

**OSAGE MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

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

**DECEMBER 31, 2016**

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

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**OFFICIALS**

**DECEMBER 31, 2016**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jen Frein	Chairperson	December 2020
Kevin Palsic	Trustee	December 2021
Tom Kenny	Trustee	December 2022
Nan Jakobson	Trustee	December 2018
Royce Tack	Trustee	December 2021
Beverly Schuler	Treasurer	December 2017
Josh Byrnes	General Manager	Indefinite
Jane Michels	Cashier	Indefinite



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

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees:

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

We have audited the accompanying financial statements of the business-type activities and each major fund of Osage Municipal Utilities (the Utility), a component unit of the City of Osage, Iowa, as of and for the year ended December 31, 2016, and the related notes to financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Utility as of December 31, 2016, and

the respective changes in financial position and its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Other Matters**

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability, the Schedule of Utility Contributions, and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 8 and 35 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Utility's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the four years ended December 31, 2016 and expressed unmodified opinions on those financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2017 on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and on compliance.

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

August 31, 2017

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The management of Osage Municipal Utilities (the Utility) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2016. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### FINANCIAL HIGHLIGHTS

- The Utility's operating revenue decreased approximately \$78,000, or 1%, in 2016 from 2015. The most significant decrease was related to charges to customers utilizing the gasworks utility's interruptible service.
- The Utility's operating expenses decreased 1% as well compared to the prior year.
- The Utility's total net position increased approximately \$961,000, or 6%, from December 31, 2015 to December 31, 2016. Of this amount, the light & power utility's net position increased approximately \$480,000, the gasworks utility's net position increased approximately \$468,000, and the communications utility's net position increased approximately \$14,000.

### USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.
- The Statements of Net Position present financial information on all of the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the Utility's net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.
- The Statements of Revenue, Expenses, and Changes in Net Position present the results of the Utility's revenues and expenses over the course of the year and provide information about the Utility's recovery of costs.
- The Statements of Cash Flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, noncapital financing activities, capital and related financing activities, and investing activities. This statement details where cash resources come from and how they are used.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year, the Utility's proportionate share of the net pension liability and related contributions, as well as presenting the funding progress for the retiree health care plan.
- Supplementary Information provides detailed information about operating revenues and expenses.

### FINANCIAL INFORMATION

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

**Condensed Statements of Net Position**  
(expressed in thousands)

	Year ended December 31,	
	2016	2015
Current assets	\$ 8,750	9,207
Noncurrent assets	16,189	14,779
Total assets	<u>24,939</u>	<u>23,986</u>
Deferred outflows of resources	<u>308</u>	<u>195</u>
Current liabilities	3,482	2,623
Noncurrent liabilities	3,222	3,888
Total liabilities	<u>6,704</u>	<u>6,511</u>
Deferred inflows of resources	<u>200</u>	<u>288</u>
Net investment in capital assets	11,858	9,593
Restricted net position	1,276	1,072
Unrestricted net position	5,209	6,717
Total net position	<u>\$ 18,343</u>	<u>17,382</u>

**Condensed Statements of Revenue, Expenses, and Changes in Fund Net Position**  
(expressed in thousands)

	Year ended December 31,	
	2016	2015
Operating revenue	\$ 10,207	10,285
Purchased power and generation station	3,177	3,097
Alternative energy generation operations	32	32
Cost of distribution	3,507	3,638
Administrative and general	1,513	1,580
Depreciation	1,181	1,119
Total operating expenses	<u>9,410</u>	<u>9,466</u>
Operating income (loss)	<u>797</u>	<u>819</u>
Interest and dividend income	31	32
Interest expense	(99)	(116)
Gain on disposal of assets	167	3
Miscellaneous	65	88
Net nonoperating revenue	<u>164</u>	<u>7</u>
Change in net position	961	826
Net position, beginning of year	<u>17,382</u>	<u>16,556</u>

Net position, end of year

\$ 18,343

17,382

## FINANCIAL ANALYSIS

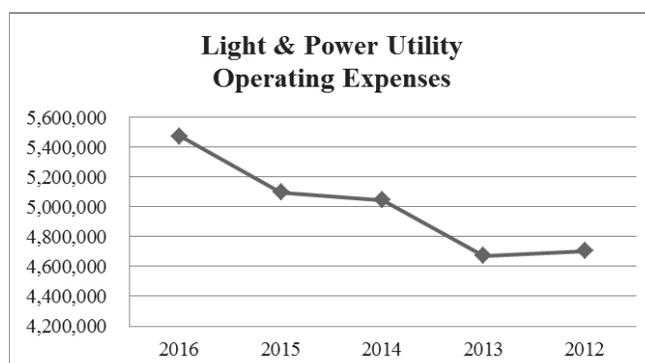
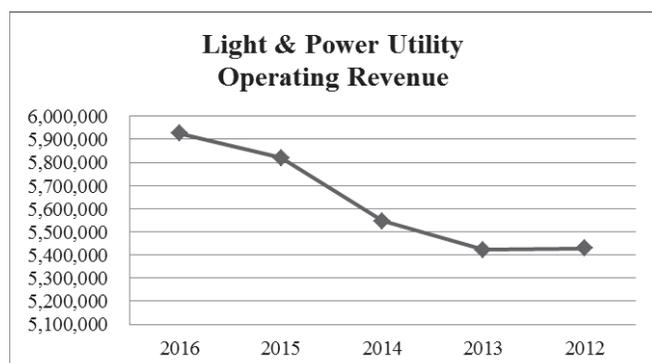
### *Light & Power Utility*

In 2016, the light & power utility realized operating income of approximately \$467,000 and net nonoperating revenue of approximately \$14,000 for a total change in net position of approximately \$480,000, a decrease of approximately \$42,000, or 8%, from 2015.

The light & power utility continued to make capital improvements during 2016. The light & power utility had depreciation expense of approximately \$1,000,000 in 2016, compared to approximately \$960,000 in 2015.

Operating revenue increased approximately \$106,000, or 2%, from 2015. The most significant increase was related to charges for service to residential customers.

Operating expenses increased approximately \$206,000, or 4%, from 2015. The most significant increase was related to costs of distribution.



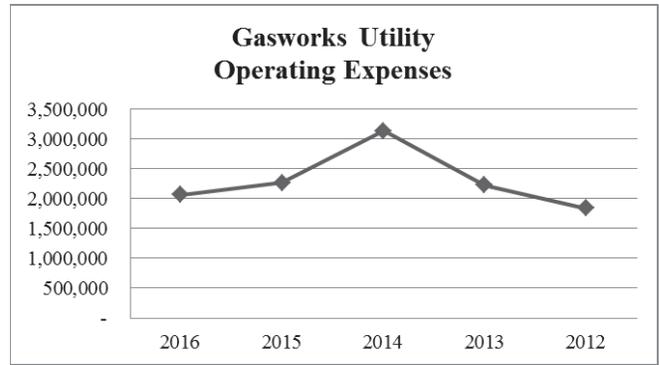
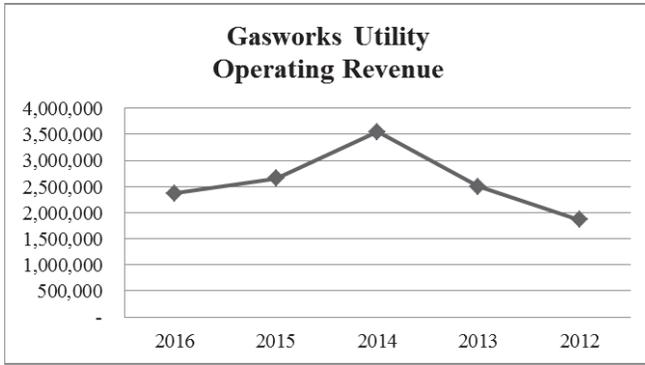
### *Gasworks Utility*

In 2016, the gasworks utility realized operating income of approximately \$322,000 and net nonoperating revenue of approximately \$146,000 for a total change in net position of approximately \$468,000, an increase of approximately \$117,000, or 33%, from 2015.

