675)
Net OPEB obligation, December 31, 2015	985,254	1,028,929
Net OPEB obligation, December 31, 2016	\$ 798,633	\$ 985,254

The Water Utility's share of the December 31, 2016 and 2015 Net OPEB obligation is \$69,683 and \$90,494, respectively.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and net OPEB obligation for the year ended December 31, 2016, 2015 and 2014:

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

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

**Annual OPEB and Net OPEB Obligations, continued**

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2016	\$ 85,913	317.22%	\$ 798,633
December 31, 2015	\$ 85,913	150.84%	\$ 985,254
December 31, 2014	\$ 85,392	21.79%	\$ 1,028,929

**Funded Status and Funding Progress**

As of January 1, 2015, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$931,950. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of active employees covered by the Plan which was \$13,249,851 in 2016 and the ratio using the January 1, 2015 actuarial valuation UAAL to the covered payroll was 7.0%.

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

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

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2015
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.00%
Healthcare Trend Rate	8.0% declining 0.5% annually to 5%

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

**(11) Flood Event**

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, well equipment, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. As of December 31, 2016 and 2015, the Utility recognized revenue of \$0 and \$83,863 and a receivable of \$0 and \$0, respectively, for FEMA flood disaster reimbursement. The Utility concluded its work with FEMA in 2015.

**(12) Commitments and Contingencies**

As of December 31, 2016, the Utility was involved in several construction projects with an estimated cost to complete of \$3,551,000 and an estimated time frame to complete through 2018.

**(13) Subsequent Events**

Subsequent events for the Utility have been evaluated through May 5, 2017, which is the date that the financial statements were available to be issued.

Effective January 1, 2017, the Board of Trustees approved a 5% water rate increase.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Utilities proportion of the net pension liability (asset)	0.185550%	0.190318%	0.200498%
Utility's proportionate share of the net pension liability	\$ 1,272,933	\$ 991,800	\$ 839,411
Utility's Covered-employee payroll	\$ 1,451,546	\$ 1,375,318	\$ 1,384,992
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.69%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

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

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Statutorily required contribution	\$ 128,351	\$ 122,107	\$ 130,414	\$ 116,692	\$ 106,155
Contributions in relation to the statutorily required contribution	(128,351)	(122,107)	(130,414)	(116,692)	(106,155)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 1,437,302	\$ 1,367,383	\$ 1,460,408	\$ 1,326,580	\$ 1,268,980
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.80%	8.37%
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Statutorily required contribution	\$ 85,369	\$ 72,841	\$ 68,847	\$ 64,319	\$ 58,083
Contributions in relation to the statutorily required contribution	(85,369)	(72,841)	(68,847)	(64,319)	(58,083)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 1,138,707	\$ 107,901	\$ 1,060,201	\$ 1,037,352	\$ 985,224
Contributions as a percentage of covered-employee payroll	7.50%	6.80%	6.49%	6.20%	5.90%

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

**Notes to Required Supplemental Information**  
**Iowa Public Employees' Retirement System**

**Changes of Benefit Terms**

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

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

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

**Changes of Assumptions**

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

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

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

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

<b>Fiscal Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
2016	January 1, 2015	\$ -	\$931,950	\$931,950	0.00%	\$13,249,851	7.00%
2015	January 1, 2015	\$ -	\$931,950	\$931,950	0.00%	\$13,073,650	7.10%
2014	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,921,796	6.50%
2013	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,400,936	6.80%
2012	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,133,950	6.90%
2011	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$12,936,933	22.90%
2010	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$12,152,946	24.40%
2009	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$11,587,064	25.60%
2008	January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.00%	\$11,162,424	30.80%



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Municipal Water Utility of the City of Cedar Falls (Municipal Water Utility) as of and for the year ended December 31, 2016, and have issued our report thereon dated May 5, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipal Water Utility’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Water Utility’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipal Water Utility’s internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipal Water Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Municipal Water Utility's operations for the year ended December 31, 2016, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Municipal Water Utility and are reported in Part III of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

**Purpose of this Report**

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



Dubuque, Iowa  
May 5, 2016

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

There were no findings to report.

**Part II: Findings and Questioned Costs for Federal Awards:**

Single audit did not apply for fiscal year 2016.

**Part III: Other Findings Related to Required Statutory Reporting:**

- 2016-IA-A     **Certified Budget** – Disbursements during the year ended December 31, 2016, did not exceed the amount budgeted.
- 2016-IA-B     **Questionable Expenditures** – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 2016-IA-C     **Travel Expense** – No expenditures of the Utility’s money for travel expenses of spouses of Utility officials or employees were noted.
- 2016-IA-D     **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.
- 2016-IA-E     **Bond Coverage** – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- 2016-IA-F     **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2016-IA-G     **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility’s investment policy were noted.
- 2016-IA-H     **Revenue Bonds** – No instances of noncompliance with the provisions of the Utility’s revenue bond resolutions were noted.
- 2016-IA-I     **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

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# **Cedar Falls Utilities**

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

**Including Independent Auditors' Reports**

**For The Years Ended  
December 31, 2016 and 2015**



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

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Communications Utility of the City of Cedar Falls, Iowa (Municipal Communications Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Communications Utility as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Utilities Proportionate Share of the Net Pension Liability, Schedule of Utilities Contributions, and Schedule of Funding Progress for the Other Post-Employment Benefits Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 2017 on our consideration of the Municipal Communications Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Communications Utility's internal control over financial reporting and compliance.



Dubuque, Iowa  
May 5, 2017

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

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Management Discussion and Analysis  
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The following discussion and analysis of the Municipal Communications Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2016 and 2015. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

Communications Utility operating revenues increased \$1.1 million or 6.4% in 2016 due to a cable TV service revenue increase of \$348,000 or 3.7% and an increase in internet revenues of \$797,000 or 9.8% due to a 680 increase in subscribers with no rate increase and the addition of telephone service in 2016 with 1,694 lines. Cable TV rates increased in 2016 by \$2.00 or 8.7% for Basic Lifeline and \$2.50 or 6.2% for Basic Plus with a loss of 5 subscribers. The Utility's operating expenses increased \$250,000 or 1.8% during 2016 mostly due to an increase in depreciation expense, customer premises wiring expense for telephone installations, an increase in programming and access/bandwidth expenses and an increase in employee benefits and pension expense. The Utility's net position continued to grow due to strong operating income.

