

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
Urbandale, Iowa

Financial Statements and
Supplementary Information

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
Urbandale, Iowa

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Independent Auditor's Report

To the Board of Trustees
Urbandale Water Utility
Urbandale, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the Urbandale Water Utility (Utility), a component unit of the City of Urbandale, Iowa, as of and for the year ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Urbandale Water Utility as of June 30, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the Urbandale Water Utility's financial statements. The schedule of cash receipts and cash disbursements – budget to actual is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedule of cash receipts and cash disbursements – budget to actual 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 auditing standards generally accepted in the United States of America. In our opinion, the schedule of cash receipts and cash disbursements – budget to actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2016, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 19, 2016

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
Urbandale, Iowa

Management's Discussion and Analysis

June 30, 2016 and 2015

This section of the Urbandale Water Utility's Annual Financial Report presents management's discussion and analysis of the Water Utility's fiscal performance during the fiscal years that ended on June 30, 2016 and 2015. It should be read in conjunction with the Water Utility's financial statements, which immediately follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the Water Utility exceeded the liabilities and deferred inflows of resources at the close of the 2015-16 fiscal year by \$22,249,232 (net position). Of this amount, \$1,442,060 (unrestricted net position) may be used to meet the Water Utility's ongoing obligations and scheduled capital improvements.
- The Water Utility's total net position increased by \$2,425,289 for the year ended June 30, 2016. This is attributable to an increase from operations of \$599,718 and capital contributions of \$1,825,571.
- As of the close of the current fiscal year, the Water Utility's unrestricted cash and cash equivalents balance was \$2,679,090, a decrease of \$739,430. The decrease in cash and cash equivalents is primarily attributed to an increase in operating expenses and lower than projected operating revenues incurred during the year ended June 30, 2016.
- The Water Utility's total operating revenues increased by 8.605% to \$8,129,413, and the operating expenses increased by 3.696% to \$5,874,733. The total operating revenues exceeded total operating expenses by \$2,254,680.

Overview of the Financial Statements

The Water Utility Financial Report consists of three parts:

1. Management's Discussion and Analysis (this section),
2. Financial Statements, and
3. Notes to the Financial Statements.

This report also contains other supplementary information in addition to the basic financial statements.

The Water Utility's financial statements are designed to provide readers with a broad overview of the Water Utility's finances, in a manner similar to private business.

The Water Utility financial statements report on the functions of the Water Utility. The Water Utility is an enterprise fund supported by water revenues. The Urbandale Water Utility Board consists of a three member Board of Trustees. The trustees are nominated by the Mayor and elected by the City Council. Under Chapter 388 of the Code of Iowa and Urbandale City Ordinance the Water Utility Board is independent and has all the rights of a City Council with the exception that it cannot levy taxes or issue general obligation bonds. The Water Utility's operating budget is approved by the Water Board and accepted by the City Council.

The title to all property must be held in the name of the City, but the Water Utility Board has all the powers with respect to acquisition by purchase, condemnation or otherwise lease, sale or other disposition of the property, and the management, control and operation, subject to the requirements, terms, covenants, conditions and provisions

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June 30, 2016 and 2015

of any resolutions authorizing the issuance of revenue bonds, pledge orders or obligations which are payable from the revenues of the water utility.

The statement of net position presents information of the Water Utility's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position. Over a period of time the increases or decreases in net position can be an indicator of the financial stability of the Water Utility. Total net position increased by 12.240% and decreased 1.771% for the fiscal years ending June 30, 2016 and 2015, respectively.

The largest portion of the Water Utility's net position (93.521%) is investment in capital assets (e.g. building, distribution system and equipment). See discussion of capital asset activity on page 8. The Water Utility uses these capital assets to provide services to the residents of the City; therefore, the assets are not available for future spending. The capital assets are reported net of related debt. The Water Utility provides revenue through the sale of water and the delivery of goods and services to liquidate any liabilities incurred through operations or capitalized projects.

Water Utility Condensed Statements of Net Position

	June 30, 2016	June 30, 2015	June 30, 2014 Not Restated
Current assets	\$ 4,286,788	4,436,792	3,934,940
Restricted assets	296,948	292,848	702,115
Capital assets, net	24,679,152	22,372,136	22,452,118
Deferred outflows of resources	145,044	142,459	—
Total net assets and deferred outflows of resources	<u>29,407,932</u>	<u>27,244,235</u>	<u>27,089,173</u>
Long-term liabilities	5,691,630	5,885,465	5,809,043
Other liabilities	1,333,595	1,203,963	1,098,674
Deferred inflows of resources	133,475	330,864	—
Total liabilities and deferred inflows of resources	<u>7,158,700</u>	<u>7,420,292</u>	<u>6,907,717</u>
Net position:			
Net investment in capital assets	20,807,172	18,209,136	17,687,118
Unrestricted	1,442,060	1,614,807	2,494,338
Total net position	<u>22,249,232</u>	<u>19,823,943</u>	<u>20,181,456</u>
Total liabilities, deferred inflows and net position	<u>\$ 29,407,932</u>	<u>27,244,235</u>	<u>27,089,173</u>

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The unrestricted net position \$1,442,060 and \$1,614,807 at fiscal years ending on June 30, 2016 and 2015, respectively, will be used to meet the Water Utility's ongoing obligations and scheduled capital improvements.

At the end of the current and prior fiscal years, the Water Utility's financial statements report positive balances of net position.

Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$952,864 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal year 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Water Utility Activities

The statements of revenues, expenses, and changes in net position show how the Water Utility's net position has changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal years.

The Water Utility has two categories for operating revenues; metered water sales and other. Metered water sales are revenues derived from the sale of water that has passed through metering devices. Other operating revenues include fees charged for various goods and services. Operating expenses have six categories; water purchases, distribution operations, distribution maintenance, accounting and collection, general and administrative, and depreciation. The separation of activities allows detailed information regarding the fiscal effectiveness of the activity and easier tracking capabilities. The Water Utility's activities increased its net position by \$2,425,289 and \$595,351 for the fiscal years ending June 30, 2016 and 2015, respectively. The increase in net position for the year ending June 30, 2016 is attributable to an increase from operating revenues of \$644,128 and capital contributions in the amount of 1,825,571. The following table depicts the changes in net position for the year.