The gasworks utility continued to make capital improvements during 2016. The gasworks utility had depreciation expense of approximately \$115,000 in 2016, compared to approximately \$111,000 in 2015.

Operating revenue decreased approximately \$288,000, or 11%, from 2015. The most significant decreases were related to charges for service to commercial and industrial customers and charges for service to interruptible customers.

Operating expenses decreased approximately \$303,000, or 13%, from 2015. The most significant decrease was related to costs of distribution.



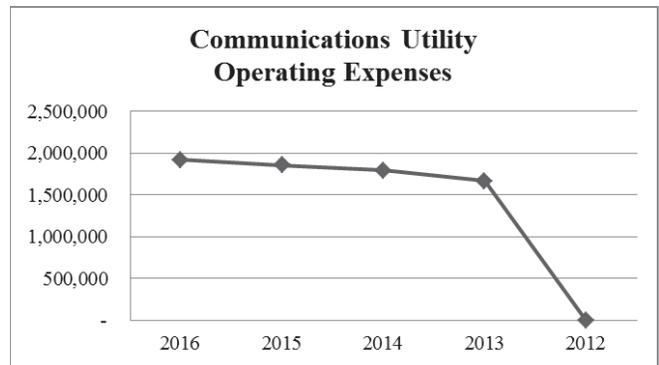
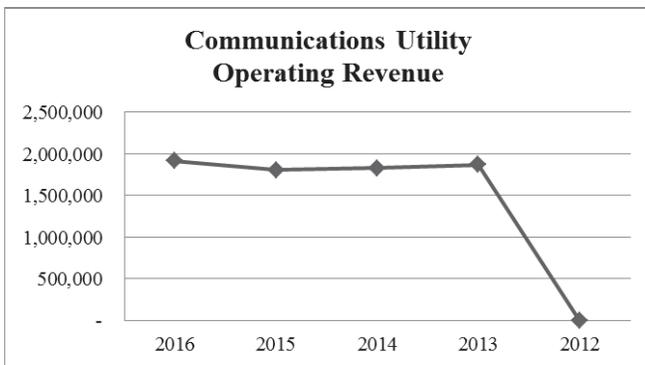
*Communications Utility*

In 2016, the communications utility realized an operating income of approximately \$9,000 and net nonoperating revenue of approximately \$5,000 for a total change in net position of approximately \$14,000.

The communications utility continued to make capital improvements during 2016. The communications utility had depreciation expense of approximately \$66,000 in 2016, compared to approximately \$48,000 in 2015.

Operating revenue increased approximately \$104,000, or 6%, from 2015. The most significant increase was related to charges for service to residential customers.

Operating expenses increased approximately \$42,000, or 2%, from 2015. The most significant increase was related to depreciation of capital assets.



**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The utility continued to maintain and slightly improve its financial position during the current year. Even though the financials were a virtual wash between revenue and expenses, the Utility made some strategic investments on infrastructure projects that will benefit the Utility long term. As a Utility operating in a rural Iowa community, the downturn in agriculture sector does provide some concern. Those concerns will be monitored.

The outlook for the coming year is optimistic as the Utility will be making some changes with cable rates, fiber costs, and new services offered to customers. Electric has seen a downturn in revenues in part to more community wide usage of LED lighting and less operating times at a local business and industry. The natural gas market has been favorable and allowed for rates to be steady and the ability to make hedging decisions provides a safety net on price fluctuations. The Utility will be entering into a 20 year agreement for baseload electricity which looks to provide long term stability in baseload costs.

## **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Osage Municipal Utilities' finances and to provide accountability for the money the Utility receives. If you have questions about this report or need additional financial information, contact Josh Byrnes, General Manager, at 720 Chestnut St, Osage, IA 50461.

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**STATEMENTS OF NET POSITION**

**DECEMBER 31, 2016**

	Light & Power	Gasworks
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,530,419	1,432,917
Accounts receivable, less allowance for doubtful accounts	622,277	172,200
Current portion of revolving loan receivable	-	38,342
Unbilled usage	356,911	252,289
Inventories	451,284	-
Prepaid expenses	17,958	151,061
Total current assets	4,978,849	2,046,809
Noncurrent assets:		
Restricted cash and cash equivalents	72,599	284,953
Restricted investments in certificates of deposit	918,877	-
Revolving loan receivable, net of current portion	-	127,132
Capital assets, net of accumulated depreciation	12,147,523	1,980,590
Total noncurrent assets	13,138,999	2,392,675
<b>Total assets</b>	18,117,848	4,439,484
<b>Deferred Outflows of Resources</b>		
Pension related deferred outflows	167,230	45,308
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	1,602,048	268,703
Payable to City of Osage	136,265	-
Unearned revenue	-	-
Customer deposits	29,494	37,786
Customer budget billings	(6,985)	88,404
Current portion of revenue notes	726,466	145,000
Other current liabilities	98,300	31,197
Total current liabilities	\$ 2,585,588	571,090

See notes to financial statements.

<u>Communications</u>	<u>Total</u>
1,474,921	6,438,257
165,695	960,172
-	38,342
-	609,200
72,121	523,405
11,115	180,134
<u>1,723,852</u>	<u>8,749,510</u>
-	357,552
-	918,877
-	127,132
657,123	14,785,236
<u>657,123</u>	<u>16,188,797</u>
<u>2,380,975</u>	<u>24,938,307</u>
<u>95,878</u>	<u>308,416</u>
108,500	1,979,251
-	136,265
148,467	148,467
29,648	96,928
-	81,419
-	871,466
38,474	167,971
<u>325,089</u>	<u>3,481,767</u>

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**STATEMENTS OF NET POSITION**  
**(CONTINUED)**

**DECEMBER 31, 2016**

	Light & Power	Gasworks
Noncurrent liabilities:		
Accrued wind costs	\$ 66,500	-
Solar credit liability	70,750	-
Revenue notes, net of current portion	1,911,330	145,000
Net OPEB obligation	54,071	69,786
Net pension liability	422,428	169,061
Total noncurrent liabilities	2,525,079	383,847
<b>Total liabilities</b>	5,110,667	954,937
<b>Deferred Inflows of Resources</b>		
Pension related deferred inflows	98,361	39,365
<b>Net Position</b>		
Net investment in capital assets	9,509,727	1,690,590
Restricted	991,476	284,953
Unrestricted	2,574,847	1,514,947
<b>Total net position</b>	\$ 13,076,050	3,490,490

See notes to financial statements.

<u>Communications</u>	<u>Total</u>
-	66,500
-	70,750
-	2,056,330
45,368	169,225
267,350	858,839
<u>312,718</u>	<u>3,221,644</u>
<u>637,807</u>	<u>6,703,411</u>
<u>62,251</u>	<u>199,977</u>
657,123	11,857,440
-	1,276,429
<u>1,119,672</u>	<u>5,209,466</u>
<u>1,776,795</u>	<u>18,343,335</u>

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

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

**YEAR ENDED DECEMBER 31, 2016**

	Light & Power	Gasworks
Operating revenue	\$ 5,925,381	2,370,520
Operating expenses:		
Purchased power and generation station	3,177,278	-
Alternative energy generation operations	31,545	-
Cost of distribution	533,379	1,603,986
Administrative and general	716,634	329,857
Depreciation	999,885	115,158
Total operating expenses	<u>5,458,721</u>	<u>2,049,001</u>
Operating income (loss)	<u>466,660</u>	<u>321,519</u>
Nonoperating revenues (expenses):		
Interest and dividend income	17,203	8,503
Interest expense	(87,582)	(10,542)
Loss on disposal of assets	58,360	108,886
Miscellaneous	25,608	39,142
Net nonoperating expenses	<u>13,589</u>	<u>145,989</u>
Change in net position	480,249	467,508
Net position, beginning of year	<u>12,595,801</u>	<u>3,022,982</u>
Net position, end of year	<u>\$ 13,076,050</u>	<u>3,490,490</u>

See notes to financial statements.