**Overview of the Financial Statements**

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

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

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

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

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

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**Condensed Financial Information & Analysis**

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

**Condensed Statement of Net Position**

	2016	2015	2014 <i>(Restated)</i>
Current assets	\$10,992,651	\$9,238,969	\$8,036,320
Noncurrent assets	19,170	247,256	178,785
Capital assets, net	26,739,492	26,835,468	26,554,318
Total assets	<u>37,751,313</u>	<u>36,321,693</u>	<u>34,769,423</u>
Deferred outflows of resources	534,885	521,995	234,249
Total assets and deferred outflows of resources	<u>38,286,198</u>	<u>36,843,688</u>	<u>35,003,672</u>
Current liabilities	3,678,982	3,843,787	3,476,329
Noncurrent liabilities	2,660,053	2,298,015	1,999,241
Long-term debt	7,352,181	9,751,248	12,266,862
Total liabilities	<u>13,691,216</u>	<u>15,893,050</u>	<u>17,742,432</u>
Deferred inflows of resources	151,369	738,613	898,069
Total liabilities and deferred inflows of resources	<u>13,842,585</u>	<u>16,631,663</u>	<u>18,640,501</u>
Net investment in capital assets	17,042,749	14,621,130	11,872,456
Restricted	1,806,432	1,804,366	1,748,349
Unrestricted	5,594,432	3,786,529	2,742,366
Total net position	<u>\$24,443,613</u>	<u>\$20,212,025</u>	<u>\$16,363,171</u>

**2016 Compared to 2015**

- ❖ Total assets and deferred outflows of resources increased \$1.4 million or 3.9% primarily due to:
  - Increase in current assets of \$1.8 million or 19.0% from:
    - Increase in cash and investments of \$2.3 million or 43.3% primarily related to the increase in net income due to increased revenues.
    - Decrease in receivables of \$645,000 or 21.4% due to the collection of the 2015 one-time outstanding billings to a 28-E partner for their share of the Internet Protocol TV equipment and constructions costs for a fiber line for a customer.
  - Decrease in noncurrent assets of \$228,000 or 92.2% due to the decrease of noncurrent investments of \$100,000 or 100.0% and a reduction of the tax increment financing (TIF) receivable of \$128,000 or 87.0% as a result of payments received and additional project expenditures certified by the City of Cedar Falls.
  - Decrease in net capital assets of \$96,000 or 0.4% primarily due to the completion of projects, decrease in construction work in process, and increase in accumulated depreciation. Net capital assets represent 70.8% of total assets for the Utility in 2016.

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- Increase in deferred outflows of resources of \$13,000 or 2.5% due to application of The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.
- ❖ Total liabilities and deferred inflows of resources decreased \$2.8 million or 16.8% primarily due to:
  - Decrease in current liabilities of \$165,000 or 4.3% primarily due to:
    - Decrease in current installment of notes payable of \$183,000 or 23.4% due to making the final payment of the inter fund loan from the Municipal Electric Utility.
  - Increase in noncurrent liabilities of \$362,000 or 15.8% mainly due to an increase in net pension liability, required by The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***, of \$403,000 or 19.8%.
  - Decrease of \$2.4 million or 24.6% in long-term debt less current installments due to:
    - Decrease in long-term note payable, less current installments of \$600,000 or 100.0%. Long-term notes payable, less current installments, is comprised of notes payable to the Municipal Gas Utility. The Utility has an outstanding loan with the Municipal Gas Utility totaling \$600,000 on December 31, 2016. The Utility paid the final note payable payment to the Municipal Electric Utility in 2016.
    - Decrease in long-term debt less, current installments of \$1.8 million or 19.7% due to principal payments and amortization of debt discounts and premiums.
  - Decrease in deferred inflows of resources of \$587,000 or 79.5% due to:
    - Decrease in pension related deferred inflows of \$459,000 or 77.6% due the impact of The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.
    - Decrease of \$128,000 or 87.0% in the Tax Increment Financing (TIF) deferred inflow as a result of payments received and additional project expenditures certified by the City of Cedar Falls.

*Additional detail on the change in capital assets and long-term debt can be found in Notes 4 and 5, respectively. Additional information on the long term notes payable can be found in Notes 5 and 8. Additional detail on GASB No. 68 accounting for pensions in Note 6.*

#### 2015 Compared to 2014

- ❖ Total assets and deferred outflows of resources increased \$1.8 million or 5.3% primarily due to:
  - Increase in current assets of \$1.2 million or 15.0% due to:
    - Increase in cash and investments of \$302,000 or 9.4% primarily related to the increase in net income.
    - Decrease in governmental grants receivable of \$123,000 or 100.0% due to the completion and payment in full of the rural broadband grant project.
    - Increase in other accounts receivable of \$930,000 or 680.4% due to the outstanding billings to a 28-E partner for their share of the Internet Protocol TV equipment and constructions costs for a fiber line for a customer.
  - Increase in noncurrent assets of \$68,000 or 38.3% due to the increase of noncurrent investments of \$100,000 and a reduction of the tax increment financing (TIF) receivable of \$32,000 or 17.6% as a result of payments received and no additional project expenditures certified by the City of Cedar Falls.
  - Increase in net capital assets of \$281,000 or 1.1% primarily due to the Internet Protocol TV upgrade and infrastructure projects. Net capital assets represent 73.9% of total assets for the Utility in 2015.
  - Increase in deferred outflows of resources of \$288,000 or 122.8% due to application of The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.

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

*Additional detail on the change in capital assets and long-term debt can be found in Notes 4 and 5, respectively. Additional information on the long term notes payable can be found in Notes 5 and 8. Additional detail on GASB No. 68 accounting for pensions in Note 6.*

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

	2016	2015	2014 <i>(Restated)</i>
Cable television	\$9,751,012	\$9,402,556	\$9,043,534
High speed data communications	8,924,251	8,126,804	7,628,894
Other	27,593	46,159	52,331
Total operating revenues	18,702,856	17,575,519	16,724,759
Operation & maintenance	8,986,310	9,018,833	8,188,318
Depreciation and amortization	2,384,557	2,230,304	2,354,882
Sales, customer service, corporate operations	3,044,839	2,916,607	2,942,796
Total operating expenses	14,415,706	14,165,744	13,485,996
Operating Income	4,287,150	3,409,775	3,238,763
Interest income	18,262	9,447	6,942
Interest expense	(282,068)	(332,174)	(386,804)
Other, net	208,244	761,806	507,624
Total non-operating revenues (expenses)	(55,562)	439,079	127,762
Change in net position	4,231,588	3,848,854	3,366,525
Net position, beginning of year	20,212,025	16,363,171	12,996,646
Net position, end of year	\$24,443,613	\$20,212,025	\$16,363,171

**2016 Compared to 2015**

- ❖ Total operating revenues increased \$1.1 million or 6.4% due to:
  - Increase in cable television operating revenues of \$348,000 or 3.7% primarily from rate increases of \$2.00 or 8.7% for Basic Lifeline and \$2.50 or 6.2% for Basic Plus with a loss of 5 subscribers.
  - Increase in internet operating revenues of \$797,000 or 9.8% from an increase of 680 in subscribers with no rate increase and the addition of telephone service in 2016 with 1,694 lines and \$155,000 in revenues.
  