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Water Utility Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u> <u>Not Restated</u>
Operating revenues:			
Metered sales	\$ 7,603,614	6,910,924	7,825,465
Other	<u>525,799</u>	<u>574,361</u>	<u>582,642</u>
Total operating revenues	<u>8,129,413</u>	<u>7,485,285</u>	<u>8,408,107</u>
Operating expenses:			
Water purchases	2,324,021	2,067,074	2,403,358
Distribution operations	1,103,424	1,226,719	1,233,620
Distribution maintenance	592,318	533,581	773,044
Accounting and collection	548,539	541,796	517,558
General and administrative	591,621	636,824	518,892
Depreciation	<u>714,810</u>	<u>659,332</u>	<u>662,033</u>
Total operating expenses	<u>5,874,733</u>	<u>5,665,326</u>	<u>6,108,505</u>
Operating income	<u>2,254,680</u>	<u>1,819,959</u>	<u>2,299,602</u>
Non-operating revenues (expenses):			
Interest income	5,921	14,466	14,824
Interest expense	(157,772)	(211,837)	(297,072)
Contributions	(1,632,590)	(1,575,511)	(1,590,415)
Lease revenue	103,484	87,418	81,318
Miscellaneous income	<u>25,995</u>	<u>34,483</u>	<u>33,648</u>
Total non-operating expenses, net	<u>(1,654,962)</u>	<u>(1,650,981)</u>	<u>(1,757,697)</u>
Income before capital contributions	599,718	168,978	541,905
Capital contributions	<u>1,825,571</u>	<u>426,373</u>	<u>236,451</u>
Change in net position	2,425,289	595,351	778,356
Net position at beginning of year	<u>19,823,943</u>	<u>19,228,592</u>	<u>19,403,100</u>
Net position at end of year	<u>\$ 22,249,232</u>	<u>19,823,943</u>	<u>20,181,456</u>

The Water Utility's operating revenues increased by 8.605% and decreased 10.975% for fiscal years ending June 30, 2016 and 2015, respectively. Operating expenses increased by 3.696% and decreased by 7.255%, respectively. The ending unrestricted position totaled \$1,442,060 and \$1,614,807, respectively. Total operating revenues exceeded operating expenses by \$2,254,680 and \$1,819,959, respectively.

Key elements of the changes in net position for the years ending June 30, 2016 and 2015, respectively:

- Contributions from developers for infrastructure improvements of \$1,825,571 and \$426,373 for 2016 and 2015, respectively.

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Management's Discussion and Analysis

June 30, 2016 and 2015

Capital Assets and Debt Administration

Capital assets

At the end of 2016 and 2015, the Water Utility had invested \$24,679,152 and \$22,372,136, respectively, in capital assets that include structures, distribution system and equipment (see table A). This amount represents a net increase (including additions and deductions) of \$2,307,016 (10.312%) from 2015 to 2016 and net decrease (including additions and deductions) of \$79,980 (0.3562%) from 2014 to 2015, respectively.

Table A

Capital assets	2016	2015	2014
Building	\$ 1,181,173	1,181,173	1,181,173
Distribution system	32,632,736	29,478,201	28,771,913
Land	2,198,900	2,198,900	2,198,900
Equipment	893,970	820,101	809,386
Construction in progress	—	285,690	450,778
	36,906,779	33,964,065	33,412,150
Less depreciation	12,227,627	11,591,929	10,960,032
Net capital assets	\$ 24,679,152	22,372,136	22,452,118

Long-term debt

The Water Utility had a long-term capital loan debt balance of \$4,952,000 on June 30, 2016. The debt balance on June 30, 2015 was \$5,298,000. The reduction of capital loan debt was \$346,000 in principal payments.

Maintaining the Condition of the Water Utility's Infrastructure

The Urbandale Water Utility has on-going water main replacement and distribution system maintenance programs. Each year the distribution system goes through an evaluation process to determine areas that need attention by both management and field personnel. The attention areas are prioritized and placed in the Capital Improvements Program and balanced with the available funds. The improvements have resulted in updating the system by replacing older and undersized water mains, increased fire flows and a reduction in water main breaks in troubled areas.

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Distribution maintenance is performed on both a scheduled and an as needed basis. The system appurtenances such as valves and hydrants are checked after each use. They are scheduled for maintenance every three years. The valves are operated through a full cycle. Fire hydrants are operated, flowed and static pressures are recorded. Results are compared with previous tests to determine system changes.

Fiscal Year 2016 Activity

The Utility continued its meter replacement program and installed 1,594 meters bringing the total number replaced to 16,530 as of June 30, 2016. The new meters are equipped with automatic meter reading (AMR) technology allowing automated integration of meter readings to be down loaded to the customer service billing system resulting in more efficient use of utility resources.

During the 2015-16 fiscal year the Water Utility repainted and made other improvements to the 114th street water tower. The improvements included fencing, lighting, security camera's, security card access, and other safety updates. The total cost to repaint and make the improvements was \$880,608.

The Water Utility completes a five year Capital Improvements Program (CIP) on an annual basis. The current 5-year CIP has an estimated cost of \$2,635,500 which includes a combination of water main replacement projects, main extensions, and various improvements to the distribution system. See Table B.

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Table B
Urbandale Water Utility Capital Improvements 2016-2021

Year		Feet	Description	Cost
2016	A. F16	700	8" 71st - Prairie to Airline	75,000
	B. F16	1300	16" 100th - North Park to 54th (Cost Share)	98,000
	C. F16	1300	12" Douglas from 100th St. to 104th St.	169,000
	D. F16	1300	8" Oliver Smith - 72nd to 70th	143,000
				<u>485,000</u>
2017	A. S17	2640	8" 70th - Douglas to Aurora	290,400
	B. F17	1250	8" 70th - Urbandale to New York	137,500
	C. F17	3520	16" Meredith - 132nd to 142nd (Cost Share)	105,600
				<u>533,500</u>
2018	A. S18	1000	8" Dellwood - Roseland to 78th	110,000
	B. F18	2000	8" Maryland - 72nd to 68th	220,000
	C. F18	1300	8" Monroe Court - 72nd to 70th	143,000
				<u>473,000</u>
2019	A. S19	1200	8" Oakbrook - Deer Creek Trail West 1,200 Feet	132,000
	B. F19	2000	8" 83rd - Madison to Aurora	220,000
	C. F19	350	8" Wilden - 75th to 74th	38,500
				<u>390,500</u>
2020	A. F20	2100	8" Roseland - 64th to 70th	231,000
	B. F20	1700	8" 76th - Aurora to Airline	187,000
				<u>418,000</u>
2021	A. F21	1800	8" Oakbrook - Cardinal Lane to Deer Creek Trail	198,000
	B. F21	1250	Roseland 70th to 72nd	137,500
				<u>335,500</u>
Total Five Year Capital Improvements				<u>\$ 2,635,500</u>

*Projects may be adjusted forward or back depending on the timing of developments in the various areas and funds available as cash flows are adjusted to reflect actual revenues and expenses.
(S) and (F) stands for spring and fall construction.

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Management's Discussion and Analysis

June 30, 2016 and 2015

Economic Factors and Next Year's Budget and Rates

Based on historical trends and current fiscal year activity of building permits issued by the City of Urbandale, the Water Utility anticipates the following:

- Revenues will increase due to rate increases that were implemented in April, 2016. The Urbandale Water Board of Trustees increased the irrigation rate by 6.4% and the domestic rate by 8%. The irrigation rate reflects a rate based on the irrigation demand and the cost to serve the irrigation customers. The service availability charge was changed from a flat rate of \$4.50 to a rate based on the meter size or capacity. The change will increase revenues by approximately \$226,000 annually. Some of the projected revenue may decrease due to the higher than normal precipitation during the summer and fall months. Water sales for domestic and irrigation uses are affected by prolonged weather conditions.
- Development is projected to see continued growth in the western part of the City which will increase the contributed assets of the Water Utility and the revenue from new customers.
- Residential construction will be up from the 2015-16 fiscal year. This will result in additional revenues for the Water Utility.
- The 2016-17 fiscal year budget will show increases in revenues and disbursements due to anticipated increase in water and sewer sales and services to Urbandale customers.
- The rate the Urbandale Water Utility will be charged for water purchased from the Des Moines Water Works is projected to increase in January of 2017. This rate increase will likely be passed on to the Urbandale customer base.