<u>Communications</u>	<u>Total</u>
<u>1,910,855</u>	<u>10,206,756</u>
-	3,177,278
-	31,545
1,369,834	3,507,199
466,540	1,513,031
65,768	1,180,811
<u>1,902,142</u>	<u>9,409,864</u>
<u>8,713</u>	<u>796,892</u>
5,071	30,777
(31)	(98,155)
-	167,246
-	64,750
<u>5,040</u>	<u>164,618</u>
13,753	961,510
<u>1,763,042</u>	<u>17,381,825</u>
<u><u>1,776,795</u></u>	<u><u>18,343,335</u></u>

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**SCHEDULES OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2016**

	Electric	Gasworks
Cash flows from operating activities:		
Cash received from customers	\$ 5,907,205	2,379,997
Cash paid to suppliers	(3,015,873)	(1,575,719)
Cash paid to employees	(575,235)	(341,408)
Net cash provided by operating activities	<u>2,316,097</u>	<u>462,870</u>
Cash flows from noncapital financing activities:		
Cash received (paid) from other revenues	<u>25,608</u>	<u>39,142</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	58,360	125,112
Acquisition and construction of capital assets	(2,273,465)	(79,181)
Principal paid on revenue notes	(720,466)	(140,000)
Cash paid for interest	(87,582)	(10,542)
Net cash provided by (used in) capital and related financing activities	<u>(3,023,153)</u>	<u>(104,611)</u>
Cash flows from investing activities:		
Purchases of investments	(4,485)	(200,379)
Collections on revolving loans	-	209,555
Issuances of revolving loans	-	(11,200)
Cash received for interest	17,203	8,503
Net cash provided by investing activities	<u>12,718</u>	<u>6,479</u>
Net change in cash and cash equivalents	(668,730)	403,880
Cash and cash equivalents, beginning of year	<u>4,199,149</u>	<u>1,029,037</u>
Cash and cash equivalents, end of year	<u>\$ 3,530,419</u>	<u>1,432,917</u>

See notes to financial statements.

Communications	Total
1,902,234	10,189,436
(1,432,139)	(6,023,731)
<u>(396,610)</u>	<u>(1,313,253)</u>
<u>73,485</u>	<u>2,852,452</u>
<u>-</u>	<u>64,750</u>
-	183,472
(248,043)	(2,600,689)
-	(860,466)
<u>(31)</u>	<u>(98,155)</u>
<u>(248,074)</u>	<u>(3,375,838)</u>
-	(204,864)
-	209,555
-	(11,200)
5,071	30,777
<u>5,071</u>	<u>24,268</u>
(169,518)	(434,368)
<u>1,644,439</u>	<u>6,872,625</u>
<u>1,474,921</u>	<u>6,438,257</u>

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**SCHEDULES OF CASH FLOWS**  
**(CONTINUED)**

**YEAR ENDED DECEMBER 31, 2016**

	Electric	Gasworks
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 466,660	321,519
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	999,885	115,158
Change in accounts receivable	199	87,482
Change in unbilled usage	2,073	(30,607)
Change in inventories	(16,360)	39,231
Change in prepaid expenses	(1,504)	(21,104)
Change in deferred outflows of resources	(65,073)	(9,001)
Change in accounts payable	808,258	55,657
Change in accrued expenses	72,559	(46,522)
Change in net OPEB obligation	6,466	7,434
Change in net pension liability	76,500	(22,635)
Change in deferred inflows of resources	(33,566)	(33,742)
Net cash provided by operating activities	\$ 2,316,097	462,870

See notes to financial statements.

<u>Communications</u>	<u>Total</u>
8,713	796,892
65,768	1,180,811
(12,183)	75,498
-	(28,534)
(24,116)	(1,245)
809	(21,799)
(39,553)	(113,627)
31,381	895,296
6,597	32,634
7,791	21,691
49,217	103,082
(20,939)	(88,247)
<u>73,485</u>	<u>2,852,452</u>

**OSAGE MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

For financial reporting purposes, the Utility has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility.

Based on these criteria, there are no organizations considered to be component units of the Utility, however, the Utility is considered a component unit of the City of Osage, Iowa.

**B. Jointly Governed Organizations**

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

**C. Basis of Presentation**

The accounts of the Utility are organized on the basis of proprietary enterprise funds, each of which is considered to be a separate major fund. The operations of each fund are accounted by providing a separate set of accounts for assets, deferred outflows of resources, liabilities, deferred inflows of resources, net positions, revenues, and expenses. The existing funds are as follows:

- Light & Power Utility Fund
- Gasworks Utility Fund
- Communications Utility Fund

**D. Measurement Focus and Basis of Accounting**

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are

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recorded when a liability is incurred, regardless of the timing of the related cash flows.

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

When both restricted and unrestricted resources are available for use, it is the Utility's policy to use restricted resources first, and then unrestricted resources as they are needed.

E. Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. During the year ended December 31, 2016, disbursements did not exceed the amounts budgeted. There were no budget amendments.

F. Use of Estimates

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

G. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

The following accounting policies are followed in preparing the statement of net position:

- *Cash and Cash Equivalents* – The Utility considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments are carried at cost which approximates market value.
- *Accounts Receivable and Allowance for Doubtful Accounts* – The Light & Power Fund and the Gasworks Fund use the direct write-off method to account for uncollectible accounts receivable. A 1.5% per month penalty is charged for accounts older than 30 days. Utilities are shut off for all users when 32 days past due except for utilities purchased under Iowa's Winter Utility Shutoff Moratorium. Therefore, uncollectible accounts are insignificant.

The Communications Fund uses the allowance method to account for uncollectible accounts receivable. Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for doubtful accounts and related accounts receivable write-offs. A 1.5% per month penalty is charged for accounts older than 30 days. There was no allowance for uncollectible accounts as of December 31, 2016.

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- *Inventories* – Inventories, primarily consisting of fuel and materials for the local generation station, are stated at the lower of cost or market value using the first-in, first-out method.
- *Capital Assets* – Capital assets are recorded at historical cost. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined, in general, as assets with an initial, individual cost in excess of \$2,500 and estimate useful lives in excess of two years. Capital assets of the Utility are depreciated using the straight-line method over their estimated useful lives.
- *Deferred Outflows of Resources* – Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which 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 Utility after the measurement date but before the end of the Utility’s reporting period.
- *Deferred Inflows of Resources* – Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on IPERS’ investments.
- *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.

H. Statement of Revenues and Expenses

Transactions deemed by management to be ongoing, major, or central to the production of Utility sales are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses. For most services, meters are read and bills are rendered on a cycle basis near midmonth. Revenues earned are recorded through the date meters are read each month. Additionally, revenues earned from utility usage delivered after meters are read to the end of the month during the last month of the year are estimated and recorded.

I. Net Position

Net position is reported in three categories:

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- *Net Investment in Capital Assets* – This category consists of capital assets net of accumulated depreciation and reduced by the outstanding balances for bonds, notes, and other borrowings attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This category results when constraints are placed on net position by external groups such as creditors, grantors, or laws or regulations of other governments or law through constitutional provisions or enabling legislation.
- *Unrestricted* – This category consists of all other net position not meeting the definition of “restricted” or “net investment in capital assets.”