- ❖ Total operating expenses increased \$250,000 or 1.8% primarily due to:
  - Decrease in operation & maintenance expenses of \$33,000 or 0.4% mostly due to a \$388,000 or 6.8% increase in programming expense and a \$63,000 or 11.4% increase in access/bandwidth; 54% of which is related to the addition of voice services, which were all offset by a decrease of \$419,000 or 61.4% in head end equipment expense due to projects completed in 2015.
  - Increase in depreciation expense of \$154,000 or 6.9% due to the completion of capital asset projects placed into service in 2015.
  - Increase in sales expenses of \$59,000 or 17.1% due to increased sales and promotional costs due to introduction of voice services in 2016.
  - Increase in corporate expense of \$64,000 or 3.6% mainly due to an increase in employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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- ❖ Interest Income increased \$9,000 or 93.3% due to slightly increased interest rates in money market funds and improved investment opportunities.
- ❖ Interest expense decreased \$50,000 or 15.1% due to the continued payment of debt obligations.
- ❖ Other, net decreased \$554,000 or 72.7% primarily due to:
  - Decrease of \$76,000 or 100.0% in intergovernmental grant revenues due to completion of grant projects in 2015.
  - Decrease of \$543,000 or 78.7% in contributed capital mainly due to a decrease of \$640,000 or 97.2% in contributions in aid of construction-cash due to the completion of building a fiber line for a customer and an increase of \$97,000 or 306.3% in TIF revenues received from the City of Cedar Falls for certified projects.
  - Decrease in interest expense on affiliated note payable of \$16,000 or 37.2% due to the payment of principal thus reducing the outstanding note balance.

#### 2015 Compared to 2014

- ❖ Total operating revenues increased \$851,000 or 5.1% due to:
  - Increase in cable television operating revenues of \$359,000 or 4.0% from a rate increase of 14.3% even with a loss of 54 subscribers.
  - Increase in internet operating revenues of \$498,000 or 6.5% from an average internet rate increase of 0.6% and an increase of 674 subscribers.
- ❖ Total operating expenses increased \$680,000 or 5.0% primarily due to:
  - Increase in operation & maintenance expenses of \$831,000 or 10.1% mostly due to a \$381,000 or 7.2% increase in programming expense and \$405,000 or 94.6% increase in head end equipment expense.
  - Decrease in depreciation expense of \$125,000 or 5.3% due to having written off the coax cable system in 2014 that was replaced by the fiber to the premise system in 2013.
  - Decrease in sales of \$152,000 or 30.6% due to the outsourcing of television ad sales.
  - Increase in corporate operations of \$80,000 or 4.7% mainly due to an increase in employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***“Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27”***.
- ❖ Interest Income increased \$3,000 or 36.1% due to slightly improved interest rates for investments accounts.
- ❖ Interest expense decreased \$55,000 or 14.1% due to the continued payment of debt obligations.
- ❖ Other, net increased \$254,000 or 50.1% primarily due to:
  - Increase of \$16,000 or 25.5% in intergovernmental grant revenues due to final completion of grant projects.
  - Increase of \$211,000 or 44.2% in contributed capital mainly due to an increase of \$583,000 or 777.4% in contributions in aid of construction-cash due to the Utility building a fiber line for a customer and a decrease of \$372,000 or 92.2% in TIF revenues received from the City of Cedar Falls for certified projects.
  - Decrease in interest expense on affiliated note payable of \$16,000 or 27.2% due to the payment of principal thus reducing the outstanding note balance.

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

	2016	2015	2014 <i>(Restated)</i>
Cash Flows from Operating Activities	\$7,196,047	\$4,731,338	\$5,440,258
Cash Flows from Noncapital Financing Activities	(810,752)	(828,362)	(844,061)
Cash Flows from Capital and Related Financing Activities	(4,221,606)	(3,558,100)	(3,180,398)
Cash Flows from Investing Activities	9,099	7,959	80,422
Net Change in Cash and Cash Equivalents	2,172,788	352,835	1,496,221
Cash and Cash Equivalents-Beginning of Year	3,823,804	3,470,969	1,974,748
Cash and Cash Equivalents-End of Year	\$5,996,592	\$3,823,804	\$3,470,969

**2016 Compared to 2015**

- ❖ Cash inflows from operations increased by \$2.5 million or 52.1% due to:
  - Increase of \$2.8 million or 17.1% in cash received from customers due to cable TV rate increase, 680 new internet service subscribers and the addition of voice services with 1,694 lines by the end of 2016.
  - Increase in payments made to suppliers of \$238,000 or 2.3%.
  - Increase in payments made to employees of \$100,000 or 6.0%.
- ❖ Cash outflows from noncapital financing activities decreased by \$18,000 or 2.1% due to:
  - Decrease of \$16,000 or 36.2% in interest paid on the note payable.
- ❖ Cash outflows from capital and related financing activities increased \$664,000 or 18.6% and include:
  - Decrease in capital expenditures by \$78,000 or 3.2%.
  - Decrease in reimbursements of utility construction costs of \$543,000 or 78.7% due to completion of larger projects in 2015.
  - Decrease in receipts of intergovernmental grants by \$199,000 or 100.0%.
- ❖ Cash inflows from investing activities increased \$1,000 or 14.3% primarily related to the a decrease in net proceeds of investment securities of \$9,000 and a \$10,000 or 127.4% increase in interest received.

**2015 Compared to 2014**

- ❖ Cash inflows from operations decreased by \$709,000 or 13.0% due to:
  - Decrease of \$128,000 or 0.8% in cash received from customers due to fewer cable subscribers and an increase in accounts receivable.
  - Increase in payments made to suppliers of \$732,000 or 7.7%.
  - Decrease in payments made to employees of \$151,000 or 8.4%.
- ❖ Cash outflows from noncapital financing activities decreased by \$16,000 or 1.9% due to:
  - Decrease of \$16,000 or 26.6% in interest paid on the note payable.

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- ❖ Cash outflows from capital and related financing activities increased \$378,000 or 11.9% and include:
  - Increase in capital expenditures by \$821,000 or 51.1%.
  - Increase in reimbursements of utility construction costs of \$211,000 or 44.2%
  - Increase in receipts of intergovernmental grants by \$199,000 or 49776.7%.
  
- ❖ Cash inflows from investing activities decreased \$72,000 or 90.1% primarily related to the net proceeds of investment securities.

