

**URBANDALE WATER UTILITY**

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

Financial Statements and  
Supplementary Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

# URBANDALE WATER UTILITY

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

## Table of Contents

	<b>Page</b>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4 -12
<b>Basic Financial Statements:</b>	
Statements of Net Position	13 -14
Statements of Revenues, Expenses, and Changes in Net Position	15
Statements of Cash Flows	16
Notes to Financial Statements	17-35
<b>Required Supplementary Information:</b>	
Schedule of Funding Progress for the Retiree Health Plan	36
Schedule of the Utility's Proportionate Share of the Net Pension Liability	37
Schedule of Utility Contributions	38
Notes to Required Supplementary Information – Pension Liability	39
<b>Other Supplementary Information</b>	
Schedule of Cash Receipts and Cash Disbursements – Budget and Actual	40-43
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 <i>Government Auditing Standards</i>	44-45
Schedule of Findings and Responses	46-47



## 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, 2017 and 2016, 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, 2017 and 2016, 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 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 November 2, 2017, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Utility's 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 cursive script that reads "Eide Sully LLP".

Dubuque, Iowa  
November 2, 2017

# URBANDALE WATER UTILITY

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

Management's Discussion and Analysis

June 30, 2017 and 2016

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, 2017 and 2016. 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 2016-17 fiscal year by \$24,209,371 (net position). Of this amount, \$2,577,332 (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 \$1,960,139 for the year ended June 30, 2017. This is attributable to operating and non-operating income of \$1,235,837 and capital contributions of \$724,302.
- As of the close of the current fiscal year, the Water Utility's unrestricted cash and cash equivalents balance was \$3,841,518, an increase of \$1,162,428. The increase in cash and cash equivalents is primarily attributed to an increase in operating revenues and lower than expected expenditures during the year ended June 30, 2017.
- The Water Utility's total operating revenues increased by 15.369% to \$9,378,813, and the operating expenses increased by 16.279% to \$6,831,079. The total operating revenues exceeded total operating expenses by \$2,547,734.

## 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's 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

## URBANDALE WATER UTILITY

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

### Management's Discussion and Analysis

June 30, 2017 and 2016

the management, control and operation, subject to the requirements, terms, covenants, conditions and provisions 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 8.810% and 12.240% for the fiscal years ending June 30, 2017 and 2016, respectively.

The largest portion of the Water Utility's net position (89.354%) 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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current assets	\$ 5,650,238	4,286,788	4,436,792
Restricted assets	295,744	296,948	292,848
Capital assets, net	25,204,039	24,679,152	22,372,136
Deferred outflows of resources	291,200	145,044	142,459
Total assets and deferred outflows of resources	<u>31,441,221</u>	<u>29,407,932</u>	<u>27,244,235</u>
Long-term liabilities	5,601,288	5,691,630	5,885,465
Other liabilities	1,583,805	1,333,595	1,203,963
Deferred inflows of resources	46,757	133,475	330,864
Total liabilities and deferred inflows of resources	<u>7,231,850</u>	<u>7,158,700</u>	<u>7,420,292</u>
Net position:			
Net investment in capital assets	21,632,039	20,807,172	18,209,136
Unrestricted	2,577,332	1,442,060	1,614,807
Total net position	<u>24,209,371</u>	<u>22,249,232</u>	<u>19,823,943</u>
Total liabilities, deferred inflows and net position	<u>\$ 31,441,221</u>	<u>29,407,932</u>	<u>27,244,235</u>

## **URBANDALE WATER UTILITY**

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

Management's Discussion and Analysis

June 30, 2017 and 2016

The unrestricted net position \$2,577,332 and \$1,442,060 at fiscal years ending on June 30, 2017 and 2016, 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.

### **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 \$1,960,139 and \$2,425,289 for the fiscal years ending June 30, 2017 and 2016, respectively. The increase in net position for the year ending June 30, 2017 is attributable to operating and non-operating income of \$1,235,837 and capital contributions in the amount of 724,302. The following table depicts the changes in net position for the year.



## URBANDALE WATER UTILITY

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

Management's Discussion and Analysis

June 30, 2017 and 2016

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

	<b>June 30, 2017</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Operating revenues:			
Metered sales	\$ 8,800,431	7,603,614	6,910,924
Other	578,382	525,799	574,361
Total operating revenues	9,378,813	8,129,413	7,485,285
Operating expenses:			
Water purchases	2,616,041	2,324,021	2,067,074
Distribution operations	1,539,671	1,103,424	1,226,719
Distribution maintenance	639,370	592,318	533,581
Accounting and collection	621,032	548,539	541,796
General and administrative	687,022	591,621	636,824
Depreciation	727,943	714,810	659,332
Total operating expenses	6,831,079	5,874,733	5,665,326
Operating income	2,547,734	2,254,680	1,819,959
Non-operating revenues (expenses):			
Interest income	6,670	5,921	14,466
Interest expense	(145,146)	(157,772)	(211,837)
Contributions	(1,331,972)	(1,632,590)	(1,575,511)
Lease revenue	133,948	103,484	87,418
Miscellaneous income	24,603	25,995	34,483
Total non-operating expenses, net	(1,311,897)	(1,654,962)	(1,650,981)
Income before capital contributions	1,235,837	599,718	168,978
Capital contributions	724,302	1,825,571	426,373
Change in net position	1,960,139	2,425,289	595,351
Net position at beginning of year	22,249,232	19,823,943	19,228,592
Net position at end of year	\$ 24,209,371	22,249,232	19,823,943

The Water Utility's operating revenues increased by 15.369% and 8.606% for fiscal years ending June 30, 2017 and 2016, respectively. Operating expenses increased by 16.279% and by 3.696%, respectively. The ending unrestricted position totaled \$2,577,332 and \$1,442,060, respectively. Total operating revenues exceeded operating expenses by \$2,547,734 and \$2,254,680, respectively.