**NOTE 2 – CASH AND INVESTMENTS**

The Utility’s deposits, except for the money on deposit with UMMEG described in the third paragraph of this footnote, at December 31, 2016, including certificates of deposit totaling \$918,877, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

The Utility has funds on deposit with the UMMEG Investment Pool as part of its Shared Transmission System Agreement with Dairyland Power Cooperative. According to the agreement, the funds can be withdrawn at any time, and have been withdrawn in the past. These deposits were \$1,290,285 at December 31, 2016. The UMMEG Investment Pool is held outside the State of Iowa. Cash is used in order to invest in transmission improvements and to cover control center costs.

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

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

**NOTE 3 – REVENUE NOTES**

Changes in long-term revenue notes for the year ended December 31, 2016 are as follows:

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	Balance, Beginning of Year	Increases	Decreases	Balance, End of Year	Due Within One Year
<b>Light &amp; Power:</b>					
Revenue note, issued Nov 2008	\$ 843,262	-	120,466	722,796	120,466
Revenue note, issued Feb 2010	350,000	-	20,000	330,000	21,000
Revenue note, issued Feb 2010	700,000	-	100,000	600,000	100,000
Revenue note, issued Dec 2010	1,465,000	-	480,000	985,000	485,000
	<u>3,358,262</u>	<u>-</u>	<u>720,466</u>	<u>2,637,796</u>	<u>726,466</u>
<b>Gasworks:</b>					
Revenue note, issued Aug 2013	430,000	-	140,000	290,000	145,000
	<u>\$ 3,788,262</u>	<u>-</u>	<u>860,466</u>	<u>2,927,796</u>	<u>871,466</u>

Annual long-term revenue note principal and interest requirements to maturity as of December 31, 2016 are as follows:

Year Ending December 31,	Light & Power Issued Nov 2008		Light & Power Issued Feb 2010		Light & Power Issued Feb 2010	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 120,466	9,180	21,000	9,900	100,000	22,000
2018	120,466	7,650	21,000	9,270	100,000	18,800
2019	120,466	6,120	22,000	8,640	100,000	15,400
2020	120,466	4,590	23,000	7,980	100,000	11,800
2021	120,466	3,060	24,000	7,290	100,000	8,000
2022-2026	120,466	1,530	130,000	25,350	100,000	4,000
2027-2029	-	-	89,000	5,370	-	-
	<u>\$ 722,796</u>	<u>32,130</u>	<u>330,000</u>	<u>73,800</u>	<u>600,000</u>	<u>80,000</u>

Year Ending December 31,	Light & Power Issued Dec 2010		Light & Power Total		Gasworks Issued Aug 2013	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 485,000	30,800	726,466	71,880	145,000	7,975
2018	500,000	16,250	741,466	51,970	145,000	4,350
2019	-	-	242,466	30,160	-	-
2020	-	-	243,466	24,370	-	-
2021	-	-	244,466	18,350	-	-
2022-2026	-	-	350,466	30,880	-	-
2027-2029	-	-	89,000	5,370	-	-
	<u>\$ 985,000</u>	<u>47,050</u>	<u>2,637,796</u>	<u>232,980</u>	<u>290,000</u>	<u>12,325</u>

Year Ending December 31,	Grand Total	
	Principal	Interest
2017	\$ 871,466	79,855
2018	886,466	56,320
2019	242,466	30,160
2020	243,466	24,370
2021	244,466	18,350
2022-2026	350,466	30,880

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2027-2029	89,000	5,370
	\$2,927,796	245,305

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

- A. The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to the sinking fund for the purpose of making the note principal and interest payments when due.
- C. Sufficient monthly transfers shall be made to a light and power reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund.
- D. Sufficient monthly transfers shall be made to a gas reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund.
- E. Sufficient monthly transfers shall be made to a light and power improvement fund to be used solely for the purpose of paying principal or interest on the bonds should insufficient money be available in the sinking and reserve funds; and to the extent not required for the foregoing purposes to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, or capital improvements to the system.

**NOTE 4 - PENSION PLAN**

Plan Description – IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

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

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

- A multiplier based on years of service.
- The member’s highest five-year average salary, except members with service before June 30, 2012, will use the highest three-year average salary as of that date if it is greater than the

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highest five-year average salary.

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

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

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

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State 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, pursuant to the required rate, regular members contributed 5.95% of covered payroll and the Utility contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Utility's contributions to IPERS for the year ended December 31, 2016 were \$106,570.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2016, the Utility reported a liability of \$858,839 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utility's proportion was 0.017384% percent, which was a decrease of 0.001673% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2016 the Utility recognized pension expense of \$74,365. At December 31, 2016, the Utility reported deferred outflows or resources and deferred inflows of

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resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 12,975	-
Changes of assumptions	114,256	-
Net difference between projected and actual earnings on IPERS' investments	-	40,983
Changes in proportion and differences between Utility contributions and proportionate share of contributions	-	158,994
Utility contributions subsequent to the measurement date	181,185	-
	\$ 308,416	199,977

\$181,185 reported as deferred outflows of resources related to pensions resulting from the Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Total
2017	\$ (28,482)
2018	(28,482)
2019	(28,482)
2020	14,986
2021	(2,286)
	\$ (72,746)

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation.

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	( 0.71)
	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. 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, IPERS’ fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS’ investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the 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 7.50%, 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% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Utility’s proportionate share of the net pension liability	\$ 1,503,672	858,839	314,553

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IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payable to IPERS – At December 31, 2016, the Utility reported no amounts payable to IPERS for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

**NOTE 5 – RISK MANAGEMENT**

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

**NOTE 6 – COMPENSATED ABSENCES**

Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. Sick leave benefits do not vest, and therefore are not accrued. The liability has been computed based on rates of pay in effect at June 30, 2016. The Utility's approximate liability for earned but unused vacation at December 31, 2016 is as follows:

Light & Power	Gasworks	Communications	Total
\$ 61,963	16,152	20,018	98,133

**NOTE 7 – JOINT USE AGREEMENT**

The Utility's Light & Power Fund constructed a fiber optic system to facilitate data transmission. A portion of this system is held by the Communications Fund under a 30-year joint use agreement. The agreement requires annual payments of \$143,523. Annual requirements to maturity as of December 31, 2016 are as follows:

Year Ending December 31,	Annual Payment
2017	\$ 143,523
2018	143,523
2019	143,523
2020	143,523
2021	143,523
2022-2026	717,615
2027-2031	717,615
2032-2035	574,092
	\$ 2,726,937

**NOTE 8 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 was as follows:

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**Light & Power Fund**

	Balance, Beginning of Year	Increases	Decreases	Balance, End of Year
Capital assets not being depreciated:				
Land	\$ 41,029			41,029
Construction in progress	444,968	2,291,971	2,722,099	14,840
Total capital assets not being depreciated	<u>485,997</u>	<u>2,291,971</u>	<u>2,722,099</u>	<u>55,869</u>
Capital assets being depreciated:				
Buildings and improvements	1,222,829	23,839	-	1,246,668
Generating equipment and distribution lines	13,484,861	734,483	-	14,219,344
HFC distribution center	5,892,812	-	-	5,892,812
Equipment and vehicles	1,605,796	238,982	134,668	1,710,110
Broadband room and digital cable system	437,447	-	-	437,447
Wind generation equipment	3,641,323	47,090	-	3,688,413
Solar generation equipment	-	1,659,200	-	1,659,200
Total capital assets being depreciated	<u>26,285,068</u>	<u>2,703,594</u>	<u>134,668</u>	<u>28,853,994</u>
Less accumulated depreciation	<u>15,897,122</u>	<u>999,886</u>	<u>134,668</u>	<u>16,762,340</u>
Total capital assets being depreciated, net	<u>10,387,946</u>			<u>12,091,654</u>
Net capital assets	<u>\$10,873,943</u>			<u>12,147,523</u>