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## **FINANCIAL STATEMENTS**

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

Statements of Net Position  
December 31, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents - unrestricted (note 3)	\$ 5,683,134	\$ 3,505,817
Cash and cash equivalents - restricted (note 2 and 3)	313,458	317,987
Investments - restricted (note 2 and 3)	1,550,000	1,441,000
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$15,262 in 2016 and \$22,184 in 2015	2,114,120	1,945,804
Interest	4,121	3,958
Other	252,750	1,066,501
Material and supplies	933,740	804,666
Prepayments and other	141,328	153,236
Total current assets	<u>10,992,651</u>	<u>9,238,969</u>
Noncurrent assets:		
Noncurrent investments: (note 3)	-	100,000
Other (note 8)	19,170	147,256
Total noncurrent assets	<u>19,170</u>	<u>247,256</u>
Capital assets: (note 4)		
Capital assets, in service	38,107,780	35,809,878
Less accumulated depreciation	11,436,253	9,675,675
Capital assets, net	<u>26,671,527</u>	<u>26,134,203</u>
Construction work in progress	67,965	701,265
Total capital assets, net	<u>26,739,492</u>	<u>26,835,468</u>
Total assets	37,751,313	36,321,693
Deferred outflows of resources:		
Pension related deferred outflows (note 6)	534,885	521,995
Total deferred outflows of resources	<u>534,885</u>	<u>521,995</u>
Total assets and deferred outflows of resources	<u>\$ 38,286,198</u>	<u>\$ 36,843,688</u>

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

Statements of Net Position  
December 31, 2016 and 2015

<u>Liabilities</u>	<u>2016</u>	<u>2015</u>
Current liabilities:		
Accounts payable	\$ 880,277	\$ 951,203
Reserve for surplus declaration (note 8)	35,000	35,000
Accrued wages and vacation	249,380	225,986
Accrued interest	25,054	30,645
Other accrued liabilities	144,271	137,863
Current installments of note payable (note 5)	600,000	783,090
Current installments of long-term debt (note 5)	1,745,000	1,680,000
Total current liabilities	3,678,982	3,843,787
Noncurrent liabilities: (note 5)		
Other liabilities (note 5 and 10)	200,898	242,174
Net pension liability (note 6)	2,443,828	2,040,514
Customer advances for construction	15,327	15,327
Total noncurrent liabilities	2,660,053	2,298,015
Long-term Debt:		
Long-term note payable, less current installments (note 5)	-	600,000
Long-term debt, less current installments (note 5)	7,352,181	9,151,248
Total long-term debt	7,352,181	9,751,248
TIF related deferred inflows (note 8)	19,170	147,256
Total deferred inflows of resources	151,369	738,613
Total liabilities and deferred inflows of resources	13,842,585	16,631,663
<u>Net Position</u>		
Net investment in capital assets	17,042,749	14,621,130
Restricted	1,806,432	1,804,366
Unrestricted	5,594,432	3,786,529
Total net position	24,443,613	20,212,025
Total liabilities, deferred inflows of resources and net position	\$ 38,286,198	\$ 36,843,688

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MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Revenues, Expenses and Changes in Net Position  
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Cable system revenues	\$ 9,751,012	\$ 9,402,556
Data services revenue	8,146,257	7,625,986
Voice services (telephone) revenue	155,032	-
Network access revenue	238,244	198,113
Local private line revenue	384,718	302,705
Other operating Income	<u>27,593</u>	<u>46,159</u>
Total operating revenues	<u>18,702,856</u>	<u>17,575,519</u>
Operating expenses:		
Plant specific and programming	7,642,247	7,632,980
Depreciation	2,384,557	2,230,304
Plant nonspecific	1,344,063	1,385,853
Customer operations	800,672	795,163
Sales	403,729	344,905
Corporate operations (note 8)	<u>1,840,438</u>	<u>1,776,539</u>
Total operating expenses	<u>14,415,706</u>	<u>14,165,744</u>
Operating income	<u>4,287,150</u>	<u>3,409,775</u>
Non-operating revenues (expenses):		
Interest income	18,262	9,447
Miscellaneous revenue (expense), net (note 8)	75,877	21,771
Intergovernmental grant funds	-	76,363
Interest expense on long-term debt (note 5)	(282,068)	(332,174)
AFUDC (note 1)	12,080	15,926
Contributed capital (note 8)	146,672	689,778
Interest expense on affiliated note payable (note 5 and 8)	<u>(26,385)</u>	<u>(42,032)</u>
Total non-operating revenues (expenses)	<u>(55,562)</u>	<u>439,079</u>
Change in net position	4,231,588	3,848,854
Net position, beginning of year	<u>20,212,025</u>	<u>16,363,171</u>
Net position, end of year	<u>\$ 24,443,613</u>	<u>\$ 20,212,025</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Cash Flows  
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$ 19,426,798	\$ 16,589,931
Cash paid to suppliers	(10,445,413)	(10,207,906)
Cash paid to employees	(1,750,338)	(1,650,687)
Payment in lieu of taxes to the City of Cedar Falls	(35,000)	-
	<u>7,196,047</u>	<u>4,731,338</u>
Cash flows from noncapital financing activities:		
Payments on advance from affiliated utility	(783,090)	(785,000)
Interest paid on note payable	(27,662)	(43,362)
	<u>(810,752)</u>	<u>(828,362)</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(1,680,000)	(1,630,000)
Interest payments on long-term debt	(340,450)	(388,720)
Refunds of customer advances for construction	-	(1,998)
Acquisition, construction and removal cost of capital assets	(2,348,663)	(2,426,533)
Proceeds from sale of capital assets	835	365
Reimbursement of utility construction costs	146,672	689,778
Intergovernmental grants	-	199,008
	<u>(4,221,606)</u>	<u>(3,558,100)</u>
Cash flows from investing activities:		
Proceeds from maturities of investment securities	1,441,000	1,541,000
Purchase of investment securities	(1,450,000)	(1,541,000)
Interest received	18,099	7,959
	<u>9,099</u>	<u>7,959</u>
Net increase in cash and cash equivalents	2,172,788	352,835
Cash and cash equivalents, beginning of year	<u>3,823,804</u>	<u>3,470,969</u>
Cash and cash equivalents, end of year (note 1)	<u>\$ 5,996,592</u>	<u>\$ 3,823,804</u>

See accompanying notes to financial statements.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Cash Flows, Continued  
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 4,287,150	\$ 3,409,775
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	2,384,557	2,230,304
Other income (expense), net	75,877	21,771
(Increase) decrease in accounts receivable	645,435	(1,011,324)
(Increase) decrease in materials and supplies	(129,074)	(35,974)
(Increase) decrease in prepayments and other	11,908	(23,673)
Increase (decrease) in accounts payable	402	208,864
Increase (decrease) in accrued wages and vacation	23,394	11,575
Increase (decrease) in other accrued liabilities	(62,326)	(56,417)
Increase (decrease) in other noncurrent liabilities	<u>(41,276)</u>	<u>(23,563)</u>
Net cash provided by operating activities	<u>\$ 7,196,047</u>	<u>\$ 4,731,338</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	12,080	15,926
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 5,683,134	\$ 3,505,817
Cash - Restricted	<u>313,458</u>	<u>317,987</u>
Cash and cash equivalents	<u>\$ 5,996,592</u>	<u>\$ 3,823,804</u>

## **NOTES TO FINANCIAL STATEMENTS**

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

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

**Organization and Basis of Accounting**

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

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

**Accounting Changes**

The Government Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*" was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state and local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions.