## URBANDALE WATER UTILITY

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

### Management's Discussion and Analysis

June 30, 2017 and 2016

Key elements of the changes in net position for the years ending June 30, 2017 and 2016, respectively:

- Contributions from developers for infrastructure improvements of \$724,302 and \$1,825,571 for 2017 and 2016, respectively.
- Operating revenues exceeded operating expenses by \$2,547,734 and \$2,254,680 in 2017 and 2016, respectively.

### Capital Assets and Debt Administration

#### *Capital assets*

At the end of 2017 and 2016, the Water Utility had invested \$25,204,039 and \$24,679,152, 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 \$524,887 (2.127%) from 2016 to 2017 and net increase (including additions and deductions) of \$2,307,016 (10.312%) from 2015 to 2016, respectively.

**Table A**

<b>Capital assets</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Building	\$ 1,181,173	1,181,173	1,181,173
Distribution system	33,661,982	32,632,736	29,478,201
Land	2,198,900	2,198,900	2,198,900
Equipment	856,934	893,970	820,101
Construction in progress	172,671	—	285,690
	<u>38,071,660</u>	<u>36,906,779</u>	<u>33,964,065</u>
Less depreciation	<u>12,867,621</u>	<u>12,227,627</u>	<u>11,591,929</u>
Net capital assets	<u>\$ 25,204,039</u>	<u>24,679,152</u>	<u>22,372,136</u>

Additional information on the Water Utility's capital assets can be found in Note 3 of this report.

## **URBANDALE WATER UTILITY**

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

Management's Discussion and Analysis

June 30, 2017 and 2016

### ***Long-term debt***

The Water Utility had a long-term capital loan debt balance of \$4,595,000 on June 30, 2017. The debt balance on June 30, 2016 was \$4,952,000. The reduction of capital loan debt was \$357,000 in principal payments.

Additional information on the Water Utility's debt can be found in Note 4 of this report.

### **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.

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 2017 Activity***

The Utility continued its meter replacement program and changed 670 meters this year. 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.

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 \$61,922,200 which includes \$59,000,000 for a water treatment plant and \$2,922,200 for water main replacement projects, main extensions, and various improvements to the distribution system. See Table B.

Due to recent events in the Iowa Legislator and a change in direction, the Utility will likely not build the treatment plant and remove it from the future CIP. The Des Moines Metro is moving toward developing a Regional Production Utility which will be responsible for building and constructing facilities to meeting the future water treatment needs of the entire area.

**URBANDALE WATER UTILITY**

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

Management's Discussion and Analysis

June 30, 2017 and 2016

**Table B**  
**Urbandale Water Utility Capital Improvements 2017-2022**

<b>Year</b>		<b>Feet</b>	<b>Description</b>	<b>Cost</b>
2017	F17	1,300	8" Oliver Smith - 70th to 72nd	234,000
	S18	1,200	8" Oakbrook - Deer Creek Trail West	216,000
	F17		Treatment Plant Design	3,250,000
	S18		Treatment Plant Construction	<u>9,500,000</u>
				13,200,000
2018	F18	2,640	8" 70th - Douglas to Aurora	475,200
	18-19		Treatment Plant Construction	<u>25,375,000</u>
				25,850,200
2019	F19	1,800	8" Oakbrook - Cardinal Lane to Deer Creek Trail	324,000
	S20	350	8" Wilden - 74th to 75th	63,000
	19-20		Treatment Plant Construction	<u>20,875,000</u>
				21,262,000
2020	F20	1,250	8" 70th - Urbandale to New York	225,000
	S21	1,300	8" Monroe Court - 70th to 72nd	<u>234,000</u>
				459,000
2021	F21	1,300	12" Douglas - 100th to 104th	260,000
	S22	1,700	8" 76th - Aurora to Airline	<u>306,000</u>
				566,000
2022		2,000	8" 83rd - Madison to Aurora	360,000
		1,250	Roseland 70th to 72nd	<u>225,000</u>
				585,000
			Total Five Year Capital Improvements	<u>\$ 61,922,200</u>
			CIP Without Treatment Plant	<u>\$ 2,922,000</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.

## **URBANDALE WATER UTILITY**

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

Management's Discussion and Analysis

June 30, 2017 and 2016

### **Economic Factors and Next Year's Budget and Rates**

Based on historical trends, current fiscal year activity and 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, 2017. The Urbandale Water Board of Trustees increased the irrigation rate by 12.5% and the domestic rate by 15%. The irrigation rate reflects a rate based on the irrigation demand and the cost to serve the irrigation customers. 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. The service availability fees remained unchanged.
- 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.
- The 2017-18 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 2018. 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 begin preliminary designs of our own water treatment plant to determine the exact cost of the project. Those costs are reflected in the 2017-2018 budget.

