

URBANDALE WATER UTILITY

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

Financial Statements and
Supplementary Information

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

URBANDALE WATER UTILITY

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

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Independent Auditor's Report

To the Board of Trustees
Urbandale Water Utility
Urbandale, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the Urbandale Water Utility (Utility), a component unit of the City of Urbandale, Iowa, as of and for the year ended June 30, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Notes 1 and 9 to the financial statements, the Utility has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of July 1, 2017. In accordance with GASB Statement No. 75, the 2017 financial statements have not been restated to reflect this change. Our opinions are not modified with respect to this matter.

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 taken as a whole. 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, 2018, 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, 2018

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
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Management's Discussion and Analysis

June 30, 2018 and 2017

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, 2018 and 2017. 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 2017-18 fiscal year by \$28,078,656 (net position). Of this amount, \$5,834,738 (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 \$3,933,521 for the year ended June 30, 2018. This is attributable to operating and non-operating income of \$2,993,874 and capital contributions of \$939,647.
- As of the close of the current fiscal year, the Water Utility's unrestricted cash and cash equivalents balance was \$7,128,209, an increase of \$3,286,691. 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, 2018.
- The Water Utility's total operating revenues increased by 16.491% to \$10,925,435, and the operating expenses increased by 2.943% to \$7,032,130. The total operating revenues exceeded total operating expenses by \$3,893,305.

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 the management, control and operation, subject to the requirements, terms, covenants, conditions and provisions

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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 15.982% and 8.810% for the fiscal years ending June 30, 2018 and 2017, respectively.

The largest portion of the Water Utility's net position (79.220%) is investment in capital assets (e.g. building, distribution system and equipment). See discussion of capital asset activity on page 8. The Water Utility uses these capital assets to provide services to the residents of the City; therefore, the assets are not available for future spending. The capital assets are reported net of related debt. The Water Utility provides revenue through the sale of water and the delivery of goods and services to liquidate any liabilities incurred through operations or capitalized projects.

Water Utility Condensed Statements of Net Position

	June 30, 2018	June 30, 2017 Not Restated	June 30, 2016 Not Restated
Current assets	\$ 8,907,066	5,650,238	4,286,788
Restricted assets	298,855	295,744	296,948
Capital assets, net	25,511,918	25,204,039	24,679,152
Deferred outflows of resources	344,514	291,200	145,044
Total assets and deferred outflows of resources	<u>35,062,353</u>	<u>31,441,221</u>	<u>29,407,932</u>
Long-term liabilities	5,386,671	5,601,288	5,691,630
Other liabilities	1,542,416	1,583,805	1,333,595
Deferred inflows of resources	54,610	46,757	133,475
Total liabilities and deferred inflows of resources	<u>6,983,697</u>	<u>7,231,850</u>	<u>7,158,700</u>
Net position:			
Net investment in capital assets	22,243,918	21,632,039	20,807,172
Unrestricted	5,834,738	2,577,332	1,442,060
Total net position	<u>28,078,656</u>	<u>24,209,371</u>	<u>22,249,232</u>
Total liabilities, deferred inflows and net position	<u>\$ 35,062,353</u>	<u>31,441,221</u>	<u>29,407,932</u>

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The unrestricted net position \$5,834,738 and \$2,577,332 at fiscal years ending on June 30, 2018 and 2017, 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 \$3,933,521 and \$1,960,139 for the fiscal years ending June 30, 2018 and 2017, respectively. The increase in net position for the year ending June 30, 2018 is attributable to operating and non-operating income of \$2,993,874 and capital contributions in the amount of 939,647. The following table depicts the changes in net position for the year.

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

	June 30, 2018	June 30, 2017 Not Restated	June 30, 2016 Not Restated
Operating revenues:			
Metered sales	\$ 10,332,491	8,800,431	7,603,614
Other	592,944	578,382	525,799
Total operating revenues	10,925,435	9,378,813	8,129,413
Operating expenses:			
Water purchases	3,103,361	2,616,041	2,324,021
Distribution operations	1,026,542	1,539,671	1,103,424
Distribution maintenance	681,696	639,370	592,318
Accounting and collection	646,330	621,032	548,539
General and administrative	780,822	687,022	591,621
Depreciation	793,379	727,943	714,810
Total operating expenses	7,032,130	6,831,079	5,874,733
Operating income	3,893,305	2,547,734	2,254,680
Non-operating revenues (expenses):			
Interest income	22,249	6,670	5,921
Interest expense	(132,871)	(145,146)	(157,772)
Contributions	(1,071,041)	(1,331,972)	(1,632,590)
Lease revenue	115,833	133,948	103,484
Miscellaneous income	166,399	24,603	25,995
Total non-operating expenses, net	(899,431)	(1,311,897)	(1,654,962)
Income before capital contributions	2,993,874	1,235,837	599,718
Capital contributions	939,647	724,302	1,825,571
Change in net position	3,933,521	1,960,139	2,425,289
Net position at beginning of year, as restated	24,145,135	22,249,232	19,823,943
Net position at end of year	\$ 28,078,656	24,209,371	22,249,232