**Capital Assets and Depreciation**

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 2.79% in 2016 and 2.54% in 2015. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure – 18 to 35 years and equipment – 5 to 12 years. The depreciation provision was equivalent to an overall composite rate of 6.5% and 6.4% of depreciable assets for 2016 and 2015, respectively.

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

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

**Cash and Investments**

Investments are stated at their fair value except for the investment in the Iowa Public Agency Investment Trust (IPAIT) and non-negotiable certificates of deposits which are valued at amortized cost.

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows.

**Accounts Receivable and Allowance for Doubtful Accounts**

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

**Inventories**

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

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Notes to Financial Statements  
December 31, 2016 and 2015

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

**Deferred Outflows of Resources**

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

**Pensions**

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

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

**Deferred Inflows of Resources**

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

**Bond Premiums and Discounts**

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

**Net Position**

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

The Utility’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. The composition of restricted net position as of December 31, 2016 and 2015 was as follows:

	2016	2015
Restricted for/by		
Bond Ordinance	\$ 1,707,524	\$ 1,687,928
Health Insurance	98,909	116,437
	\$ 1,806,433	\$ 1,804,365
Total restricted net position		

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December 31, 2016 and 2015

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

**Operating Revenues and Expenses**

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

Revenues are based on billing rates, which are applied to customers' consumption of communications services. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not billed at December 31, 2016 and 2015, were \$562,868 and \$514,090, respectively and are recorded in customer accounts receivable.

**Estimates**

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

**Budgetary Information**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on the total of all four utilities as a whole. In 2016, there were no budget amendments. During 2015, there was a budget amendment of \$11,141,186 primarily due to the unbudgeted refunding of debt.

**Grants**

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

**Employee Benefits**

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

The Communications Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay shall apply only to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date shall not be entitled to the benefit. As of December 31, 2016 and 2015 the accrued liability was \$224,835 and \$224,489, respectively.

**Customer Advances**

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

**Reclassifications**

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

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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December 31, 2016 and 2015

**(2) Restricted Assets**

The composition of restricted assets as of December 31, 2016 and 2015 was as follows:

<b>2016</b>	<b>Cash</b>	<b>Investments</b>	<b>Total</b>
Current Assets - Restricted			
Bond Reserve	\$ 12,106	\$ 1,550,000	\$ 1,562,106
Bond and Interest	169,473	-	169,473
Self Insured Dental	17,073	-	17,073
Self Insured Medical	114,806	-	114,806
Total current assets - restricted	<u>\$ 313,458</u>	<u>\$ 1,550,000</u>	<u>\$ 1,863,458</u>
Total restricted assets	<u>\$ 313,458</u>	<u>\$ 1,550,000</u>	<u>\$ 1,863,458</u>

<b>2015</b>	<b>Cash</b>	<b>Investments</b>	<b>Total</b>
Current Assets - Restricted			
Bond Reserve	\$ 6,928	\$ 1,441,000	\$ 1,447,928
Bond and Interest	168,371	-	168,371
Self Insured Dental	16,847	-	16,847
Self Insured Medical	125,841	-	125,841
Total current assets - restricted	<u>\$ 317,987</u>	<u>\$ 1,441,000</u>	<u>\$ 1,758,987</u>
Non-current Assets - Restricted			
Bond Reserve	\$ -	\$ 100,000	\$ 100,000
Total noncurrent assets - restricted	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>
Total restricted assets	<u>\$ 317,987</u>	<u>\$ 1,541,000</u>	<u>\$ 1,858,987</u>

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

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

**Cash on Hand**

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2016 and 2015 was \$60.

**Deposits**

At December 31, 2016, the Utility's carrying amount of deposits, including \$1,550,000 of certificates of deposits and \$1,175,000 of money market accounts, was \$7,546,532. At December 31, 2015, the Utility's carrying amount of deposits, including \$1,541,000 of certificates of deposits and \$575,000 of money market accounts, was \$5,364,744.

**Investments**

The Utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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December 31, 2016 and 2015

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

**Investments, continued**

eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of December 31, 2016 and 2015, the Utility had no Federal Agency Obligations investments.

The Utility uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

Any Federal Agency Obligations are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and other market assumptions (Level 2 inputs).

**Interest Rate Risk**

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

**Credit Risk**

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2016 or 2015. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

**Concentration of Credit Risk**

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2016 or 2015.

**Custodial Credit Risk – Deposits**

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

**Custodial Credit Risk – Investments**

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

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December 31, 2016 and 2015

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

**Custodial Credit Risk – Investments, continued**

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

	<b>2016</b>	<b>2015</b>
Cash on hand	\$ 60	\$ 60
Carrying amount of deposits	7,546,532	5,364,744
<b>Total</b>	<b>\$7,546,592</b>	<b>\$5,364,804</b>
<b>Current Assets</b>	<b>2016</b>	<b>2015</b>
Cash & cash equivalents	\$ 5,683,134	\$ 3,505,817
Restricted Cash	313,458	317,987
Restricted Investments	1,550,000	1,441,000
<b>Non-Current Investments Restricted</b>		
Restricted	-	100,000
<b>Total</b>	<b>\$ 7,546,592</b>	<b>\$ 5,364,804</b>

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

**(4) Capital Assets**

A summary of capital assets activity for the years ended December 31, 2016 and 2015 follows:

	<b>2016</b>	<b>Beginning Balance</b>	<b>Additions and Transfers In</b>	<b>Deletions and Transfers Out</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:					
Land		\$ 2,177	\$ -	\$ -	\$ 2,177
Construction work in progress		701,265	2,288,561	2,921,861	67,965
<b>Total capital assets, not being depreciated</b>		<b>703,442</b>	<b>2,288,561</b>	<b>2,921,861</b>	<b>70,142</b>
Capital assets, being depreciated:					
Infrastructure		17,624,082	635,003	33,288	18,225,797
Equipment		18,183,619	2,286,858	590,671	19,879,806
<b>Total capital assets, being depreciated</b>		<b>35,807,701</b>	<b>2,921,861</b>	<b>623,959</b>	<b>38,105,603</b>
Less accumulated depreciation for:					
Infrastructure		2,591,492	602,167	35,097	3,158,562
Equipment		7,084,183	1,784,179	590,671	8,277,691
<b>Total accumulated depreciation</b>		<b>9,675,675</b>	<b>2,386,346</b>	<b>625,768</b>	<b>11,436,253</b>
<b>Total capital assets, being depreciated, net</b>		<b>26,132,026</b>	<b>535,515</b>	<b>(1,809)</b>	<b>26,669,350</b>
Capital assets, net		<b>\$ 26,835,468</b>	<b>\$ 2,824,076</b>	<b>\$ 2,920,052</b>	<b>\$ 26,739,492</b>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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December 31, 2016 and 2015