**Gasworks Fund**

	Balance, Beginning of Year	Increases	Decreases	Balance, End of Year
Capital assets not being depreciated:				
Land	\$ 18,956	-	-	18,956
Construction in progress	-	66,840	66,840	-
Total capital assets not being depreciated	<u>18,956</u>	<u>66,840</u>	<u>66,840</u>	<u>18,956</u>
Capital assets being depreciated:				
Buildings and improvements	569,116	23,839	-	592,955
Peak shaving plant	254,476	-	254,476	-
Gas plant, lines, and meters	1,223,027	18,340	-	1,241,367
VBC gas pipeline	1,187,237	-	-	1,187,237
Equipment and vehicles	589,952	37,004	48,983	577,973
Total capital assets being depreciated	<u>3,823,808</u>	<u>79,183</u>	<u>303,459</u>	<u>3,599,532</u>
Less accumulated depreciation	<u>1,809,971</u>	<u>114,733</u>	<u>286,806</u>	<u>1,637,898</u>
Total capital assets being depreciated, net	<u>2,013,836</u>			<u>1,961,634</u>
Net capital assets	<u>\$ 2,032,793</u>			<u>1,980,590</u>

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<b>Communications Fund</b>				
	Balance, Beginning of Year	Increases	Decreases	Balance, End of Year
Capital assets not being depreciated:				
Construction in progress	\$ 153,621	262,905	378,444	38,082
Capital assets being depreciated:				
Buildings, equipment, and vehicles	536,343	363,582	-	899,925
Organizational costs	40,476	-	-	40,476
Total capital assets being depreciated	576,819	363,582	-	940,401
Less accumulated depreciation	255,592	65,768	-	321,360
Total capital assets being depreciated, net	321,227			619,041
Net capital assets	\$ 474,848			657,123

**NOTE 9 – RESTRICTED ASSETS**

The composition of restricted assets as of December 31, 2016 is as follows:

Cash and cash equivalents:	
Bond retirement sinking funds	\$ 157,569
Revolving loan fund	199,983
	357,552
Investments in certificates of deposit:	
Bond reserve fund	918,877
	\$ 1,276,429

**NOTE 10 – REVOLVING LOAN FUND**

The Utility operates a revolving loan program which was initially funded through a grant from the USDA. The total balance of the outstanding loans was \$165,474 at December 31, 2016.

The Utility maintains a separate bank account for disbursing and receiving revolving loan funds. The balance in this account was \$199,983 at December 31, 2016.

**NOTE 11 - ECONOMIC DEVELOPMENT**

The Utility's Board of Trustees has agreed to contribute financially to assist in constructing the Cedar River Recreation & Fine Arts Complex. The facility is expected to attract economic activity to the region. Contributions totaling \$100,000 were given for this project during the year ended December 31, 2016. Annual contributions are anticipated to be \$100,000 per year over the next seven years. The contributions may only come from surpluses generated by the Utility.

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**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

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

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

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

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

The following table shows the components of the Utility’s annual OPEB cost for the year ended December 31, 2016, the amount actually contributed to the plan and changes in the Utility’s net OPEB obligation:

	Light & Power	Gasworks	Communications	Total
Annual required contribution	\$ 7,735	9,983	6,490	24,208
Interest on net OPEB obligation	1,331	1,718	1,117	4,166
Adjustment to annual required contribution	(1,322)	(1,707)	184	(2,845)
Annual OPEB cost	7,744	9,994	7,791	25,529
Contributions made	(1,278)	(2,560)	-	(3,838)
Increase in net OPEB obligation	6,466	7,434	7,791	21,691
Net OPEB obligation, beginning of year	47,605	62,352	37,577	147,534
Net OPEB obligation, end of year	\$ 54,071	69,786	45,368	169,225

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2014. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2016.

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

Year ended December 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$24,234	11%	\$125,843
2015	24,234	11	147,534

**OSAGE MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**NOTES TO THE FINANCIAL STATEMENTS**

2016	25,529	11	169,225
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Funded Status and Funding Progress – As of January 1, 2014, the most recent actuarial valuation date for the period January 1, 2015 through December 31, 2016, the actuarial accrued liability was \$184,322, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$184,322. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,193,404 and the ratio of the UAAL to covered payroll was 15.5%. As of December 31, 2016 there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

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

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

**NOTE 13 – SUBSEQUENT EVENTS**

The Utility's management has evaluated events and transactions for potential recognition or disclosure through August 31, 2017 the date the financial statements were available to be issued.

**NOTE 14 – PROSPECTIVE ACCOUNTING CHANGE**

The Governmental Accounting Standards Board has issued Statement No. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement will be implemented for the

**OSAGE MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**NOTES TO THE FINANCIAL STATEMENTS**

year ending December 31, 2018. The statement establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits.

**REQUIRED SUPPLEMENTARY INFORMATION**

**OSAGE MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

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

**YEAR ENDED DECEMBER 31, 2016**

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Revenues and other financing sources:				
Use of money and property	\$ 30,777	27,000	27,000	3,777
Charges for services	10,206,756	10,536,410	10,536,410	(329,654)
Miscellaneous	231,996	42,000	42,000	189,996
Total revenues and other financing sources	<u>10,469,529</u>	<u>10,605,410</u>	<u>10,605,410</u>	<u>(135,881)</u>
Expenditures and transfers out	<u>9,508,019</u>	<u>10,060,735</u>	<u>10,060,735</u>	<u>552,716</u>
Excess of revenues and other financing sources over expenditures and transfers out	961,510	544,675	544,675	416,835
Net position, beginning of year	<u>17,381,825</u>	<u>19,642,414</u>	<u>19,642,414</u>	<u>(2,260,589)</u>
Net position, end of year	<u><u>\$18,343,335</u></u>	<u><u>20,187,089</u></u>	<u><u>20,187,089</u></u>	<u><u>(1,843,754)</u></u>

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY REPORTING**

**YEAR ENDED DECEMBER 31, 2016**

In accordance with the Code of Iowa, the Utility's Board of Trustees annually adopts a budget on an accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

During the year ended December 31, 2016, there were no budget amendments and disbursements did not exceed the amount budgeted.

**OSAGE MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

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

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**FOR THE LAST TWO YEARS**

	2016	2015
Utility's proportion of the net pension liability	0.017384%	0.019056%
Utility's proportionate share of the net pension liability	\$858,839	\$755,757
Utility's covered-employee payroll	\$1,193,404	\$1,228,085
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.97%	61.54%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 2015 and 2014 for the Years ended December 31, 2016 and 2015 respectively

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**  
**SCHEDULE OF UTILITY CONTRIBUTIONS**  
**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**FOR THE LAST TEN YEARS**

	2016	2015	2014	2013
Statutorily required contribution	\$ 106,570	109,668	106,046	108,665
Contributions in relation to the statutorily required contribution	<u>(106,570)</u>	<u>(109,668)</u>	<u>(106,046)</u>	<u>(108,665)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Utility's covered-employee payroll	\$ 1,193,404	1,228,085	1,187,525	1,234,907
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.80%

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
<u>99,361</u>	<u>87,420</u>	<u>74,475</u>	<u>72,428</u>	<u>66,508</u>	<u>61,869</u>
<u>(99,361)</u>	<u>(87,420)</u>	<u>(74,475)</u>	<u>(72,428)</u>	<u>(66,508)</u>	<u>(61,869)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1,186,392	1,164,048	1,095,221	1,114,177	1,099,313	1,047,972
8.38%	7.51%	6.80%	6.50%	6.05%	5.90%

**OSAGE MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
PENSION LIABILITY**

**YEAR ENDED DECEMBER 31, 2016**

*Changes of benefit terms:*

Legislation enacted in 2010 modified benefit terms for 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% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 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.