Annual increases in our wholesale rates from Des Moines Waterworks have caused the Urbandale Water Board of Trustees to research the possibility of building its own water treatment plant. The Water Utility hired McClure Engineering to perform a 30% design of a potential water treatment plant to determine the exact cost of the project. The engineering cost to complete the design through this stage will be approximately \$1,200,000.

The Water Utility tracks water sales on a calendar year basis. Table C shows a trend line for the past 7 years allowing a visual look at the increase or decrease in water sales. Water sales are estimated using past history of water sales, weather conditions and population increases. During the years of 2009 to 2010 rainfall was abnormally high resulting in a decrease in irrigation consumption. The years of 2011-13 the Utility experienced normal weather patterns and a return to normal usage. Abnormal wet weather conditions have returned during 2014-15 making them the lowest consumption in recent years. The reduced consumption comes during a period when the Utility has experienced good economic development resulting in the addition of hundreds of customers which demonstrates the effects that the weather has on water sales.

URBANDALE WATER UTILITY

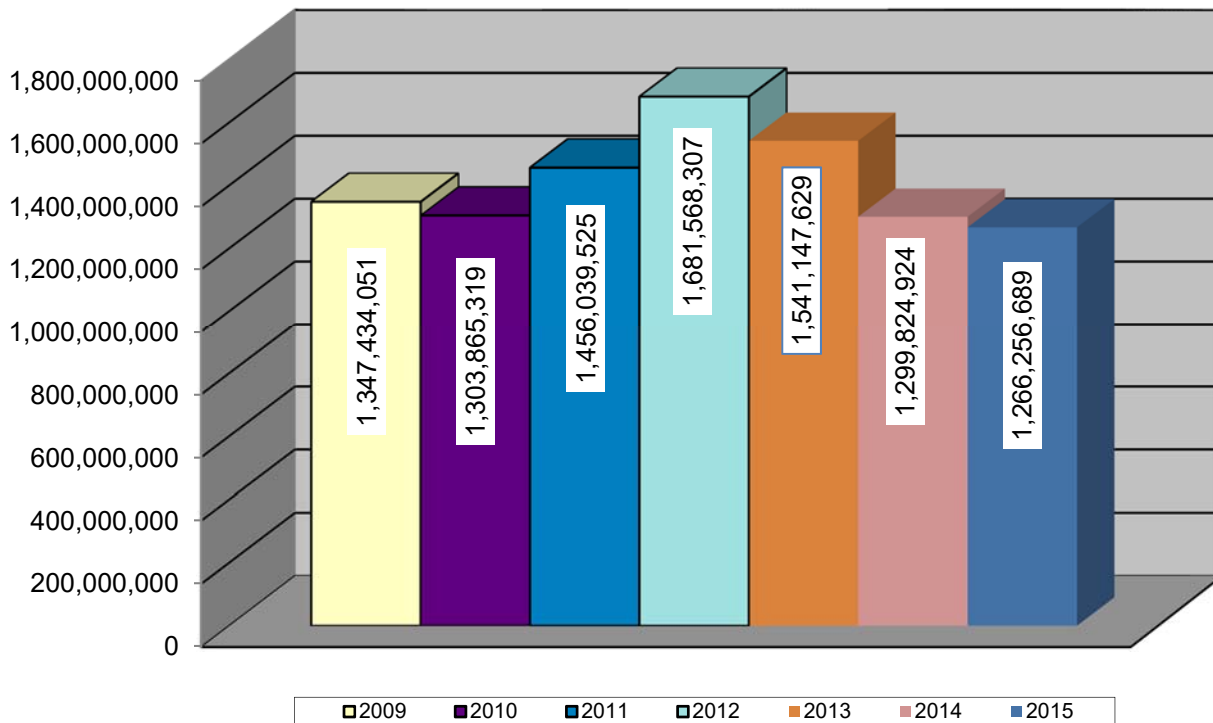
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Management's Discussion and Analysis

June 30, 2016 and 2015

Table C

Water Sold 2009 - 2015



Contacting the Urbandale Water Utility's Financial Management

This financial report is designed to provide customers, investors and creditors with a general overview of the Water Utility's finances and to demonstrate the Utility's accountability for the business aspects of the entity. If there are questions about this report or additional financial information is needed, please contact the Urbandale Water Utility, at 3720 86th Street, Urbandale, Iowa 50322.

URBANDALE WATER UTILITY

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Statements of Net Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets and Deferred Outflows of Resources		
Current assets:		
Cash (note 2)	\$ 112,207	75,387
Cash equivalents (note 2)	2,566,883	3,343,133
Accounts receivable	1,448,583	870,409
Due from City of Urbandale	6,069	13,632
Prepaid expense and other assets	31,243	26,617
Accrued interest receivable	292	903
Inventories, at cost	121,511	106,711
Total current assets	<u>4,286,788</u>	<u>4,436,792</u>
Restricted assets:		
Cash and cash equivalents (note 2)	296,808	292,528
Due from City of Urbandale	140	320
Total restricted assets	<u>296,948</u>	<u>292,848</u>
Capital assets (note 3):		
Building	1,181,173	1,181,173
Distribution system	32,632,736	29,478,201
Land	2,198,900	2,198,900
Equipment	893,970	820,101
Construction in progress	—	285,690
	<u>36,906,779</u>	<u>33,964,065</u>
Less accumulated depreciation	<u>12,227,627</u>	<u>11,591,929</u>
Net capital assets	<u>24,679,152</u>	<u>22,372,136</u>
Total assets	<u>29,262,888</u>	<u>27,101,776</u>
Deferred outflows of resources:		
IPERS pension (note 5)	<u>145,044</u>	<u>142,459</u>
Total assets and deferred outflows of resources	<u><u>\$ 29,407,932</u></u>	<u><u>27,244,235</u></u>

See accompanying notes to financial statements.

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Statements of Net Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Liabilities, Deferred Inflows and Net Position		
Liabilities:		
Current liabilities payable from current assets:		
Accounts payable	\$ 24,564	69,643
Due to other governments	678,551	540,434
Due to City of Urbandale	50,570	43,183
Compensation and payroll taxes	50,882	41,480
Compensated absences (note 4)	88,622	86,072
Interest payable	14,856	12,341
Current portion of capital loans payable (note 4)	357,000	346,000
	<u>1,265,045</u>	<u>1,139,153</u>
Current liabilities payable from restricted assets:		
Customer deposits	68,550	64,810
Total current liabilities	<u>1,333,595</u>	<u>1,203,963</u>
Long-term liabilities:		
Capital loans payable (note 4):	4,595,000	4,952,000
Compensated absences (note 4):	156,968	151,712
Net OPEB Liability (note 6):	98,985	84,360
Net pension liability (note 5):	840,677	697,393
Total long-term liabilities	<u>5,691,630</u>	<u>5,885,465</u>
Total liabilities	<u>7,025,225</u>	<u>7,089,428</u>
Deferred inflows of resources:		
IPERS pension (note 5)	133,475	330,864
Net Position:		
Net investment in capital assets	20,807,172	18,209,136
Unrestricted	1,442,060	1,614,807
Total net position	<u>22,249,232</u>	<u>19,823,943</u>
Commitments (note 8)		
Total liabilities, deferred inflows and net position	<u>\$ 29,407,932</u>	<u>27,244,235</u>