**(4) Capital Assets, continued**

2015	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,177	\$ -	\$ -	\$ 2,177
Construction work in progress	550,835	2,494,489	2,344,059	701,265
Total capital assets, not being depreciated	553,012	2,494,489	2,344,059	703,442
Capital assets, being depreciated:				
Infrastructure	16,809,957	1,081,456	267,331	17,624,082
Equipment	17,421,166	1,262,603	500,150	18,183,619
Total capital assets, being depreciated	34,231,123	2,344,059	767,481	35,807,701
Less accumulated depreciation for:				
Infrastructure	2,312,417	565,083	286,008	2,591,492
Equipment	5,917,400	1,666,933	500,150	7,084,183
Total accumulated depreciation	8,229,817	2,232,016	786,158	9,675,675
Total capital assets, being depreciated, net	26,001,306	112,043	(18,677)	26,132,026
Capital assets, net	\$ 26,554,318	\$ 2,606,532	\$ 2,325,382	\$ 26,835,468

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**(5) Noncurrent Liabilities**

Noncurrent liabilities activity for the years ended December 31, 2016 and 2015 was as follows:

2016	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation capital loan notes:					
Series 2009B	\$ 1,170,000	\$ -	\$ 110,000	\$ 1,060,000	\$ 115,000
Note payable to the Municipal Electric Utility	183,090	-	183,090	-	-
Note payable to the Municipal Gas Utility	1,200,000	-	600,000	600,000	600,000
Capital loan notes:					
Series 2009	1,790,000	-	170,000	1,620,000	175,000
Series 2010	7,570,000	-	1,400,000	6,170,000	1,455,000
Unamortized premium	305,697	-	54,488	251,209	
Unamortized discount	(4,449)	-	(421)	(4,028)	
	12,214,338	-	2,517,157	9,697,181	<u>\$ 2,345,000</u>
Current installments of long-term debt	(2,463,090)	-	(118,090)	(2,345,000)	
Long-term debt, less current installments	9,751,248	-	2,399,067	7,352,181	
Customer advances for construction	15,327	-	-	15,327	
Net pension liability	2,040,514	403,314	-	2,443,828	
Accrued severance and OPEB	242,174	44,458	85,734	200,898	
Noncurrent liabilities	2,298,015	447,772	85,734	2,660,053	
Total noncurrent liabilities	<u>\$ 12,049,263</u>	<u>\$ 447,772</u>	<u>\$ 2,484,801</u>	<u>\$ 10,012,234</u>	

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

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**(5) Noncurrent Liabilities, continued**

All general obligation (G.O.) bonds and notes have been issued by the City on behalf of the Utility. The G.O. bonds and notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. In 2009, the City issued \$2,320,000 in General Obligation Capital Loan Notes, Series 2009B. Interest rates throughout the term of the bonds are in a range between .75% and 3.8%. Interest rates over the remaining term of the bonds are in a range between 2.90% and 3.8%. The proceeds of the Series 2009B bonds were used for the redemption of the outstanding Series 1998, Series 1999, and Series 2002 general obligation bonds to reduce total future debt service payments and the funding of qualified capital expenditures. The total debt service obligations of the bonds are as follows:

<b>Series 2009B Communications General Obligation Bonds</b>		
	<b>December 1</b>	<b>2.90% - 3.80%</b>
	<b>Principal</b>	<b>Interest</b>
<b>Year</b>	<b>Amount</b>	<b>Amount</b>
2017	\$ 115,000	\$ 36,370
2018	120,000	33,035
2019	125,000	29,315
2020	130,000	25,315
2021	135,000	20,830
2022-2024	435,000	32,870
	<b>\$ 1,060,000</b>	<b>\$ 177,735</b>

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

<b>Year</b>	<b>Series 2009 Communications Capital Loan Notes</b>		<b>Series 2010 Communications Capital Loan Notes</b>	
	<b>December 1</b>	<b>4.00% - 4.30%</b>	<b>December 1</b>	<b>3.00%</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>
2017	\$ 175,000	\$ 67,210	\$ 1,455,000	\$ 185,100
2018	180,000	60,210	1,510,000	141,450
2019	190,000	53,010	1,570,000	96,150
2020	195,000	45,410	1,635,000	49,050
2021	205,000	37,415	-	-
2022-2024	675,000	58,578	-	-
	<b>\$ 1,620,000</b>	<b>\$ 321,833</b>	<b>\$ 6,170,000</b>	<b>\$ 471,750</b>

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

In 2009, the Utility issued \$3,640,000 Communications Utility Revenue Capital Loan Notes, Series 2009. The proceeds of the notes were used for the redemption of the outstanding Series 1999 revenue bonds to reduce total future debt service payments and the funding of other qualified capital expenditures. The notes mature in 2024 and interest rates throughout the term of the notes range between 4.00% and 4.30%.

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**(5) Noncurrent Liabilities, continued**

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

All Utility revenues net of specified operating expenses are pledged as security of the above revenue capital loan notes until the notes are defeased. Principal and interest paid for 2016 and 2015 were \$1,871,110 and \$1,871,860, respectively. Total customer gross revenues as defined for the same periods were \$18,675,263 and \$17,529,360. Annual principal and interest payments are expected to require 6.57% of gross revenues on average.

The Board of Trustees of the Municipal Electric Utility authorized a loan bearing interest at 3.1% to be extended to the Utility under Resolutions No. 2759, 2840, 2939, 2994, and 3086. The December 31, 2016 and 2015 outstanding balances on this loan were \$-0- and \$183,090, respectively. In January 2012 the Board of Trustees of the Municipal Electric Utility adopted resolution No. 5089 reducing the annual interest rate from 3.1% to 2.0% to be more reflective of the investment and borrowing markets. In January 2014 the Board of Trustees of the Municipal Electric and Gas Utilities adopted resolution No. 5419 approving the continuation of the annual interest rate at 2.0%. The note requires annual principal payments, due December 1, and semiannual interest payments, due January and July 1. In January 2012, The Board of Trustees of the Municipal Gas Utility authorized a loan of \$3,000,000 to the Utility under Resolutions No. 5077, bearing interest at 2.0%. In January 2015 the Board of Trustees of the Municipal Electric and Gas Utilities adopted resolution No. 5574 approving the continuation of the annual rate at 2.0%. In January 2016 the Board of Trustees of the Municipal Electric and Gas Utilities adopted resolution No. 5574 approving the continuation of the annual rate at 2.0%. The December 31, 2016 and 2015 outstanding balances on this loan were \$600,000 and \$1,200,000 respectively. Total debt service requirements are as follows:

<b>Notes Payable</b>		
<b>Gas Utility</b>		
<b>Year</b>	<b>Principal Amount</b>	<b>Interest Amount</b>
2016	\$ 600,000	\$ 24,000
2017	600,000	12,000
	<u>\$ 1,200,000</u>	<u>\$ 36,000</u>

**(6) Pension Plan - IPERS**

**Plan Description**

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

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

**Plan Benefits**

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

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**(6) Pension Plan – IPERS, continued**

**Plan Benefits, continued**

before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

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

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

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

**Disability and Death Benefits**

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

**Contributions**

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

In fiscal year 2016 and 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.