*Changes of assumptions:*

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

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

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

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

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

**OSAGE MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**REQUIRED SUPPLEMENTARY INFORMATION –  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
(EXPRESSED IN THOUSANDS)**

**YEAR ENDED DECEMBER 31, 2016**

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
2016	Jan 1, 2014	-	\$ 184	\$ 184	0.0%	\$ 1,215	15.1%
2015	Jan 1, 2014	-	184	184	0.0	1,260	14.6
2014	Jan 1, 2014	-	184	184	0.0	1,099	16.8
2013	Jan 1, 2011	-	204	204	0.0	1,234	16.5
2012	Jan 1, 2011	-	204	204	0.0	1,198	17.0
2011	Jan 1, 2011	-	204	204	0.0	1,084	18.8

See Note 13 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

See accompanying independent auditor's report.

## **SUPPLEMENTARY INFORMATION**

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**SCHEDULES OF NET POSITION**

**DECEMBER 31, 2016 AND 2015**

	Light & Power		Gasworks
	2016	2015	2016
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 3,530,419	4,199,149	1,432,917
Accounts receivable, less allowance for doubtful accounts	622,277	622,476	172,200
Current portion of revolving loan receivable	-	-	38,342
Unbilled usage	356,911	358,984	252,289
Inventories	451,284	434,924	-
Prepaid expenses	17,958	16,454	151,061
<b>Total current assets</b>	<u>4,978,849</u>	<u>5,631,987</u>	<u>2,046,809</u>
Noncurrent assets:			
Restricted investments in certificates of deposit	991,476	986,991	284,953
Revolving loan receivable, net of current portion	-	-	127,132
Capital assets, net of accumulated depreciation	12,147,523	10,873,943	1,980,590
<b>Total noncurrent assets</b>	<u>13,138,999</u>	<u>11,860,934</u>	<u>2,392,675</u>
<b>Total assets</b>	<u>18,117,848</u>	<u>17,492,921</u>	<u>4,439,484</u>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	<u>167,230</u>	<u>102,157</u>	<u>45,308</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	1,602,048	802,235	268,703
Payable to City of Osage	136,265	127,820	-
Unearned revenue	-	-	-
Customer deposits	29,494	23,963	37,786
Customer budget billings	(6,985)	18,994	88,404
Current portion of revenue notes	726,466	720,466	145,000
Other current liabilities	98,300	85,543	31,197
<b>Total current liabilities</b>	<u>\$ 2,585,588</u>	<u>1,779,021</u>	<u>571,090</u>

See accompanying independent auditor's report.

Gasworks	Communications		Total	
2015	2016	2015	2016	2015
1,029,037	1,474,921	1,644,439	6,438,257	6,872,625
259,682	165,695	153,512	960,172	1,035,670
37,512	-	-	38,342	37,512
221,682	-	-	609,200	580,666
39,231	72,121	48,005	523,405	522,160
129,957	11,115	11,924	180,134	158,335
<u>1,717,101</u>	<u>1,723,852</u>	<u>1,857,880</u>	<u>8,749,510</u>	<u>9,206,968</u>
84,574	-	-	1,276,429	1,071,565
326,317	-	-	127,132	326,317
2,032,793	657,123	474,848	14,785,236	13,381,584
<u>2,443,684</u>	<u>657,123</u>	<u>474,848</u>	<u>16,188,797</u>	<u>14,779,466</u>
<u>4,160,785</u>	<u>2,380,975</u>	<u>2,332,728</u>	<u>24,938,307</u>	<u>23,986,434</u>
<u>36,307</u>	<u>95,878</u>	<u>56,325</u>	<u>308,416</u>	<u>194,789</u>
213,046	108,500	77,119	1,979,251	1,092,400
-	-	-	136,265	127,820
-	148,467	140,414	148,467	140,414
39,308	29,648	26,086	96,928	89,357
134,280	-	-	81,419	153,274
140,000	-	-	871,466	860,466
30,321	38,474	43,492	167,971	159,356
<u>556,955</u>	<u>325,089</u>	<u>287,111</u>	<u>3,481,767</u>	<u>2,623,087</u>

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**SCHEDULES OF NET POSITION**  
**(CONTINUED)**

**DECEMBER 31, 2016 AND 2015**

	Light & Power		Gasworks
	2016	2015	2016
Noncurrent liabilities:			
Accrued wind costs	\$ 66,500	57,000	-
Solar credit liability	70,750	-	-
Revenue notes, net of current portion	1,911,330	2,637,796	145,000
Net OPEB obligation	54,071	47,605	69,786
Net pension liability	422,428	345,928	169,061
Total noncurrent liabilities	<u>2,525,079</u>	<u>3,088,329</u>	<u>383,847</u>
<b>Total liabilities</b>	<u>5,110,667</u>	<u>4,867,350</u>	<u>954,937</u>
<b>Deferred Inflows of Resources</b>			
Pension related deferred inflows	<u>98,361</u>	<u>131,927</u>	<u>39,365</u>
<b>Net Position</b>			
Net investment in capital assets	9,509,727	7,515,681	1,690,590
Restricted	991,476	986,991	284,953
Unrestricted	<u>2,574,847</u>	<u>4,093,129</u>	<u>1,514,947</u>
<b>Total net position</b>	<u><u>\$13,076,050</u></u>	<u><u>12,595,801</u></u>	<u><u>3,490,490</u></u>

See accompanying independent auditor's report.

Gasworks		Communications		Total	
2015	2016	2015	2016	2015	2016
-	-	-	66,500	57,000	
-	-	-	70,750	-	
290,000	-	-	2,056,330	2,927,796	
62,352	45,368	37,577	169,225	147,534	
191,696	267,350	218,133	858,839	755,757	
<u>544,048</u>	<u>312,718</u>	<u>255,710</u>	<u>3,221,644</u>	<u>3,888,087</u>	
<u>1,101,003</u>	<u>637,807</u>	<u>542,821</u>	<u>6,703,411</u>	<u>6,511,174</u>	
<u>73,107</u>	<u>62,251</u>	<u>83,190</u>	<u>199,977</u>	<u>288,224</u>	
1,602,793	657,123	474,848	11,857,440	9,593,322	
84,574	-	-	1,276,429	1,071,565	
<u>1,335,615</u>	<u>1,119,672</u>	<u>1,288,194</u>	<u>5,209,466</u>	<u>6,716,938</u>	
<u>3,022,982</u>	<u>1,776,795</u>	<u>1,763,042</u>	<u>18,343,335</u>	<u>17,381,825</u>	

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

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

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Light & Power		Gasworks
	2016	2015	2016
Operating revenue	\$ 5,925,381	5,819,283	2,370,520
Operating expenses:			
Purchased power and generation station	3,177,278	3,096,645	-
Alternative energy generation operations	31,545	31,651	-
Cost of distribution	533,379	422,322	1,603,986
Administrative and general	716,634	741,560	329,857
Depreciation	999,885	960,243	115,158
Total operating expenses	<u>5,458,721</u>	<u>5,252,421</u>	<u>2,049,001</u>
Operating income (loss)	<u>466,660</u>	<u>566,862</u>	<u>321,519</u>
Nonoperating revenues (expenses):			
Interest and dividend income	17,203	20,344	8,503
Interest expense	(87,582)	(102,908)	(10,542)
Loss on disposal of assets	58,360	(2,686)	108,886
Miscellaneous	25,608	40,339	39,142
Net nonoperating expenses	<u>13,589</u>	<u>(44,911)</u>	<u>145,989</u>
Change in net position	480,249	521,951	467,508
Net position, beginning of year	<u>12,595,801</u>	<u>12,073,850</u>	<u>3,022,982</u>
Net position, end of year	<u><u>\$ 13,076,050</u></u>	<u><u>12,595,801</u></u>	<u><u>3,490,490</u></u>

See accompanying independent auditor's report.