The 2017 Iowa Legislature made an attempt to dismantle the Water Boards of three Cities in the Des Moines Metro one of which was the Urbandale Water Utility. The focus was to force the metro area cities to form a Regional Water Utility to govern and develop of all future water production facilities in the Des Moines Metro area. As a result of that action, the Urbandale Water Utility Board has stopped the design of its own water treatment plant to work towards creating this Regional Utility for Production. As a result, a part of the 2017-18 Budget which includes expenditures for the design and construction of its own water treatment plant will not likely be realized.

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.

# URBANDALE WATER UTILITY

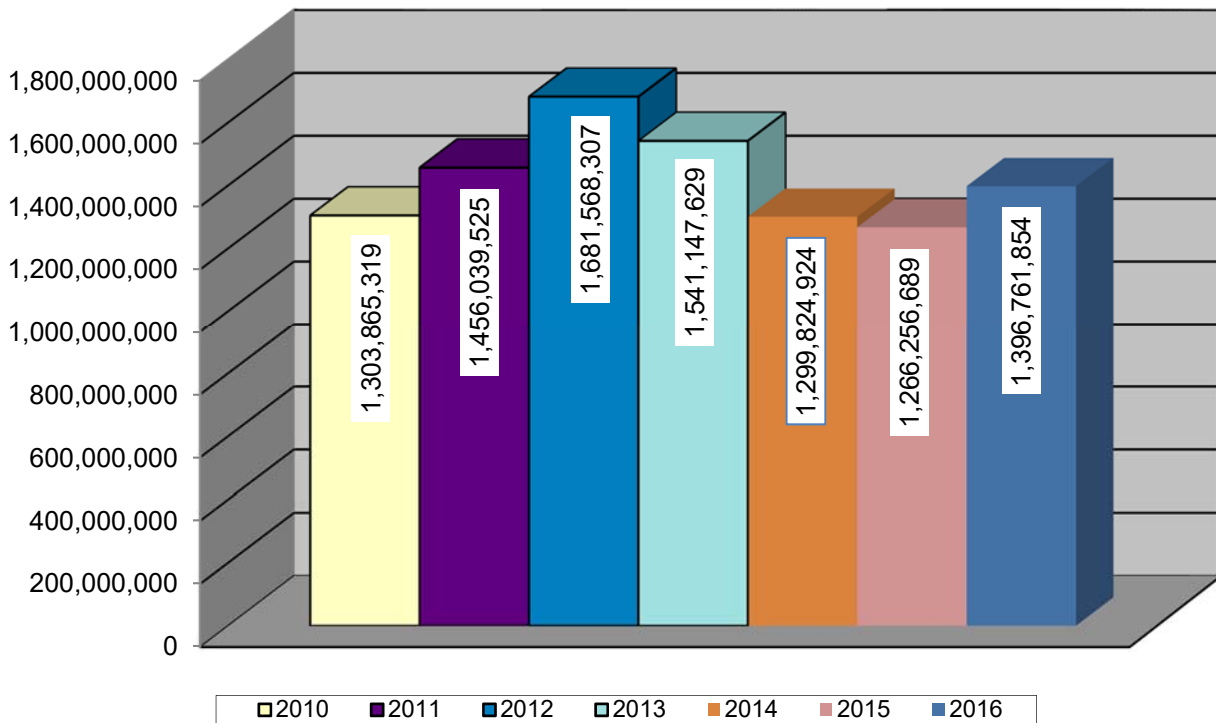
(A Component Unit of the City of Urbandale, Iowa)  
Urbandale, Iowa

Management's Discussion and Analysis

June 30, 2017 and 2016

Table C

## Water Sold 2010 - 2016



### 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 86<sup>th</sup> Street, Urbandale, Iowa 50322.

## URBANDALE WATER UTILITY

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

Statements of Net Position

June 30, 2017 and 2016

	2017	2016
<b>Assets and Deferred Outflows of Resources</b>		
Current assets:		
Cash (note 2)	\$ 97,160	112,207
Cash equivalents (note 2)	3,744,358	2,566,883
Accounts receivable	1,530,069	1,448,583
Due from City of Urbandale	21,127	6,069
Prepaid expense and other assets	41,607	31,243
Accrued interest receivable	355	292
Inventories, at cost	215,562	121,511
Total current assets	5,650,238	4,286,788
Restricted assets:		
Cash and cash equivalents (note 2)	295,404	296,808
Due from City of Urbandale	340	140
Total restricted assets	295,744	296,948
Capital assets (note 3):		
Building	1,181,173	1,181,173
Distribution system	33,661,982	32,632,736
Land	2,198,900	2,198,900
Equipment	856,934	893,970
Construction in progress	172,671	—
	38,071,660	36,906,779
Less accumulated depreciation	12,867,621	12,227,627
Net capital assets	25,204,039	24,679,152
Total assets	31,150,021	29,262,888
Deferred outflows of resources:		
IPERS pension (note 5)	291,200	145,044
Total assets and deferred outflows of resources	\$ 31,441,221	29,407,932

See accompanying notes to financial statements.