URBANDALE WATER UTILITY

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Metered sales	\$ 7,603,614	6,910,924
Other	525,799	574,361
Total operating revenues	<u>8,129,413</u>	<u>7,485,285</u>
Operating expenses:		
Water purchases	2,324,021	2,067,074
Distribution operations	1,103,424	1,226,719
Distribution maintenance	592,318	533,581
Accounting and collection	548,539	541,796
General and administrative	591,621	636,824
Depreciation	714,810	659,332
Total operating expenses	<u>5,874,733</u>	<u>5,665,326</u>
Operating income	<u>2,254,680</u>	<u>1,819,959</u>
Nonoperating revenues (expenses):		
Interest income	5,921	14,466
Interest expense and fiscal charges	(157,772)	(211,837)
Contribution (note 8)	(1,632,590)	(1,575,511)
Lease revenue	103,484	87,418
Miscellaneous income	25,995	34,483
Total nonoperating expenses, net	<u>(1,654,962)</u>	<u>(1,650,981)</u>
Income before capital contributions	599,718	168,978
Capital contributions	<u>1,825,571</u>	<u>426,373</u>
Change in net position	2,425,289	595,351
Net position at beginning of year	<u>19,823,943</u>	<u>19,228,592</u>
Net position at end of year	<u>\$ 22,249,232</u>	<u>19,823,943</u>

See accompanying notes to financial statements.

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
Urbandale, Iowa

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash receipts from customers and users	\$ 7,708,225	7,543,503
Cash payments to suppliers	(3,409,271)	(3,213,895)
Cash payments to employees	(1,303,819)	(1,253,583)
Other operating cash payments	(536,194)	(482,663)
Net cash provided by operating activities	<u>2,458,941</u>	<u>2,593,362</u>
Cash flows from noncapital financing activities:		
Cash receipts from lease	103,484	87,418
Cash receipts from miscellaneous income	25,995	34,483
Net cash provided by noncapital financing activities	<u>129,479</u>	<u>121,901</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,196,255)	(152,977)
Cash paid for interest	(155,257)	(217,361)
Principal payments on revenue bonds and capital loans	(346,000)	(2,417,000)
Cash paid for capital contributions	(1,632,590)	(1,575,511)
Capital loan issuance	—	1,762,000
Net cash used in capital and related financing activities	<u>(3,330,102)</u>	<u>(2,600,849)</u>
Cash flows from investing activities:		
Cash received from interest	6,532	15,120
Net increase (decrease) in cash and cash equivalents	<u>(735,150)</u>	<u>129,534</u>
Cash and cash equivalent at beginning of year	<u>3,711,048</u>	<u>3,581,514</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,975,898</u></u>	<u><u>3,711,048</u></u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash	\$ 112,207	75,387
Cash equivalent	2,566,883	3,343,133
Restricted assets - cash and cash equivalents	296,808	292,528
Total cash and cash equivalents at end of year	<u><u>\$ 2,975,898</u></u>	<u><u>3,711,048</u></u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,254,680	1,819,959
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	714,810	659,332
Change in:		
Accounts receivable	(578,174)	16,135
Due from City of Urbandale	7,743	(852)
Due from other governments	—	(20)
Prepaid expense	(4,626)	(3,485)
Inventories, at cost	(14,800)	24,517
Accounts payable	(45,079)	53,650
Due to other governments	138,116	21,578
Due to City of Urbandale	7,387	14,258
Compensation and payroll taxes	175,118	(309,990)
Deferred inflows and outflows of resources	(199,974)	291,160
Customer deposits	3,740	7,120
Net cash provided by operating activities	<u><u>\$ 2,458,941</u></u>	<u><u>2,593,362</u></u>

Schedule of noncash capital and related financing activities –

Contribution from developers, water distribution system, \$1,825,571 in 2016 and \$426,373 in 2015

See accompanying notes to financial statements.

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
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Notes to Financial Statements

June 30, 2016 and 2015

(1) Summary of Significant Accounting Policies

(a) *Organization and Basis of Accounting*

The accompanying financial statements of the Urbandale Water Utility have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Water Utility is governed by a three-member board of trustees nominated by the mayor and elected by the City Council. Under Chapter 388 of the Code of Iowa and Urbandale City Ordinance, the Water Utility Board is independent and has all the rights of a City Council with the exception that it cannot levy taxes or issue general obligation bonds.

The Water Utility is a component unit of the City of Urbandale, Iowa (the City). The financial statements do not present the financial position and changes in net position of the City.

The flow of economic resources measurement focus and the accrual basis of accounting are used by the Urbandale Water Utility, wherein revenues are recognized when earned and expenses when incurred.

(b) *Cash and Cash Equivalents*

Cash equivalents of the Water Utility include a money market account, certificates of deposit, and an investment in the Iowa Public Agency Investment Trust (IPAIT), which is valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 and is not subject to risk categorization. IPAIT was established under Iowa law to authorize cities, counties, and municipal utilities to jointly invest. IPAIT invests only in permitted investments as specified for public agencies by Iowa law. The board of trustees of IPAIT meets quarterly to monitor investment compliance and performance.

(c) *Accounts Receivable*

Utilizing the first billing subsequent to year-end, the Urbandale Water Utility accrues estimated unbilled water revenues for service rendered subsequent to the last billing date and prior to year-end, based upon the number of days unbilled. Management periodically reviews accounts receivable to determine if there are amounts that are uncollectible. Accounts receivable are written off when deemed uncollectible. The direct write off method approximates the allowance method. Therefore, no allowance is deemed necessary at June 30, 2016 and 2015.

(d) *Inventories*

Inventories of materials and supplies are valued at the lower of average cost or market. Inventories are recorded as expenditure at the time of consumption.

URBANDALE WATER UTILITY

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June 30, 2016 and 2015

(e) ***Capital Assets***

Building, distribution system, and equipment of the Urbandale Water Utility are stated at cost or at estimated historical cost if actual cost is not available. Contributed capital assets are valued at their estimated fair value on the date donated. Depreciation has been provided using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building	40
Distribution system	50
Equipment	5 – 10

The cost of repairs and maintenance is charged to operations when incurred, while the cost of renewals or substantial improvements is capitalized.

(f) ***Restricted Assets***

Customer deposits are disclosed in the balance sheets as restricted assets and liabilities as they represent funds that may be refunded back to customers at the termination of their water service.

Restricted cash and cash equivalents at June 30, 2016 also represents three capital loan sinking funds and a reserve fund established in conjunction with the December, 2012 note issue. These funds are being held for the repayment of the capital loans issued during the fiscal years ending June 30, 2011, June 30, 2013, and June 30, 2015.

(g) ***Compensated Absences***

Water Utility employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. These accumulations are recorded as liabilities and are expensed in the year earned.