Gasworks		Communications		Total	
2015	2016	2015	2016	2015	
2,658,942	1,910,855	1,806,624	10,206,756	10,284,849	
-	-	-	3,177,278	3,096,645	
-	-	-	31,545	31,651	
1,858,227	1,369,834	1,357,596	3,507,199	3,638,145	
383,649	466,540	454,947	1,513,031	1,580,156	
111,068	65,768	47,696	1,180,811	1,119,007	
2,352,944	1,902,142	1,860,239	9,409,864	9,465,604	
305,998	8,713	(53,615)	796,892	819,245	
6,048	5,071	5,568	30,777	31,960	
(12,632)	(31)	(67)	(98,155)	(115,607)	
4,182	-	1,196	167,246	2,692	
47,617	-	-	64,750	87,956	
45,215	5,040	6,697	164,618	7,001	
351,213	13,753	(46,918)	961,510	826,246	
2,671,769	1,763,042	1,809,960	17,381,825	16,555,579	
3,022,982	1,776,795	1,763,042	18,343,335	17,381,825	

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**SCHEDULES OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Electric	
	2016	2015
Cash flows from operating activities:		
Cash received from customers	\$ 5,907,205	5,760,804
Cash paid to suppliers	(3,015,873)	(3,309,315)
Cash paid to employees	(575,235)	(577,776)
Net cash provided by (used in) operating activities	2,316,097	1,873,713
Cash flows from noncapital financing activities:		
Cash received (paid) from other revenues	25,608	(114,221)
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	58,360	-
Acquisition and construction of capital assets	(2,273,465)	(646,253)
Principal paid on revenue notes	(720,466)	(704,466)
Cash paid for interest	(87,582)	(104,172)
Net cash provided by (used in) capital and related financing activities	(3,023,153)	(1,454,891)
Cash flows from investing activities:		
Purchases of investments	(4,485)	(70,190)
Collections on revolving loans	-	-
Issuances of revolving loans	-	-
Cash received for interest	17,203	20,344
Net cash provided by (used in) investing activities	12,718	(49,846)
Net change in cash and cash equivalents	(668,730)	254,755
Cash and cash equivalents, beginning of year	4,199,149	3,944,394
Cash and cash equivalents, end of year	\$ 3,530,419	4,199,149

See accompanying independent auditor's report.

Gasworks		Communications		Total	
2016	2015	2016	2015	2016	2015
2,379,997	2,886,922	1,902,234	1,828,202	10,189,436	10,475,928
(1,575,719)	(1,882,399)	(1,432,139)	(1,443,067)	(6,023,731)	(6,634,781)
(341,408)	(279,983)	(396,610)	(388,158)	(1,313,253)	(1,245,917)
<u>462,870</u>	<u>724,540</u>	<u>73,485</u>	<u>(3,023)</u>	<u>2,852,452</u>	<u>2,595,230</u>
<u>39,142</u>	<u>(37,663)</u>	<u>-</u>	<u>(3,130)</u>	<u>64,750</u>	<u>(155,014)</u>
125,112	4,182	-	-	183,472	4,182
(79,181)	(235,983)	(248,043)	(193,823)	(2,600,689)	(1,076,059)
(140,000)	(135,000)	-	-	(860,466)	(839,466)
<u>(10,542)</u>	<u>(12,801)</u>	<u>(31)</u>	<u>(67)</u>	<u>(98,155)</u>	<u>(117,040)</u>
<u>(104,611)</u>	<u>(379,602)</u>	<u>(248,074)</u>	<u>(193,890)</u>	<u>(3,375,838)</u>	<u>(2,028,383)</u>
(200,379)	(171,673)	-	-	(204,864)	(241,863)
209,555	37,474	-	-	209,555	37,474
(11,200)	-	-	-	(11,200)	-
8,503	6,048	5,071	5,568	30,777	31,960
<u>6,479</u>	<u>(128,151)</u>	<u>5,071</u>	<u>5,568</u>	<u>24,268</u>	<u>(172,429)</u>
403,880	179,124	(169,518)	(194,475)	(434,368)	239,404
<u>1,029,037</u>	<u>849,913</u>	<u>1,644,439</u>	<u>1,838,914</u>	<u>6,872,625</u>	<u>6,633,221</u>
<u>1,432,917</u>	<u>1,029,037</u>	<u>1,474,921</u>	<u>1,644,439</u>	<u>6,438,257</u>	<u>6,872,625</u>

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**SCHEDULES OF CASH FLOWS**  
**(CONTINUED)**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Electric	
	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 466,660	721,422
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	999,885	960,243
Change in accounts receivable	199	(53,989)
Change in unbilled usage	2,073	(4,490)
Change in inventories	(16,360)	3,508
Change in prepaid expenses	(1,504)	10,498
Change in deferred outflows of resources	(65,073)	(24,506)
Change in accounts payable	808,258	260,754
Change in accrued expenses	72,559	-
Change in net OPEB obligation	6,466	-
Change in net pension liability	76,500	(131,654)
Change in deferred inflows of resources	(33,566)	131,927
Net cash provided by (used in) operating activities	\$ 2,316,097	1,873,713

See accompanying independent auditor's report.

Gasworks		Communications		Total	
2016	2015	2016	2015	2016	2015
321,519	391,278	8,713	(50,485)	796,892	1,062,215
115,158	111,068	65,768	47,696	1,180,811	1,119,007
87,482	48,378	(12,183)	9,014	75,498	3,403
(30,607)	187,226	-	3,299	(28,534)	186,035
39,231	(4,173)	(24,116)	(16,352)	(1,245)	(17,017)
(21,104)	69,502	809	(8,429)	(21,799)	71,571
(9,001)	1,136	(39,553)	(7,964)	(113,627)	(31,334)
55,657	(64,121)	31,381	31,512	895,296	228,145
(46,522)	-	6,597	-	32,634	-
7,434	-	7,791	-	21,691	-
(22,635)	(88,861)	49,217	(94,504)	103,082	(315,019)
(33,742)	73,107	(20,939)	83,190	(88,247)	288,224
<u>462,870</u>	<u>724,540</u>	<u>73,485</u>	<u>(3,023)</u>	<u>2,852,452</u>	<u>2,595,230</u>

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**SCHEDULES OF OPERATING REVENUE**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Light & Power		Gasworks	
	2016	2015	2016	2015
Operating revenue:				
Charges for service:				
Residential	\$1,660,748	1,486,726	835,882	930,832
Commercial and industrial	3,781,840	3,853,087	616,605	719,951
Rural	135,628	123,361	-	-
Public buildings	42,453	52,845	-	-
Interruptibles	-	-	412,600	490,259
Pipeline revenue	-	-	471,915	473,942
Bookkeeping fees from City of Osage	9,000	9,000	9,000	9,000
Miscellaneous	295,712	294,264	24,518	34,958
Total operating revenue	<u>\$5,925,381</u>	<u>5,819,283</u>	<u>2,370,520</u>	<u>2,658,942</u>

See accompanying independent auditor's report.