## URBANDALE WATER UTILITY

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

### Statements of Net Position

June 30, 2017 and 2016

	2017	2016
<b>Liabilities, Deferred Inflows and Net Position</b>		
Liabilities:		
Current liabilities payable from current assets:		
Accounts payable	\$ 95,427	24,564
Due to other governments	814,257	678,551
Due to City of Urbandale	59,584	50,570
Compensation and payroll taxes	79,966	50,882
Compensated absences (note 4)	90,741	88,622
Interest payable	14,090	14,856
Current portion of capital loans payable (note 4)	363,000	357,000
	1,517,065	1,265,045
Current liabilities payable from restricted assets:		
Customer deposits	66,740	68,550
Total current liabilities	1,583,805	1,333,595
Long-term liabilities:		
Capital loans payable (note 4):	4,232,000	4,595,000
Compensated absences (note 4):	181,333	156,968
Net OPEB Liability (note 6):	115,628	98,985
Net pension liability (note 5):	1,072,327	840,677
Total long-term liabilities	5,601,288	5,691,630
Total liabilities	7,185,093	7,025,225
Deferred inflows of resources:		
IPERS pension (note 5)	46,757	133,475
Net Position:		
Net investment in capital assets	21,632,039	20,807,172
Unrestricted	2,577,332	1,442,060
Total net position	24,209,371	22,249,232
Commitments (note 8)		
Total liabilities, deferred inflows and net position	\$ 31,441,221	29,407,932



## URBANDALE WATER UTILITY

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

Statements of Revenues, Expenses, and Changes in Net Position  
Years ended June 30, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Operating revenues:		
Metered sales	\$ 8,800,431	7,603,614
Other	578,382	525,799
Total operating revenues	9,378,813	8,129,413
Operating expenses:		
Water purchases	2,616,041	2,324,021
Distribution operations	1,539,671	1,103,424
Distribution maintenance	639,370	592,318
Accounting and collection	621,032	548,539
General and administrative	687,022	591,621
Depreciation	727,943	714,810
Total operating expenses	6,831,079	5,874,733
Operating income	2,547,734	2,254,680
Nonoperating revenues (expenses):		
Interest income	6,670	5,921
Interest expense and fiscal charges	(145,146)	(157,772)
Contribution (note 8)	(1,331,972)	(1,632,590)
Lease revenue	133,948	103,484
Miscellaneous income	24,603	25,995
Total nonoperating expenses, net	(1,311,897)	(1,654,962)
Income before capital contributions	1,235,837	599,718
Capital contributions	724,302	1,825,571
Change in net position	1,960,139	2,425,289
Net position at beginning of year	22,249,232	19,823,943
Net position at end of year	\$ 24,209,371	22,249,232

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash receipts from customers and users	\$ 9,424,979	7,708,225
Cash payments to suppliers	(4,179,291)	(3,409,271)
Cash payments to employees	(1,248,708)	(1,303,819)
Other operating cash payments	<u>(637,702)</u>	<u>(536,194)</u>
Net cash provided by operating activities	<u>3,359,278</u>	<u>2,458,941</u>
Cash flows from noncapital financing activities:		
Cash receipts from lease	133,948	103,484
Cash receipts from miscellaneous income	<u>24,603</u>	<u>25,995</u>
Net cash provided by noncapital financing activities	<u>158,551</u>	<u>129,479</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(528,528)	(1,196,255)
Cash paid for interest	(145,912)	(155,257)
Principal payments on revenue bonds and capital loans	(357,000)	(346,000)
Cash paid for capital contributions	<u>(1,331,972)</u>	<u>(1,632,590)</u>
Net cash used in capital and related financing activities	<u>(2,363,412)</u>	<u>(3,330,102)</u>
Cash flows from investing activities:		
Cash received from interest	<u>6,607</u>	<u>6,532</u>
Net increase (decrease) in cash and cash equivalents	1,161,024	(735,150)
Cash and cash equivalent at beginning of year	<u>2,975,898</u>	<u>3,711,048</u>
Cash and cash equivalents at end of year	<u>\$ 4,136,922</u>	<u>2,975,898</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash	\$ 97,160	112,207
Cash equivalent	3,744,358	2,566,883
Restricted assets - cash and cash equivalents	<u>295,404</u>	<u>296,808</u>
Total cash and cash equivalents at end of year	<u>\$ 4,136,922</u>	<u>2,975,898</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,547,734	2,254,680
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	727,943	714,810
Change in:		
Accounts receivable	(81,486)	(578,174)
Due from City of Urbandale	(15,258)	7,743
Prepaid expense	(10,364)	(4,626)
Inventories, at cost	(94,051)	(14,800)
Accounts payable	70,863	(45,079)
Due to other governments	135,706	138,116
Due to City of Urbandale	9,014	7,387
Compensation and payroll taxes	303,861	175,118
Deferred inflows and outflows of resources	(232,874)	(199,974)
Customer deposits	<u>(1,810)</u>	<u>3,740</u>
Net cash provided by operating activities	<u>\$ 3,359,278</u>	<u>2,458,941</u>

Schedule of noncash capital and related financing activities –

Contribution from developers, water distribution system, \$724,302 in 2017 and \$1,825,571 in 2016.

See accompanying notes to financial statements.

## URBANDALE WATER UTILITY

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

Notes to Financial Statements

June 30, 2017 and 2016

### (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, 2017 and 2016.

#### (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**

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

Notes to Financial Statements

June 30, 2017 and 2016

**(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 recorded at acquisition value. 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, 2017 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 prior to adopting a budget. By resolution, the Council adopts a budget effective July 1 and certifies it

## URBANDALE WATER UTILITY

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

Notes to Financial Statements

June 30, 2017 and 2016

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, 2017 and 2016 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, 2017 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

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

Notes to Financial Statements

June 30, 2017 and 2016

### (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, 2017 and 2016, 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, 2017 and 2016, cash equivalents included a money market account of \$3,674,400 and \$2,499,028, respectively, and an investment in the Iowa Public Agency Investment Trust (IPAIT) \$136,698 and \$136,405 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 \$155,075 and \$169,716, 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.