The Utility's total contributions to IPERS for the years ended December 31, 2016 and 2015 were \$246,752 and \$242,354, respectively.

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

At December 31, 2016 and 2015, the Utility reported a liability of \$2,443,828 and \$2,040,514, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Utilities' collective proportion was 0.185550 percent which was a decrease of 0.004768 percent from its proportion measured as of June 30, 2015 of 0.190318 percent.

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**(6) Pension Plan – IPERS, continued**

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

For the years ended December 31, 2016 and 2015, the Utility recognized pension expense of \$178,018 and \$151,016, respectively. At December 31, 2016 and 2015 the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,599	\$ 29,166	\$ 30,751	\$ -
Changes of assumptions	37,285	-	55,862	-
Net difference between projected and actual earnings on pension plan investments	348,168	-	305,302	472,428
Changes in proportion and differences between Utility's contributions and proportionate share of contributions	403	103,033	547	118,929
Utility's contributions subsequent to the measurement date	127,430	-	129,533	-
Total	<u>\$ 534,885</u>	<u>\$ 132,199</u>	<u>\$ 521,995</u>	<u>\$ 591,357</u>

\$127,430, reported as deferred outflows of resources related to pensions resulting from the Utility's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended	2016	2015
December 31, 2016	na	\$ 87,210
December 31, 2017	\$ 12,587	\$ 87,210
December 31, 2018	\$ 12,587	\$ 87,210
December 31, 2019	\$ 159,690	\$ (65,884)
December 31, 2020	\$ 93,779	\$ 3,149
December 31, 2021	\$ (3,387)	na

There were no non-employer contributing entities at IPERS.

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**(6) Pension Plan – IPERS, continued**

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation: (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase: (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return: (effective June 30, 1996)	7.5 percent, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00 percent per annum based on 3.00 percent inflation And 1.00 percent real wage inflation

The actuarial assumptions used in the June 30, 2016 and 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflations) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table from IPERS Comprehensive Annual Financial Reports 2016 (CAFR):

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-plus Fixed Income	28%	1.90%
Domestic Equity	24%	5.85%
International Equity	16%	6.32%
Private Equity/Debt	11%	10.31%
Real Estate	8%	3.87%
Credit Opportunities	5%	4.48%
US TIPS	5%	1.36%
Other Real Assets	2%	6.42%
Cash	1%	-0.26%
Total	<u>100%</u>	

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**(6) Pension Plan – IPERS, continued**

**Discount Rate**

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

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

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

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utility’s proportionate share of the net pension liability at 6-30-16	\$ 3,953,783	\$ 2,443,828	\$ 1,169,406
Utility’s proportionate share of the net pension liability at 6-30-15	\$ 3,572,573	\$ 2,040,514	\$ 747,346

**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](http://www.ipers.org).

**Payables to the Pension Plan**

At December 31, 2016, the Utility reported a payable of \$35,219 and \$31,169, respectively to the defined benefit pension plan for legally required employer contributions and a payable of \$19,537 and \$18,118, respectively for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**(7) Income Tax Status**

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

**(8) Related Party Transactions**

The Utility provides communications service to the City. Operating revenues from the service provided amounted to \$41,359 and \$39,985 in 2016 and 2015, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2016 to reimburse the Communications Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$19,170 and \$147,256 as of December 31, 2016 and 2015, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting deferred inflow of resources at December 31, 2016 and 2015 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$128,087 and \$31,529 in 2016 and 2015, respectively and is recorded as contributed capital in the Statements of Revenues, Expenses and Changes in Net Position.

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

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2016 and 2015 were \$35,000 and \$35,000 respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2016, the Utility's Board of Trustees approved a payment of \$35,000 related to payments in lieu of taxes for 2016.

Outstanding loan balances from the Municipal Electric Utility are \$-0-, and \$183,090 as of December 31, 2016, and 2015, respectively. Interest accrues on the loan at 2.0%, and is paid semi-annually during December and June. Annual principal payments continue through 2016 (see note 5). Accrued interest payable was \$-0- and \$279 at December 31, 2016 and 2015, respectively. Interest expense for the years ended December 31, 2016 and 2015 was \$3,383 and \$7,029 respectively.

Outstanding loan balances from the Municipal Gas Utility are \$600,000, and \$1,200,000 as of December 31, 2016, and 2015, respectively. Interest accrues on the loan at 2.0%, and is paid semi-annually during December and June. Annual principal payments continue through 2017 (see note 5). Accrued interest payable was \$997 and \$1,995 at December 31, 2016 and 2015, respectively. Interest expense for the years ended December 31, 2016 and 2015 was \$23,003 and \$35,003 respectively.

See note 5 for description of debt with the City. The interest expense related to this debt to the City was \$39,093 and \$41,650 for the years ended December 31, 2016 and 2015, respectively. The accrued interest related to this debt was \$3,031 and \$3,278 at December 31, 2016 and 2015, respectively.

**(9) Risk Management**

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2016 plan year for aggregate medical claims exceeding \$2.8 million.

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

	<b>2016</b>	<b>2015</b>
Unpaid claims and IBNR, beginning of year	\$ 125,000	\$ 152,000
Current year costs including IBNR	3,787,679	3,016,121
Claims paid	(3,755,679)	(3,043,121)
Unpaid claims and IBNR, end of year	\$ 157,000	\$ 125,000

The Communications Utility has recorded \$32,970 and \$26,250 in accounts payable for its share of these unpaid claims at December 31, 2016 and 2015, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 538 governmental entities participate in the Association as of June 30, 2016. A

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**(9) Risk Management, continued**

board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Cash and cash equivalents and investments	\$ 85,992,259	\$ 82,061,911
Receivables	2,150,677	1,944,567
Other assets	1,268,889	773,941
Total assets	<u>\$ 89,411,825</u>	<u>\$ 84,780,419</u>
Total liabilities	\$ 32,692,095	\$ 30,479,705
Total net position	<u>56,719,730</u>	<u>54,300,714</u>
Total liabilities and net assets	<u>\$ 89,411,825</u>	<u>\$ 84,780,419</u>
Total revenues	\$ 6,678,977	\$ 8,506,228
Total expenses	<u>4,259,961</u>	<u>4,353,418</u>
Net increase in net position	<u>\$ 2,419,016</u>	<u>\$ 4,152,810</u>

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

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

**Plan Description**

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

**Funding Policy**

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2016 and 2015, the Utilities contributed \$347,691 and \$214,857, respectively and retirees receiving benefits contributed \$75,156 and \$85,269, respectively, through their required contributions.