(h) ***Budgetary and Appropriation Data***

The Water Utility follows the same budgeting process as the City. State law mandates that annual budgets for funds other than Agency and Internal Service for the fiscal year beginning July 1 must be certified to the county auditor no later than March 15, preceding the beginning of the fiscal year. The Water Utility also annually adopts a five-year capital improvement plan. The review and adoption of a budget is handled in accordance with state laws, as there is no City ordinance governing the budget process. Preliminary review of all operating budget requests is conducted by the City Manager (the Manager) at a departmental level. The Water Utility's budget is included in this process. The Manager's budget, considered as a plan of financial operation along with proposed sources of revenues, is presented to the Council at least two months prior to certification. The Council holds hearings with the Manager, department heads, boards, and commissions, as well as a public hearing

URBANDALE WATER UTILITY

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Notes to Financial Statements

June 30, 2016 and 2015

prior to adopting a budget. By resolution, the Council adopts a budget effective July 1 and certifies it to the county auditor, who, in turn, certifies the City's budget to the State Department of Management. This budget becomes the appropriation and is prepared on a cash basis (budget basis).

Amendments to the budget are considered annually only if revenue sources are available (i.e., unanticipated revenues and budget surpluses). The actual amendment process, as prescribed by state law, is identical to the procedures followed for the original budget, including certification. The budgets for the fiscal years ending June 30, 2016 and 2015 were not amended.

State law allows budgeting and accounting to be on a cash basis rather than on a generally accepted accounting principles (GAAP) basis. A reconciliation of the differences between the budgetary and GAAP basis for the year ended June 30, 2016 is presented for the Water Utility in The Schedule of Cash Receipts and Cash Disbursements – Budget to Actual.

(i) Financial Statement Presentation

For financial statement purposes, the Urbandale Water Utility is treated as an enterprise fund, a proprietary fund type. 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, which includes providing water resources and related services to the constituents of Urbandale. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(j) 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.

(k) Deferred Outflows of Resources

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

URBANDALE WATER UTILITY

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Notes to Financial Statements

June 30, 2016 and 2015

(1) *Deferred Inflows of Resources*

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

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

(2) *Cash Deposits and Cash Equivalents*

At June 30, 2016 and 2015, the Urbandale Water Utility's cash deposits were 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.

At June 30, 2016 and 2015, cash equivalents included a money market account of \$2,499,028 and \$3,271,564, respectively, and an investment in the Iowa Public Agency Investment Trust (IPAIT) \$136,405 and \$136,379 respectively, which is valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940, and is not subject to risk categorization. Additionally, there is one Certificate of Deposit in the amount of \$170,749 and checking accounts with \$169,716 and \$132,356, respectively.

Interest rate risk. The Water 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) in 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 Water Utility.

Credit risk. The investment in Iowa Public Agency Investment Trust is unrated. IPAIT was established under Iowa law to authorize cities, counties, and municipal utilities to jointly invest. IPAIT invests only in permitted investments as specified for public agencies by Iowa law. The board of trustees of IPAIT meets quarterly to monitor investment compliance and performance.

Concentration of credit risk. The Water Utility places no limit on the amount that may be invested in any one issuer, but does have a diversification policy to eliminate risk of loss resulting from over concentration of assets in a specific maturity, a specific issue, or a specific class of securities.

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Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Water Utility's deposits are 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 insure there will be no loss of public funds.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Water Utility held no such investments during the year.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2016 and 2015 is as follows:

	2016			
	June 30, 2015			June 30, 2016
	Balance	Increases	Decreases	Balance
Capital assets, not being depreciated				
Land	\$ 2,198,900	—	—	2,198,900
Construction in progress	285,690	—	285,690	—
Total capital assets, not being depreciated	2,484,590	—	285,690	2,198,900
Capital assets being depreciated:				
Equipment	820,101	126,322	52,453	893,970
Buildings	1,181,173	—	—	1,181,173
Distribution system	29,478,201	3,226,299	71,764	32,632,736
Total capital assets being depreciated	31,479,475	3,352,621	124,217	34,707,879
Less accumulated depreciation for:				
Equipment	688,899	71,196	52,453	707,643
Buildings	652,660	30,617	—	683,277
Distribution system	10,250,370	612,996	26,659	10,836,707
Total accumulated depreciation	11,591,929	714,809	79,112	12,227,627
Total capital assets, net	\$ 22,372,136	2,637,812	330,795	24,679,152

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June 30, 2016 and 2015

	2015			
	June 30, 2014			June 30, 2015
	Balance	Increases	Decreases	Balance
Capital assets, not being depreciated:				
Land	\$ 2,198,900	—	—	2,198,900
Construction in progress	450,778	690	165,778	285,690
Total capital assets, not being depreciated	2,649,678	690	165,778	2,484,590
Capital assets being depreciated:				
Equipment	809,386	27,750	17,035	820,101
Buildings	1,181,173	—	—	1,181,173
Distribution system	28,771,913	718,568	12,280	29,478,201
Total capital assets being depreciated	30,762,472	746,318	29,315	31,479,475
Less accumulated depreciation for:				
Equipment	654,316	51,618	17,035	688,899
Buildings	622,043	30,617	—	652,660
Distribution system	9,683,673	577,097	10,400	10,250,370
Total accumulated depreciation	10,960,032	659,332	27,435	11,591,929
Total capital assets, net	\$ 22,452,118	87,676	167,658	22,372,136

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
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Notes to Financial Statements

June 30, 2016 and 2015

(4) Long-term Obligations

(a) *Water Revenue Refunding Capital Loan Notes*

On June 1, 2015 the Utility issued \$1,963,000 in Water Revenue Refunding Capital Loan Notes. Interest is payable each December 1 and June 1 at a rate of 1.99%. Principal payments are due each June 1 and range from \$201,000 to \$236,000 with final maturity in 2024. The proceeds were used to refund \$2,275,000 of outstanding 2005 Water Revenue Bonds which had an interest rate of 3.90%. At June 30, 2016 the restricted cash on the balance sheet includes \$20,233 in the Sinking Fund.

The reacquisition price was less than the net carrying amount of the old debt by \$312,000. This amount was funded by the Utility through the 2005 Reserve Fund in the amount of \$311,700 and the General Fund in the amount of \$300. The Utility refunded the 2005 Water Revenue Bonds to reduce its total debt service payments over 9 years by \$579,922. The refunding of the 2005 Water Revenue Bond issue resulted in an economic gain of \$525,924.

Principal and interest requirements to maturity for obligations at June 30, 2016 are as follows:

Years Ending June 30:	Water Revenue Refunding Capital Loan	
	Principal	Interest
2017	\$ 205,000	35,064
2018	209,000	30,984
2019	214,000	26,825
2020	218,000	22,567
2021	222,000	18,229
2022-2024	694,000	27,800
	<u>\$ 1,762,000</u>	<u>161,469</u>

(b) *Drinking Water State Revolving Fund*

The Urbandale Water Utility applied for and received a capital loan note from the Drinking Water State Revolving Fund on February 17, 2010 in the amount of \$1,671,000. The funds were used solely for the meter replacement project as defined in the application. Funds were disbursed from the Iowa Finance Authority when invoices were submitted by the Utility and approved for the project. The first \$332,000 disbursed to the Utility represents the forgivable portion of the loan. The remaining \$1,339,000 was disbursed over the next 24 months and will be repaid semi-annually over a twenty year period. A loan servicing fee is payable each June 1 at a rate of .25% of the principal amount of the loan outstanding. Interest is payable each December 1 and June 1 at a rate of 3.0%. Principal payments are due June 1 of each year, and range from \$49,000 to \$89,000 with final

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June 30, 2016 and 2015

maturity in 2031. At June 30, 2016 the restricted cash on the balance sheet includes \$22,729 in the Sinking Fund.