**URBANDALE WATER UTILITY**

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

Notes to Financial Statements

June 30, 2017 and 2016

*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, 2017 and 2016 is as follows:

	<b>2017</b>			<b>June 30, 2017 Balance</b>
	<b>June 30, 2016 Balance</b>	<b>Increases</b>	<b>Decreases</b>	
Capital assets, not being depreciated				
Land	\$ 2,198,900	—	—	2,198,900
Construction in progress	—	172,671		172,671
Total capital assets, not being depreciated	2,198,900	172,671	—	2,371,571
Capital assets being depreciated:				
Equipment	893,970	70,724	107,760	856,934
Buildings	1,181,173	—	—	1,181,173
Distribution system	32,632,736	1,033,074	3,828	33,661,982
Total capital assets being depreciated	34,707,879	1,103,798	111,588	35,700,089
Less accumulated depreciation for:				
Equipment	707,643	64,037	83,936	687,744
Buildings	683,277	30,617	—	713,894
Distribution system	10,836,707	633,289	4,013	11,465,983
Total accumulated depreciation	12,227,627	727,943	87,949	12,867,621
Total capital assets, net	\$ 24,679,152	548,526	23,639	25,204,039

**URBANDALE WATER UTILITY**

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

Notes to Financial Statements

June 30, 2017 and 2016

	<b>2016</b>			
	<b>June 30, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2016</b>
	<b>Balance</b>			<b>Balance</b>
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



**URBANDALE WATER UTILITY**

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

Notes to Financial Statements

June 30, 2017 and 2016

**(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, 2017 the restricted cash on the balance sheet includes \$20,387 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, 2017 are as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Water Revenue Refunding</u> <u>Capital Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 209,000	30,984
2019	214,000	26,825
2020	218,000	22,567
2021	222,000	18,228
2022	227,000	13,811
2023-24	467,000	13,990
	<u>\$ 1,557,000</u>	<u>126,405</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

**URBANDALE WATER UTILITY**

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

Notes to Financial Statements

June 30, 2017 and 2016

maturity in 2031. At June 30, 2017 the restricted cash on the balance sheet includes \$22,839 in the Sinking Fund.

Principal and interest requirements to maturity for obligations at June 30, 2017 are as follows:

<u>Years Ending June 30,</u>	<u>Capital Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 59,000	30,690
2019	61,000	28,920
2020	63,000	27,090
2021	65,000	25,200
2022	67,000	23,250
2023-2027	368,000	84,810
2028-2031	340,000	25,890
	<u>\$ 1,023,000</u>	<u>245,850</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, 2017 the restricted cash on the balance sheet includes \$14,689 in the Sinking Fund and \$170,749 in the Reserve Fund.

Principal and interest requirements to maturity for obligations at June 30, 2017 are as follows:

<u>Years Ending June 30,</u>	<u>Water Revenue Capital Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 95,000	72,339
2019	100,000	68,928
2020	105,000	65,338
2021	105,000	61,569
2022	110,000	57,799
2023-2027	615,000	226,349
2028-2032	725,000	108,597
2033	160,000	5,744
	<u>\$ 2,015,000</u>	<u>666,663</u>

**URBANDALE WATER UTILITY**

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

Notes to Financial Statements

June 30, 2017 and 2016

Changes in long-term obligations for the year ended June 30, 2017 and 2016 are as follows:

	<b>Balance June 30, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2017</b>	<b>Due within 1 year</b>
Water revenue refunding	\$ 1,762,000	—	205,000	1,557,000	209,000
Capital loans	3,190,000	—	152,000	3,038,000	154,000
Compensated absences	245,590	26,484	—	272,074	90,741
Total	\$ 5,197,590	26,484	357,000	4,867,074	453,741

	<b>Balance June 30, 2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2016</b>	<b>Due within 1 year</b>
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	\$ 5,535,784	7,806	346,000	5,197,590	445,622

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

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

## URBANDALE WATER UTILITY

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

### Notes to Financial Statements

June 30, 2017 and 2016

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.

## URBANDALE WATER UTILITY

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

Notes to Financial Statements

June 30, 2017 and 2016

In fiscal years 2017 and 2016, 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, 2017 and 2016 were \$112,589 and 109,195, respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017 and 2016, the Utility reported a liability of \$1,072,327 and \$840,677 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2016, the Utility's collective proportion was .017039 percent which was an increase of .000023 percent from its proportion measured as of June 30, 2015 of .017016 percent.