**Annual OPEB and Net OPEB Obligations**

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

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

**Annual OPEB and Net OPEB Obligations, continued**

	<u>2016</u>	<u>2015</u>
Annual required contribution	\$ 74,113	\$ 74,113
Interest on Net OPEB Obligation	51,446	51,446
Adjustment to annual required contribution	<u>(39,646)</u>	<u>(39,646)</u>
	\$ 85,913	\$ 85,913
Annual OPEB cost/expense	85,913	85,913
Contributions and payments made	<u>272,534</u>	<u>129,588</u>
Increase in net OPEB obligation	\$ (186,621)	\$ (43,675)
Net OPEB obligation, December 31, 2015	<u>985,254</u>	<u>1,028,929</u>
Net OPEB obligation, December 31, 2016	<u>\$ 798,633</u>	<u>\$ 985,254</u>

The Communications Utility's share of the December 31, 2016 and 2015 Net OPEB obligation is \$(23,937) and \$17,685, respectively.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and net OPEB obligation for the year ended December 31, 2016, 2015 and 2014:

<u>Fiscal Year Ended</u>	<u>Percentage of Annual</u>		
	<u>Annual OPEB Cost</u>	<u>OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2016	\$ 85,913	317.22%	\$ 798,633
December 31, 2015	\$ 85,913	150.84%	\$ 985,254
December 31, 2014	\$ 85,392	21.79%	\$ 1,028,929

**Funded Status and Funding Progress**

As of January 1, 2012, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$931,950. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of active employees covered by the Plan which was \$13,249,851 in 2016 and the ratio using the January 1, 2015 actuarial valuation UAAL to the covered payroll was 7.0%.

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

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

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

**Funded Status and Funding Progress, continued**

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2015
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	8.0% declining 0.5% annually to 5%

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

**(11) Commitments and Contingencies**

As of December 31, 2016, the Utility was involved in several construction projects with an estimated cost to complete of \$1,731,000 and an estimated time frame to complete through 2019.

**(12) Subsequent Events**

Subsequent events for the Utility have been evaluated through May 5, 2017, which is the date that the financial statements were available to be issued.

Effective January 2, 2017, the Board of Trustees approved the following rate increases per month per subscriber: \$1.00 or 4.0%, for Basic Lifeline and \$4.00 or 9.3%, for Basic Plus.

In January 2017 the Board of Trustees adopted resolution No. 5880 approving the continuation of the annual interest rate on the notes between the Communications Utility the Gas Utility at 2.0% as reflective of the investment and borrowing markets.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Utilities proportion of the net pension liability (asset)	0.185550%	0.190318%	0.200498%
Utility's proportionate share of the net pension liability	\$ 2,443,828	\$ 2,040,514	\$1,716,179
Utility's Covered-employee payroll	\$ 2,786,737	\$ 2,829,557	\$2,831,621
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.69%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

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

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

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Statutorily required contribution	\$ 246,752	\$ 242,354	\$ 263,284	\$ 258,040	\$ 251,418
Contributions in relation to the statutorily required contribution	(246,752)	(242,354)	(263,284)	(258,040)	(251,418)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 2,763,179	\$ 2,713,925	\$ 2,948,304	\$ 2,932,777	\$ 2,999,286
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.80%	8.38%
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Statutorily required contribution	\$ 215,512	\$ 138,226	\$ 118,351	\$ 100,992	\$ 83,095
Contributions in relation to the statutorily required contribution	(215,512)	(138,226)	(118,351)	(100,992)	(83,095)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 2,864,678	\$ 2,028,925	\$ 1,819,321	\$ 1,627,291	\$ 1,408,697
Contributions as a percentage of covered-employee payroll	7.52%	6.81%	6.51%	6.21%	5.90%

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Required Supplemental Information  
December 31, 2016 and 2015

**Notes to Required Supplemental Information  
Iowa Public Employees' Retirement System**

**Changes of Benefit Terms**

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

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

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

**Changes of Assumptions**

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

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

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

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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**Schedule of Funding Progress for the Other Post-Employment Benefits Plan  
Unaudited**

<b>Fiscal Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAAL as a Percentage of Covered Payroll</b>
2016	January 1, 2015	\$ -	\$931,950	\$931,950	0.00%	\$13,249,851	7.00%
2015	January 1, 2015	\$ -	\$931,950	\$931,950	0.00%	\$13,073,650	7.10%
2014	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,921,796	6.50%
2013	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,400,936	6.80%
2012	January 1, 2012	\$ -	\$908,961	\$908,961	0.00%	\$13,133,950	6.90%
2011	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$12,936,933	22.90%
2010	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$12,152,946	24.40%
2009	January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.00%	\$11,587,064	25.60%
2008	January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.00%	\$11,162,424	30.80%

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Municipal Communications Utility of the City of Cedar Falls (Municipal Communications Utility) as of and for the year ended December 31, 2016, and have issued our report thereon dated May 5, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipal Communications Utility’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Communications Utility’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipal Communications Utility’s internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipal Communications Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Municipal Communications Utility's operations for the year ended December 31, 2016, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Municipal Communications Utility and are reported in Part III of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Purpose of this Report**

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

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

Dubuque, Iowa  
May 5, 2017

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

There were no findings to report.

**Part II: Findings and Questioned Costs for Federal Awards:**

Single audit did not apply for fiscal year 2016.

**Part III: Other Findings Related to Required Statutory Reporting:**

- 2016-IA-A     **Certified Budget** – Disbursements during the year ended December 31, 2016, did not exceed the amount budgeted.
- 2016-IA-B     **Questionable Expenditures** – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 2016-IA-C     **Travel Expense** – No expenditures of the Utility’s money for travel expenses of spouses of Utility officials or employees were noted.
- 2016-IA-D     **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.
- 2016-IA-E     **Bond Coverage** – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- 2016-IA-F     **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2016-IA-G     **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility’s investment policy were noted.
- 2016-IA-H     **Revenue Bonds** – No instances of noncompliance with the provisions of the Utility’s revenue bond resolutions were noted.
- 2016-IA-I     **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.