Principal and interest requirements to maturity for obligations at June 30, 2016 are as follows:

Years Ending June 30:	Capital Loan	
	Principal	Interest
2017	\$ 57,000	32,400
2018	59,000	30,690
2019	61,000	28,920
2020	63,000	27,090
2021	65,000	25,200
2022-2026	357,000	95,520
2027-2031	418,000	38,430
	<u>\$ 1,080,000</u>	<u>278,250</u>

(c) Water Revenue Capital Loan Notes

On December 4, 2012 the Urbandale Water Utility issued \$2,285,000 in Taxable Water Revenue Capital Loan Notes. The notes were issued for system improvements and land acquisitions. Interest is payable semi-annually, each December 1 and June 1, at 3.59%. Principal payments are due June 1 of each year starting in 2015, and range from \$85,000 - \$160,000, with the final maturity in 2033. At June 30, 2016 the restricted cash balance sheet includes \$14,547 in the Sinking Fund and \$170,749 in the Reserve Fund.

Principal and interest requirements to maturity for obligations at June 30, 2016 are as follows:

Years Ending June 30:	Water Revenue Capital Loan	
	Principal	Interest
2017	\$ 95,000	75,749
2018	95,000	72,338
2019	100,000	68,928
2020	105,000	65,338
2021	105,000	61,569
2022-2026	595,000	247,710
2027-2031	700,000	133,727
2032-2033	315,000	17,053
	<u>\$ 2,110,000</u>	<u>742,412</u>

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Notes to Financial Statements

June 30, 2016 and 2015

Changes in long-term obligations for the year ended June 30, 2016 and 2015 are as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Due within 1 year
Water revenue refunding	\$ 1,963,000	—	201,000	1,762,000	205,000
Capital loans	3,335,000	—	145,000	3,190,000	152,000
Compensated absences	237,784	7,806	—	245,590	88,622
Total	<u>\$ 5,535,784</u>	<u>7,806</u>	<u>346,000</u>	<u>5,197,590</u>	<u>445,622</u>

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Due within 1 year
Water revenue refunding	\$ 2,480,000	1,963,000	2,480,000	1,963,000	201,000
Capital loans	3,473,000	—	138,000	3,335,000	145,000
Compensated absences	212,143	25,641	—	237,784	86,072
Total	<u>\$ 6,165,143</u>	<u>1,988,641</u>	<u>2,618,000</u>	<u>5,535,784</u>	<u>432,072</u>

(5) Retirement Plans

(a) Iowa Public Employee Retirement System

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

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

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June 30, 2016 and 2015

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early retirement deduction. 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. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

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

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

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

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

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In fiscal years 2016 and 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's total contributions to IPERS for the year ended June 30, 2016 and 2015 were \$109,195 and 104,102, respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016 and 2015, the Utility reported a liability of \$840,677 and 697,393 for its proportionate share of the net pension liability. The new pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utility's collective proportion was .017016 percent which was a decrease of .000569 percent from its proportion measured as of June 30, 2014 of .0175847 percent.

For the year ended June 30, 2016 and 2015, the Utility recognized pension expense of \$52,505 and \$37,036, respectively. At June 30, 2016 and 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 12,703	\$ -	\$ 7,579	
Changes of assumptions	23,146	-	30,778	
Net difference between projected and actual earnings on pension plan investments.	-	69,966		265,961
Changes in proportion and differences between Utility contributions and proportionate share of contributions	-	63,509		64,903
Utility contributions subsequent to the measurement date	109,195	-	104,102	-
Total	<u>\$ 145,044</u>	<u>\$133,475</u>	<u>\$ 142,459</u>	<u>\$330,864</u>

The \$109,195 in 2016 and \$104,102 in 2015 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 June 30, 2017 and 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:

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June 30, 2016 and 2015

Year Ended June 30,	2016	2015
2016	\$ -	\$ (72,693)
2017	(41,762)	(72,693)
2018	(41,762)	(72,693)
2019	(41,762)	(72,693)
2020	28,073	(1,735)
2021	(413)	-
	\$ (97,626)	\$ (292,507)

There were no non-employer contributing entities to 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:

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

The actuarial assumptions used in the June 30, 2016 and 2015 valuations 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 and 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:

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June 30, 2016 and 2015

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

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

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

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Utility's proportionate share of the net pension liability at June 30, 2015	\$ 1,471,875	\$ 840,677	\$ 307,901
Utility's proportionate share of the net pension liability at June 30, 2014	\$ 1,317,704	\$ 697,393	\$ 173,786

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

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Payable to the Pension Plan – At June 30, 2016 and 2015, the Utility reported payables to the defined benefit pension plan of \$7,891 and \$7,994, respectively for legally required employer contributions and \$5,258 and \$5,327, respectively for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(b) Money Purchase Plan

The Water Utility also offers its employees a money purchase plan created and administered in accordance with Internal Revenue Code Section 401(a). The plan, available to all full-time Water Utility employees, permits them to contribute up to 8% of their salary with the Water Utility matching 60% of the employee's contribution.

All assets and income of the plan are held in trusts established for the exclusive benefit of eligible participants and their beneficiaries in accordance with Internal Revenue Code Section 401(a). No part of the trusts shall revert to the Water Utility or be used for or diverted to purposes other than the exclusive benefit of participants and their beneficiaries. Third-party administrators who act in a trustee capacity manage the plans. Accordingly, these plan assets are not reported in the Water Utility's financial statements. The Water Utility made contributions to the plan of \$37,496 and \$29,296 for the years ended June 30, 2016 and 2015, respectively. The Water Utility's employees made contributions to the plan of \$62,493 and \$48,826 for the years ended June 30, 2016 and 2015, respectively.

(6) Other Postemployment Benefits (OPEB)

The Urbandale Water Utility implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2009.

Plan Description - The Utility provides medical/prescription drug benefits for retirees. There are 17 active and 0 retired members in the plan. Participants must meet the Normal Retirement Age as defined by IPERS or Social Security at retirement.

Funding Policy – The Utility is currently using a pay-as-you-go method of benefit financing. The Utility has only implicit liabilities and has chosen not to prefund.

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 that, 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.

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The following table shows the components of the Utility's annual OPEB cost for the years ended June 30, 2016 and 2015, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

	2016	2015
Annual required contribution	\$ 16,487	15,041
Interest on net OPEB obligation	2,109	1,771
Adjustments to annual required contribution	<u>(3,971)</u>	<u>(3,302)</u>
Annual OPEB cost	14,625	13,510
Contributions made	<u>-</u>	<u>-</u>
Increase in net OPEB obligation	14,625	13,510
Net OPEB obligation beginning of year	<u>84,360</u>	<u>70,850</u>
Net OPEB obligation end of year	<u><u>\$ 98,985</u></u>	<u><u>84,360</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 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 June 30, 2016.

For the year ended June 30, 2016, the Utility made no contributions to the medical plan.

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2016 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2016	\$14,625	0%	\$ 98,985
June 30, 2015	\$13,510	0%	\$ 84,360
June 30, 2014	\$14,507	0%	\$ 70,850

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2016, the actuarial accrued liability was \$171,213, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$171,213. The covered payroll (annual payroll of active employees covered by the plan) was \$1,141,338 and the ratio of the UAAL to covered payroll was approximately 15%. As of June 30, 2016, there were no trust fund assets.