For the year ended June 30, 2017 and 2016, the Utility recognized pension expense of \$111,365 and \$52,505, 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:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 9,478		12,703	
Changes of assumptions	16,360		23,146	
Net difference between projected and actual earnings on pension plan investments.	152,773	12,798		69,966
Changes in proportion and differences between Utility contributions and proportionate share of contributions		33,959		63,509
Utility contributions subsequent to the measurement date	112,589	-	109,195	-
Total	\$ 291,200	46,757	145,044	133,475

The \$112,589 in 2017 and \$109,195 in 2016 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, 2018 and 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**URBANDALE WATER UTILITY**

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

Notes to Financial Statements

June 30, 2017 and 2016

<b>Year Ending June 30,</b>	<b>2017</b>	<b>2016</b>
2017	\$ -	(41,762)
2018	4,849	(41,762)
2019	4,849	(41,762)
2020	75,676	28,073
2021	46,599	(413)
2022	(119)	-
	\$ 131,854	(97,626)

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00 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 IPERS' 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:

**URBANDALE WATER UTILITY**

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

Notes to Financial Statements

June 30, 2017 and 2016

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

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS’ fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on 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% lower (6.5 percent) or 1% higher (8.5 percent) than the current rate.

	<b>1% Decrease ( 6.5% )</b>	<b>Discount Rate ( 7.5% )</b>	<b>1% Increase ( 8.5% )</b>
Utility's proportionate share of the net pension liability at June 30, 2016	\$ 1,734,880	1,072,327	513,124
Utility's proportionate share of the net pension liability at June 30, 2015	\$ 1,471,875	840,677	307,901

## URBANDALE WATER UTILITY

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

### Notes to Financial Statements

June 30, 2017 and 2016

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

Payables to IPERS – At June 30, 2017 and 2016, the Utility reported payables to IPERS of \$8,655 and \$7,891, respectively for legally required employer contributions and \$5,767 and \$5,258, 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 \$47,535 and \$37,496 for the years ended June 30, 2017 and 2016, respectively. The Water Utility's employees made contributions to the plan of \$79,223 and \$62,493 for the years ended June 30, 2017 and 2016, 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



**URBANDALE WATER UTILITY**

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

Notes to Financial Statements

June 30, 2017 and 2016

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.

The following table shows the components of the Utility’s annual OPEB cost for the years ended June 30, 2017 and 2016, the amount actually contributed to the plan and changes in the Utility’s net OPEB obligation:

		<u>2017</u>	<u>2016</u>
Annual required contribution	\$	18,242	16,487
Interest on net OPEB obligation		2,475	2,109
Adjustments to annual required contribution		<u>(4,074)</u>	<u>(3,971)</u>
Annual OPEB cost		16,643	14,625
Contributions made		-	-
Increase in net OPEB obligation		16,643	14,625
Net OPEB obligation beginning of year		<u>98,985</u>	<u>84,360</u>
Net OPEB obligation end of year	\$	<u>115,628</u>	<u>98,985</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, 2017.

For the year ended June 30, 2017, 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, 2017 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, 2017	\$16,643	0%	\$115,628
June 30, 2016	\$14,625	0%	\$ 98,985
June 30, 2015	\$13,510	0%	\$ 84,360

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, 2017, the actuarial accrued liability was \$192,311, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$192,311. The covered payroll (annual payroll of active employees covered by the plan) was \$1,238,890 and

## URBANDALE WATER UTILITY

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

Notes to Financial Statements

June 30, 2017 and 2016

the ratio of the UAAL to covered payroll was approximately 15.5%. As of June 30, 2017, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include 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 538 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.

## URBANDALE WATER UTILITY

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

### Notes to Financial Statements

June 30, 2017 and 2016

Program components include claims management, member education and loss control services. There have been no reductions in insurance coverage from prior years.

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, 2017 were \$13,066.

#### **(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 753 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 casualty 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 estimated for the fiscal 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 basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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.

## URBANDALE WATER UTILITY

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

### Notes to Financial Statements

June 30, 2017 and 2016

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, 2017 were \$46,306.

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 \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Utility's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Utility's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Utility's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

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, 2017, no liability has been recorded in the Utility's financial statements. As of June 30, 2017, 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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

**URBANDALE WATER UTILITY**

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

Notes to Financial Statements

June 30, 2017 and 2016

**(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, 2017 and 2016 to contribute to Des Moines Water Works \$8,853,046 and \$10,396,952, respectively.

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

<u>Years Ending June 30,</u>	<u>Maffitt Treatment Plant</u>	<u>Saylorville Treatment Plant</u>
2018	\$ 148,152	1,074,977
2019	—	1,078,378
2020	—	1,082,977
2021	—	1,087,063
2022	—	1,091,127
2023-2026	—	3,290,372
	\$ <u>148,152</u>	<u>8,704,894</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.

**URBANDALE WATER UTILITY**

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

Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan

June 30, 2017 and 2016

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>Percentage of Covered Payroll ((b-a)/c)</b>
July 1, 2014	\$ -	\$ 192,311	\$ 192,311	0.00%	\$ 1,238,890	15.52%
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.

**URBANDALE WATER UTILITY**

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

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, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Utility's proportion of the net pension liability (asset)	0.0170391%	0.0170161%	0.0175847%
Utility's proportion of the net pension liability (asset)	\$ 1,072,327	840,677	697,393
Utility's covered payroll	\$ 1,260,797	1,165,755	1,150,666
Utility's proportionate share of the net pension liability as a percentage of its covered payroll	85.05%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability.	81.82%	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 preceding year.

See accompanying notes to required supplementary information.