Communications		Total	
2016	2015	2016	2015
1,877,163	1,768,419	4,373,793	4,185,977
-	-	4,398,445	4,573,038
-	-	135,628	123,361
-	-	42,453	52,845
-	-	412,600	490,259
-	-	471,915	473,942
-	-	18,000	18,000
33,692	38,205	353,922	367,427
<u>1,910,855</u>	<u>1,806,624</u>	<u>10,206,756</u>	<u>10,284,849</u>

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**SCHEDULES OF OPERATING EXPENSES**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Light & Power		Gasworks
	2016	2015	2016
Purchased power and generation station:			
Purchased power	\$ 2,938,679	2,880,652	-
Supervision and labor	141,616	134,024	-
Payroll taxes	21,801	22,521	-
Supplies	6,860	5,745	-
Fuel	19,260	9,821	-
Insurance	37,106	32,791	-
Repairs and maintenance	3,104	4,286	-
Miscellaneous	8,852	6,805	-
Total purchased power and generation station	<u>3,177,278</u>	<u>3,096,645</u>	<u>-</u>
Alternative energy generation operations:			
Supervision and labor	4,291	6,356	-
Supplies	7,956	8,261	-
Insurance	1,073	1,589	-
Repairs and maintenance	13,099	10,324	-
Property lease	5,126	5,121	-
Total alternative energy generation operations	<u>31,545</u>	<u>31,651</u>	<u>-</u>
Cost of distribution:			
Natural gas	-	-	1,300,534
Internet, telephone, and cable TV	-	-	-
Supervision and labor	254,543	220,410	193,533
Payroll taxes	44,091	20,884	(7,781)
Supplies	126,184	65,637	21,213
Insurance	55,152	41,499	46,968
Repairs and maintenance	11,223	29,519	23,908
Motor vehicle expenses	15,259	25,861	7,044
Utilities	109	109	211
Miscellaneous	26,818	18,403	18,356
Total cost of distribution	<u>\$ 533,379</u>	<u>422,322</u>	<u>1,603,986</u>

See accompanying independent auditor's report.

Gasworks	Communications		Total	
	2016	2015	2016	2015
-	-	-	2,938,679	2,880,652
-	-	-	141,616	134,024
-	-	-	21,801	22,521
-	-	-	6,860	5,745
-	-	-	19,260	9,821
-	-	-	37,106	32,791
-	-	-	3,104	4,286
-	-	-	8,852	6,805
-	-	-	3,177,278	3,096,645
-	-	-	4,291	6,356
-	-	-	7,956	8,261
-	-	-	1,073	1,589
-	-	-	13,099	10,324
-	-	-	5,126	5,121
-	-	-	31,545	31,651
1,509,207	-	-	1,300,534	1,509,207
-	831,976	875,319	831,976	875,319
200,273	250,863	293,064	698,939	713,747
16,953	35,424	28,441	71,734	66,278
19,660	20,648	22,573	168,045	107,870
42,869	72,489	63,999	174,609	148,367
42,909	112,163	26,366	147,294	98,794
9,119	5,855	7,623	28,158	42,603
185	29,414	29,560	29,734	29,854
17,052	11,002	10,651	56,176	46,106
1,858,227	1,369,834	1,357,596	3,507,199	3,638,145

**OSAGE MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**SCHEDULES OF OPERATING EXPENSES**  
**(CONTINUED)**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Light & Power		Gasworks
	2016	2015	2016
Administrative and general:			
Office salaries	143,921	165,224	104,046
Payroll taxes	20,722	27,264	(3,894)
Sales and use tax	6,428	3,317	2,435
Property taxes	2,813	2,498	-
Office supplies and postage	36,316	24,489	33,417
Legal and professional fees	9,409	13,331	8,627
Insurance	106,325	131,161	78,458
Trustee fees	2,647	2,393	2,647
Dues and subscriptions	9,121	11,916	6,831
Cash payments to City of Osage	276,179	271,102	68,339
Climate change assessments	5,789	5,510	2,687
Janitorial service	1,277	1,188	1,256
Energy efficiency costs	75,499	60,582	17,234
Bad debt write-offs	6,752	5,487	286
Joint use expenses	-	-	-
Miscellaneous	13,436	16,098	7,488
Total administrative and general	<u>716,634</u>	<u>741,560</u>	<u>329,857</u>
Depreciation	<u>999,885</u>	<u>960,243</u>	<u>115,158</u>
Total operating expenses	<u><u>\$ 5,458,721</u></u>	<u><u>5,252,421</u></u>	<u><u>2,049,001</u></u>

See accompanying independent auditor's report.

Gasworks	Communications		Total	
	2016	2015	2016	2015
87,144	91,098	102,885	339,065	355,253
14,016	15,741	15,180	32,569	56,460
3,168	9,893	2,636	18,756	9,121
-	3,374	(4,185)	6,187	(1,687)
23,846	22,070	12,333	91,803	60,668
15,177	16,617	16,922	34,653	45,430
67,173	75,775	70,191	260,558	268,525
2,393	2,647	2,393	7,941	7,179
6,800	4,403	4,119	20,355	22,835
85,280	3,116	3,130	347,634	359,512
3,564	-	-	8,476	9,074
1,184	1,256	676	3,789	3,048
63,723	-	-	92,733	124,305
1,649	1,228	660	8,266	7,796
-	143,523	143,523	143,523	143,523
8,532	75,799	84,484	96,723	109,114
<u>383,649</u>	<u>466,540</u>	<u>454,947</u>	<u>1,513,031</u>	<u>1,580,156</u>
<u>111,068</u>	<u>65,768</u>	<u>47,696</u>	<u>1,180,811</u>	<u>1,119,007</u>
<u><u>2,352,944</u></u>	<u><u>1,902,142</u></u>	<u><u>1,860,239</u></u>	<u><u>9,409,864</u></u>	<u><u>9,465,604</u></u>



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

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

To the Board of Trustees:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the business-type activities and each major fund of Osage Municipal Utilities (the Utility), a component unit of the City of Osage, Iowa, as of and for the year ended December 31, 2016, and the related notes to financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated August 31, 2017.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 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*. However, we noted certain immaterial instances of non-compliance which are described in the accompanying Schedule of

## Findings.

Comments involving statutory matters about the City'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 Osage Municipal Utilities. 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 matters are not intended to constitute legal interpretations of those statutes.

### **Osage Municipal Utilities' Response to the Finding**

The Utilities' response to the finding identified in our audit is described in the accompanying Schedule of Findings. The response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utility'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 Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

August 31, 2017

**OSAGE MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**SCHEDULE OF FINDINGS**

**YEAR ENDED DECEMBER 31, 2016**

**Part I: Summary of the Independent Auditor's Results**

- (a) Unmodified opinions were issued on the financial statements.
- (b) No material weaknesses or significant deficiencies were noted.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

**Part II: Findings Related to the General Purpose Financial Statements**

**INTERNAL CONTROL DEFICIENCIES:**

No matters were noted.

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

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

- III-A-16 Certified Budget – Disbursements during the year ended December 31, 2016 did not exceed the amount budgeted.
- III-B-16 Questionable Expenditures – We noted no expenditures that we believe did not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- III-C-16 Travel Expense – No disbursements of the Utility’s money for travel expenses of spouses of its officials or employees were noted.
- III-D-16 Business Transactions – No business transactions between the Utility and its officials or employees were noted.
- III-E-16 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 that the coverage is adequate for current operations.
- III-F-16 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.
- III-G-16 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.

**OSAGE MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF OSAGE, IOWA)**

**SCHEDULE OF FINDINGS**

**YEAR ENDED DECEMBER 31, 2016**

- III-G-16    Revenue Notes – No instances of noncompliance with revenue note provisions were noted.
- III-H-16    Telecommunications Service – No instances of noncompliance with the telecommunications service provisions of Chapters 388.10 of the Code of Iowa were noted.
- III-I-16    Utility Rates – Testing revealed that the rates charged for electric, gas and communication services provided by Osage Municipal Utilities were not set by resolution.

Criteria – Chapter 384.84 of the Code of Iowa states in part “rates must be established by ordinance of the council or by resolution of the trustees, published in the same manner as an ordinance”.

Cause – The general manager was not aware of this requirement.

Effect – The rates charged by the Utility were not approved in the proper manner.

Recommendation – We recommend you confer with your legal council regarding correcting this issue.

Response – We discussed with our attorney and it was recommended to take action via a resolution to approve the rates that are in effect and that have been in effect in the past. At our February 23, 2017 meeting Resolution 436 was passed approving the rate structure in effect at Osage Municipal Utilities and approved with a roll call vote.

Conclusion – Response accepted.