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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 assumption 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, presented as required supplementary information in the section following the Notes to Financial Statements, will present 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 that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the Utility's funding policy. The projected annual medical trend rate is 6%.

(7) Risk Management

The Utility is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. Workers compensation and general liability and auto liability coverages are provided through the Utility's participation in self-insurance risk pools as described in the subsequent paragraphs. Commercial insurance is purchased for all other risks of loss. Settlements have not exceeded coverages for each of the past three fiscal years.

(a) *Iowa Municipalities Workers' Compensation Association*

The Utility is a member of the Iowa Municipalities Workers' Compensation Association (the Association). The Association is a local government risk-sharing pool whose approximately 521 members include various municipal and county governments throughout the State of Iowa. The Association was formed in July, 1981 to formulate, develop and administer, on behalf of the member governments, a program of joint self-insurance to stabilize costs related to members' workers' compensation liabilities. The members participating in the Association to manage and conduct the business and affairs of the Association elect a board of trustees consisting of seven members. Program components include claims management, member education and loss control services. There have been no reductions in insurance coverage from prior years.

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Each member pays annual premiums determined by using applicable standard rates for the exposure to risk and applicable experience modification factors of the National Council on Compensation Insurance. Each member may be subject to additional premiums to pay its pro rata share of claims which exceeds the Association's resources available to pay such claims. A distribution to members may also be made if the Association has excess monies remaining after payment of claims and expenses. The Association uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. Claims exceeding \$750,000 are reinsured in an amount not to exceed \$2,000,000 per occurrence. Members may withdraw from the Association at any time provided they provide assets for settlement of all pending claims.

The Utility's premium contributions to the Association are recorded as expenditures from its operating funds at the time of payment to the risk pool. The Utility's annual contributions to the Association for the year ended June 30, 2016 were \$12,930.

(b) *Iowa Communities Assurance Pool*

The Utility is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 724 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Utility's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The Utility's contributions to the Pool for the year ended June 30, 2016 were \$46,283.

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June 30, 2016 and 2015

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utility does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2016, no liability has been recorded in the Utility's financial statements. As of June 30, 2016, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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Notes to Financial Statements

June 30, 2016 and 2015

(8) Commitments

(a) *Des Moines Water Works*

The Urbandale Water Utility has entered into agreements with Des Moines Water Works for the construction of Des Moines Water Works-owned booster stations, a treatment plant, feeder mains, and a storage tank, which will enhance service to the City. Des Moines Water Works designed, constructed, and financed the booster stations, a treatment plant, feeder mains, and storage tank through issuance of revenue bonds. The Urbandale Water Utility has commitments outstanding at June 30, 2016 and 2015 to contribute to Des Moines Water Works \$10,396,952 and \$12,059,479, respectively.

Future minimum payments in conjunction with these commitments are as follows:

Years ending June 30:		Maffitt Treatment Plant	Saylorville Treatment Plant
2017	\$	470,266	1,073,641
2018		148,152	1,074,977
2019		—	1,078,378
2020		—	1,082,977
2021		—	1,087,063
2022-2026		—	4,381,498
	\$	<u>618,418</u>	<u>9,778,534</u>

(b) *Central Iowa Regional Drinking Water Commission*

The Urbandale Water Utility, in conjunction with 23 other governmental entities that provide water services, created a Central Iowa Regional Drinking Water Commission (the Commission). The Commission was created to (1) jointly plan and coordinate implementation for water supply, treatment, distribution, and storage facilities; (2) enable the participants in the Commission to jointly provide services in a cost effective manner; and (3) enable the participants in the Commission to undertake joint or coordinated procurement of goods and services. The Commission has not set a budget for expenditures. The Water Utility will be responsible for its proportional share of the budgeted expenses, which will be determined on the basis of the ratio of its retail customer accounts to the total retail customers of all participants, using the most recent information available each year.

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Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan

June 30, 2016 and 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
July 1, 2014	\$ -	\$ 171,213	\$ 171,213	0.00%	\$ 1,151,301	14.87%
July 1, 2012	\$ -	\$ 161,225	\$ 161,225	0.00%	\$ 1,139,942	14.14%
July 1, 2010	\$ -	\$ 118,057	\$ 118,057	0.00%	\$ 1,128,395	10.46%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

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Required Supplementary Information

Schedule of the Utility's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System - IPERS

As of June 30, 2016

	<u>2016</u>	<u>2015</u>
Utility's proportion of the net pension liability (asset)	0.0170161%	0.0175847%
Utility's proportion of the net pension liability (asset)	\$ 840,677	\$ 697,393
Utility's covered-employee payroll	\$ 1,165,755	\$ 1,150,666
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability.	85.19%	87.61%

In accordance with GASB No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceeding year.

See accompanying notes to required supplementary information.

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

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Required Supplementary Information
Schedule of Utility Contributions
Iowa Public Employees' Retirement System - IPERS
Last Ten Fiscal Years

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Statutorily required contribution	\$	50,858	57,326	64,107	69,343	75,503	97,864	104,545	102,754	104,102	109,195
Contributions in relation to the statutorily required contribution		50,858	57,326	64,107	69,343	75,503	97,864	104,545	102,754	104,102	109,195
Contribution deficiency (excess)		-	-	-	-	-	-	-	-	-	-
Utility's covered-employee payroll		884,486	950,933	1,010,253	1,042,752	1,086,368	1,212,689	1,205,835	1,150,666	1,165,755	1,222,791
Contributions as a percentage of covered-employee payroll		5.75%	6.03%	6.35%	6.65%	6.95%	8.07%	8.67%	8.93%	8.93%	8.93%

See accompanying notes to required supplementary information.

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Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

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

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

Changes of assumptions:

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

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

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

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

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

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Schedule of Cash Receipts and Cash Disbursements – Budget and Actual

Year ended June 30, 2016

	2016		
	Budget	Actual	Actual over (under) budget
Cash receipts:			
Metered sales	\$ 8,160,381	7,027,726	(1,132,655)
Bulk and construction water sales	25,000	19,760	(5,240)
Water service hookup	116,325	124,488	8,163
Other service	10,000	9,390	(610)
Other:			
Collections for sewer districts	4,434,711	3,675,218	(759,493)
Taps	4,000	1,770	(2,230)
Meters and parts	107,000	106,349	(651)
Hydrant meter charge	6,000	5,222	(778)
Sewer collection fees	119,646	123,898	4,252
Sales tax	583,423	506,267	(77,156)
Bacteriological samples	3,500	4,520	1,020
Late charges	35,000	31,396	(3,604)
Miscellaneous	40,000	41,547	1,547
Main reimbursements	7,500	3,602	(3,898)
Interest on investments	15,900	6,534	(9,366)
Trust receipts	29,500	31,120	1,620
Lease revenue	80,400	103,484	23,084
Solid Waste	2,016,000	1,999,132	(16,868)
Solid waste collect	27,500	28,358	858
Storm Water	1,493,048	1,506,288	13,240
Storm Water collect	30,420	30,874	454
Miscellaneous Non-Operating	30,000	25,995	(4,005)
Total other	<u>9,063,548</u>	<u>8,231,574</u>	<u>(831,974)</u>
Total cash receipts	\$ <u>17,375,254</u>	<u>15,412,938</u>	<u>(1,962,316)</u>
Cash disbursements:			
Water purchases	\$ 2,491,086	2,155,440	(335,646)
Distribution operations:			
Personnel:			
Salaries	\$ 433,908	435,799	1,891
Part-time	45,260	19,657	(25,603)
FICA	36,656	34,747	(1,909)
Retirement	39,468	38,418	(1,050)
Group insurance	114,484	113,933	(551)
	<u>669,776</u>	<u>642,554</u>	<u>(27,222)</u>
Operations and maintenance:			
Telephone and communication	\$ 13,500	10,074	(3,426)
Bacteriological samples	12,688	12,769	81
Drafting supplies	2,000	717	(1,283)
Vehicle repair and maintenance	34,000	21,685	(12,315)
Buildings and grounds	132,624	115,749	(16,875)
Utility systems and structures	1,100,000	1,085,203	(14,797)
Inspections	75,000	70,581	(4,419)
New meters	464,000	272,730	(191,270)
Automotive equipment	22,500	33,171	10,671
Easements	2,500	—	(2,500)
Miscellaneous	1,000	659	(341)
	<u>1,859,812</u>	<u>1,623,338</u>	<u>(236,474)</u>
Total distribution operations	<u>2,529,588</u>	<u>2,265,892</u>	<u>(263,696)</u>