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

**URBANDALE WATER UTILITY**  
**(A Component Unit of the City of Urbandale, Iowa)**  
**Urbandale, Iowa**  
**Required Supplementary Information**  
**Schedule of Utility Contributions**  
**Iowa Public Employees' Retirement System - IPERS**  
**Last Ten Fiscal Years**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily required contribution	\$ 57,326	64,107	69,343	75,503	97,864	104,545	102,751	104,102	109,195	112,589
Contributions in relation to the statutorily required contribution	<u>57,326</u>	<u>64,107</u>	<u>69,343</u>	<u>75,503</u>	<u>97,864</u>	<u>104,545</u>	<u>102,751</u>	<u>104,102</u>	<u>109,195</u>	<u>112,589</u>
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Utility's covered payroll	\$ 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	1,260,797
Contributions as a percentage of covered payroll	6.03%	6.35%	6.65%	6.95%	8.07%	8.67%	8.93%	8.93%	8.93%	8.93%

See accompanying notes to required supplementary information.



## URBANDALE WATER UTILITY

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

Notes to Required Supplementary Information – Pension Liability  
Year ended June 30, 2017

### *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 to 3.00%.
- 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 (unfunded actuarial liability) 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.

**URBANDALE WATER UTILITY**

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

Schedule of Cash Receipts and Cash Disbursements –  
 Budget and Actual

Year ended June 30, 2017

	<b>2017</b>		
	<b>Original and Final</b>	<b>Actual</b>	<b>Actual over (under) budget</b>
Cash receipts:			
Metered sales	\$ 8,395,313	8,734,685	339,372
Bulk and construction water sales	30,000	19,794	(10,206)
Water service hookup	147,345	123,197	(24,148)
Other service	10,000	9,345	(655)
Other:			
Collections for sewer districts	4,792,507	4,210,847	(581,660)
Taps	4,000	2,990	(1,010)
Meters and parts	96,300	99,609	3,309
Hydrant meter charge	6,000	6,084	84
Sewer collection fees	123,579	125,639	2,060
Sales tax	623,513	641,297	17,784
Bacteriological samples	4,100	3,560	(540)
Late charges	35,000	32,264	(2,736)
Miscellaneous	43,000	54,028	11,028
Main reimbursements	10,000	26,324	16,324
Interest on investments	8,000	6,606	(1,394)
Trust receipts	29,500	30,255	755
Lease revenue	84,204	133,948	49,744
Solid Waste	2,016,000	2,023,587	7,587
Solid waste collect	28,300	28,674	374
Storm Water	2,254,626	2,271,591	16,965
Storm Water collect	30,800	31,305	505
Miscellaneous Non-Operating	35,000	24,603	(10,397)
Total other	<u>10,224,429</u>	<u>9,753,211</u>	<u>(471,218)</u>
Total cash receipts	<u>\$ 18,807,087</u>	<u>18,640,232</u>	<u>(166,855)</u>
Cash disbursements:			
Water purchases	<u>\$ 2,634,447</u>	<u>2,580,073</u>	<u>(54,374)</u>
Distribution operations:			
Personnel:			
Salaries	\$ 453,205	454,936	1,731
Part-time	30,000	12,867	(17,133)
FICA	36,965	35,640	(1,325)
Retirement	40,471	40,166	(305)
Group insurance	121,293	117,943	(3,350)
	<u>681,934</u>	<u>661,552</u>	<u>(20,382)</u>
Operations and maintenance:			
Telephone and communication	\$ 13,500	8,504	(4,996)
Bacteriological samples	12,328	11,276	(1,052)
Drafting supplies	2,000	2,211	211
Vehicle repair and maintenance	32,000	19,619	(12,381)
Buildings and grounds	133,000	98,052	(34,948)
Utility systems and structures	585,000	405,224	(179,776)
Inspections	75,000	510,636	435,636
New meters	473,270	278,868	(194,402)
Automotive equipment	—	—	—
Easements	2,500	—	(2,500)
Miscellaneous	2,500	36	(2,464)
	<u>1,331,098</u>	<u>1,334,426</u>	<u>3,328</u>
Total distribution operations	<u>2,013,032</u>	<u>1,995,978</u>	<u>(17,054)</u>

**URBANDALE WATER UTILITY**

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

Schedule of Cash Receipts and Cash Disbursements –  
 Budget and Actual

Year ended June 30, 2017

	<b>2017</b>		
	<b>Original and Final</b>	<b>Actual</b>	<b>Actual over (under) budget</b>
<b>Distribution maintenance:</b>			
<b>Personnel:</b>			
Salaries	\$ 344,629	318,624	(26,005)
FICA	26,364	23,944	(2,420)
Retirement	30,168	28,198	(1,970)
Group insurance	85,418	77,064	(8,354)
	<u>486,579</u>	<u>447,830</u>	<u>(38,749)</u>
<b>Operations and maintenance:</b>			
System maintenance	\$ 35,000	86,783	51,783
Minor equipment and tools	16,000	13,019	(2,981)
Main maintenance supplies	38,000	40,054	2,054
Repair maintenance, vehicles, and equipment	54,150	58,307	4,157
Miscellaneous contract work	10,000	2,005	(7,995)
Meter parts	39,500	27,257	(12,243)
Hydrants, valves, and parts	32,000	29,955	(2,045)
Miscellaneous	750	191	(559)
	<u>225,400</u>	<u>257,571</u>	<u>32,171</u>
<b>Total distribution maintenance</b>	<u>711,979</u>	<u>705,401</u>	<u>(6,578)</u>
<b>Accounting and collection:</b>			
<b>Personnel:</b>			
Salaries	\$ 236,869	231,826	(5,043)
Part-time	4,800	—	(4,800)
FICA	18,488	16,905	(1,583)
Retirement	21,152	20,612	(540)
Group insurance	76,068	74,116	(1,952)
	<u>357,377</u>	<u>343,459</u>	<u>(13,918)</u>
<b>Operations and maintenance:</b>			
Postage and shipping	\$ 127,200	125,569	(1,631)
Computer/Printing	147,149	147,016	(133)
Customer refunds	18,000	14,427	(3,573)
Remittances to sewer districts	4,791,882	4,110,660	(681,222)
Solid Waste remittances	2,016,000	2,016,001	1
Storm Water remittances	2,254,626	2,262,246	7,620
Sales tax remittances	623,513	647,083	23,570
Miscellaneous	1,000	247	(753)
	<u>9,979,370</u>	<u>9,323,249</u>	<u>(656,121)</u>
<b>Total accounting and         collection</b>	<u>10,336,747</u>	<u>9,666,708</u>	<u>(670,039)</u>

**URBANDALE WATER UTILITY**

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

Schedule of Cash Receipts and Cash Disbursements –  
 Budget and Actual

Year ended June 30, 2017

	<b>2017</b>		
	<b>Original and Final</b>	<b>Actual</b>	<b>Actual over (under) budget</b>
<b>General and administrative:</b>			
<b>Personnel:</b>			
Salaries	\$ 270,891	270,411	(480)
FICA	21,457	19,263	(2,194)
Retirement	62,372	72,147	9,775
Group insurance	79,872	73,803	(6,069)
	<u>434,592</u>	<u>435,624</u>	<u>1,032</u>
<b>Operations and maintenance:</b>			
Liability insurance	\$ 65,200	79,684	14,484
Professional fees	31,000	31,112	112
Dues, memberships, and subscriptions	12,000	11,804	(196)
Postage and shipping	2,460	1,866	(594)
Telephone	13,440	13,384	(56)
Training	10,000	4,896	(5,104)
Travel and conference expense	10,000	4,303	(5,697)
Office supplies and equipment	15,600	6,801	(8,799)
Utilities	15,000	14,007	(993)
Advertising and legal publications	2,000	2,144	144
Miscellaneous	13,100	11,986	(1,114)
Bank service charge	39,600	46,487	6,887
Capital Contributions	1,684,284	1,331,972	(352,312)
Trust disbursements	25,000	32,065	7,065
	<u>1,938,684</u>	<u>1,592,511</u>	<u>(346,173)</u>
<b>Total general and       administrative</b>	<u>2,373,276</u>	<u>2,028,135</u>	<u>(345,141)</u>
<b>2015 Water Revenue Refunding</b>			
Debt Service - 2015 Capital Loan	\$ 240,064	240,064	—
<b>2010 SRF Capital Loan:</b>			
Debt Service - SRF Loan	92,100	92,100	—
<b>2012 Capital Loan Note Debt Service</b>			
	<u>170,749</u>	<u>170,749</u>	<u>—</u>
<b>Total Bond/Loan Expenditures</b>	<u>502,913</u>	<u>502,913</u>	<u>—</u>
<b>Total cash disbursements</b>	<u>18,572,394</u>	<u>17,479,208</u>	<u>(1,093,186)</u>
<b>Cash receipts over     cash disbursements</b>	<u>\$ 234,693</u>	<u>1,161,024</u>	<u>926,331</u>
Cash and cash equivalents at beginning of year		<u>2,975,898</u>	
Cash and cash equivalents at end of year		<u>\$ 4,136,922</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, 2017

	<u>2017</u>
Cash receipts over (under) cash disbursements	\$ 1,161,024
Change in Accrued Revenue	(7,700,344)
Change in Accrued Expense	8,477,436
Reconciling Accruals	<u>22,023</u>
Total change in Net Position	<u>\$ 1,960,139</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, 2017 and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated November 2, 2017.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2017-A and 2017-B, that we consider to be significant deficiencies.

## **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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2017, 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 Responses to Findings**

The Utility's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Utility's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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.



Dubuque, Iowa  
November 2, 2017

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

**SIGNIFICANT DEFICIENCIES**

2017-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.

2017-B      **Audit Adjustment**

**Criteria** – A properly designed system of internal control over financial reporting allows entities to initiate, authorize, record, process and report financial data reliably in accordance with general accepted accounting principles.

**Condition** – During the course of our engagement, we proposed an audit adjustment to the financial statement that would not have been identified as a result of the Utility’s existing internal controls and, therefore, could have resulted in a misstatement of the Utility’s financial statements.

**Cause/Effect** – There is a limited number of office employees with varying levels of experience with the reporting requirements. The effect of this condition was financial data not in accordance with generally accepted accounting principles.

**Recommendation** – We recommend the Utility implement additional review procedures to ensure all amounts are properly reflected in the financial statements.

**Response** – The Utility agrees with the recommendation and will implement additional financial statement review procedures.



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

- 2017-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.
- 2017-IA-B **Travel Expense** - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- 2017-IA-C **Business Transactions** - No business transactions between the Utility and its officials or employees were noted.
- 2017-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.
- 2017-IA-E **Board Minutes** - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2017-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.
- 2017-IA-G **Revenue Notes** – No instances of non-compliance with the revenue note provisions were noted.