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Schedule of Cash Receipts and Cash Disbursements – Budget and Actual

Year ended June 30, 2016

	2016		
	Budget	Actual	Actual over (under) budget
Distribution maintenance:			
Personnel:			
Salaries	\$ 333,566	324,990	(8,576)
FICA	25,518	24,512	(1,006)
Retirement	29,180	28,343	(837)
Group insurance	80,622	77,991	(2,631)
	<u>468,886</u>	<u>455,836</u>	<u>(13,050)</u>
Operations and maintenance:			
System maintenance	\$ 35,000	45,501	10,501
Minor equipment and tools	15,000	13,777	(1,223)
Main maintenance supplies	30,000	46,391	16,391
Repair maintenance, vehicles, and equipment	47,050	13,672	(33,378)
Miscellaneous contract work	10,000	1,616	(8,384)
Meter parts	16,000	41,916	25,916
Hydrants, valves, and parts	25,000	21,950	(3,050)
Miscellaneous	750	66	(684)
	<u>178,800</u>	<u>184,889</u>	<u>6,089</u>
Total distribution maintenance	<u>647,686</u>	<u>640,725</u>	<u>(6,961)</u>
Accounting and collection:			
Personnel:			
Salaries	\$ 225,263	224,354	(909)
Part-time	4,800	—	(4,800)
FICA	17,600	16,187	(1,413)
Retirement	20,116	19,949	(167)
Group insurance	71,788	71,448	(340)
	<u>339,567</u>	<u>331,938</u>	<u>(7,629)</u>
Operations and maintenance:			
Postage and shipping	\$ 127,200	117,045	(10,155)
Computer/Printing	261,052	179,023	(82,029)
Customer refunds	16,000	21,702	5,702
Remittances to sewer districts	4,434,211	3,695,984	(738,227)
Solid Waste remittances	2,016,000	1,997,595	(18,405)
Storm Water remittances	1,493,048	1,501,013	7,965
Sales tax remittances	582,557	482,266	(100,291)
Miscellaneous	1,000	35	(965)
	<u>8,931,068</u>	<u>7,994,663</u>	<u>(936,405)</u>
Total accounting and collection	<u>9,270,635</u>	<u>8,326,601</u>	<u>(944,034)</u>

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Schedule of Cash Receipts and Cash Disbursements – Budget and Actual

Year ended June 30, 2016

		2016	
		Budget	Actual
			Actual over (under) budget
General and administrative:			
Personnel:			
Salaries	\$	258,269	258,269
FICA		20,492	18,856
Retirement		54,873	60,981
Group insurance		77,319	72,547
		<u>410,953</u>	<u>410,653</u>
			(300)
Operations and maintenance:			
Liability insurance	\$	65,200	56,681
Professional fees		37,000	20,719
Dues, memberships, and subscriptions		12,000	9,961
Postage and shipping		2,585	1,662
Telephone		10,860	11,489
Training		8,000	10,109
Travel and conference expense		10,000	1,682
Office supplies and equipment		17,500	10,883
Utilities		15,000	11,202
Advertising and legal publications		2,000	1,283
Miscellaneous		13,100	11,829
Bank service charge		36,000	40,050
Capital Contributions		1,602,499	1,632,590
Trust disbursements		25,000	27,380
		<u>1,856,744</u>	<u>1,847,520</u>
			(9,224)
Total general and administrative		<u>2,267,697</u>	<u>2,258,173</u>
			(9,524)
2015 Water Revenue Refunding			
Debt Service - 2015 Capital Loan	\$	303,725	240,389
			(63,336)
2010 SRF Capital Loan:			
Debt Service - SRF Loan		91,888	91,888
			—
2012 Capital Loan Note Debt Service			
		168,980	168,980
			—
Total Bond/Loan Expenditures		<u>564,593</u>	<u>501,257</u>
			(63,336)
Total cash disbursements		<u>17,771,285</u>	<u>16,148,088</u>
			(1,623,197)
Cash receipts over cash disbursements	\$	<u>(396,031)</u>	<u>(735,150)</u>
			(339,119)
Cash and cash equivalents at beginning of year			<u>3,711,048</u>
Cash and cash equivalents at end of year	\$		<u><u>2,975,898</u></u>

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
Urbandale, Iowa

Reconciliation of Cash Receipts over Cash Disbursements to Change in Net Position

Year ended June 30, 2016

	<u>2016</u>
Cash receipts over (under) cash disbursements	\$ (735,150)
Change in Accrued Revenue	(4,785,165)
Change in Accrued Expense	7,951,644
Reconciling Accruals	<u>(6,040)</u>
Total change in Net Position	\$ <u><u>2,425,289</u></u>

**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
Urbandale Water Utility

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Urbandale Water Utility (Utility) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated October 19, 2016.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2016-A, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2016, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Urbandale Water Utility's Response to Finding

The Utility's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Utility's 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.

A handwritten signature in black ink that reads "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 19, 2016

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCY

2016-A Segregation of Duties

Criteria – Properly designed segregation of duties allow entities to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles.

Condition - During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. The Utility has a limited number of people having responsibility for certain accounting and financial duties.

Cause/Effect – With a limited number of office employees, segregation of duties is difficult. As a result, some of those aspects of internal control which rely upon an adequate segregation of duties are missing and misstatements may not have been prevented or detected on a timely basis in the normal course of operations.

Recommendation – We recognize that with a limited number of office employees, segregation of duties is difficult, and it may not be cost effective to employ additional persons for the purpose of segregating duties. However, the Utility should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Response – The Utility is aware of the situation and will try to segregate duties as much as possible when assigning duties.

Part II: Other Findings Related to Statutory Reporting:

2016-IA-A Questionable Expenditures - We noted no expenditures that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

2016-IA-B Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

2016-IA-C Business Transactions - No business transactions between the Utility and its officials or employees were noted.

2016-IA-D Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

2016-IA-E Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

Part II: Other Findings Related to Statutory Reporting: (continued)

- 2016-IA-F **Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- 2016-IA-G **Revenue Notes** – No instances of non-compliance with the revenue note provisions were noted.