The Water Utility's operating revenues increased by 16.491% and 15.369% for fiscal years ending June 30, 2018 and 2017, respectively. Operating expenses increased by 2.943% and by 16.279%, respectively. The ending unrestricted position totaled \$5,834,738 and \$2,577,332, respectively. Total operating revenues exceeded operating expenses by \$3,893,305 and \$2,547,734, respectively.

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Key elements of the changes in net position for the years ending June 30, 2018 and 2017, respectively:

- Contributions from developers for infrastructure improvements of \$939,647 and \$724,302 for 2018 and 2017, respectively.
- Operating revenues exceeded operating expenses by \$3,893,305 and \$2,547,734 in 2018 and 2017, respectively.

Capital Assets and Debt Administration

Capital assets

At the end of 2018 and 2017, the Water Utility had invested \$25,511,918 and \$25,204,039, 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 \$307,879 (1.2215%) from 2017 to 2018 and net increase (including additions and deductions) of \$524,887 (2.127%) from 2016 to 2017, respectively.

Table A

Capital assets	2018	2017	2016
Building	\$ 1,181,173	1,181,173	1,181,173
Distribution system	34,794,072	33,661,982	32,632,736
Land	2,198,900	2,198,900	2,198,900
Equipment	853,937	856,934	893,970
Construction in progress	103,312	172,671	—
	<u>39,131,394</u>	<u>38,071,660</u>	<u>36,906,779</u>
Less depreciation	<u>13,619,476</u>	<u>12,867,621</u>	<u>12,227,627</u>
Net capital assets	<u>\$ 25,511,918</u>	<u>25,204,039</u>	<u>24,679,152</u>

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

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Long-term debt

The Water Utility had a long-term capital loan debt balance of \$4,232,000 on June 30, 2018. The debt balance on June 30, 2017 was \$4,595,000. The reduction of capital loan debt was \$363,000 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 2018 Activity

The Utility continued its meter replacement program and changed 480 meters this year. The new meters are equipped with automatic meter reading (AMR) technology allowing automated integration of meter readings to be downloaded 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 \$3,293,000 for water main replacement projects, main extensions, and various improvements to the distribution system. See Table B.

The Des Moines Metro has engaged the consulting services of FCS Group to complete a study to evaluate if it is beneficial to the region to create a Regional Production Utility. The cost of the study is paid for by Des Moines Water Works, West Des Moines Waterworks, and Urbandale Water Utility equally. Those costs are reflected in the 2018-19 Budget. If a Regional Production Utility is developed it would be responsible for building and constructing facilities to meeting the future water treatment needs of the entire area. Distribution & customer service activities would still be the responsibility of each Utility.

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Table B
Urbandale Water Utility Capital Improvements 2018-2023

Year		Feet	Description	Cost
2018	S18	1,200	8" Oakbrook to Deer Creek Trail	<u>216,000</u>
2019	S19	1250	8" 70th - Urbandale Ave. to New York	225,000
	F19	2100	8" 70th - Douglas to Aurora	<u>378,000</u>
				603,000
2020	S20	1,300	8" Monroe Court - 70th to 72nd	234,000
	F20	1600	8" Monroe Court - 72nd to Roseland	288,000
	F20	350	8" Wilden - 74th to 75th	<u>63,000</u>
				585,000
2021	S21	1250	8" Roseland - 70th to 72nd	225,000
	F21	2100	8" Roseland - 64th to 70th	<u>378,000</u>
				603,000
2022	S22	1,300	12" Douglas - 100th to 104th	260,000
	F22	2,000	8" 67th - Madison to Aurora	<u>360,000</u>
				620,000
2023	S23	1,700	8" 76th - Aurora to Airline	306,000
	F23	2,000	8" 83rd - Madison to Aurora	<u>360,000</u>
				<u>666,000</u>
Total Five Year Capital Improvements				\$ <u><u>3,293,000</u></u>

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

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Management's Discussion and Analysis

June 30, 2018 and 2017

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 are expected to be strong due to rate increases that were implemented in April, 2017. The increase was to pay for some capital improvement projects that were put on hold as a result of the possible development of a Regional Water Utility. The subsequent increased revenues will be directed to other projects.
- 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 2018-19 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 2019. This rate increase will likely be absorbed by the Utility.

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

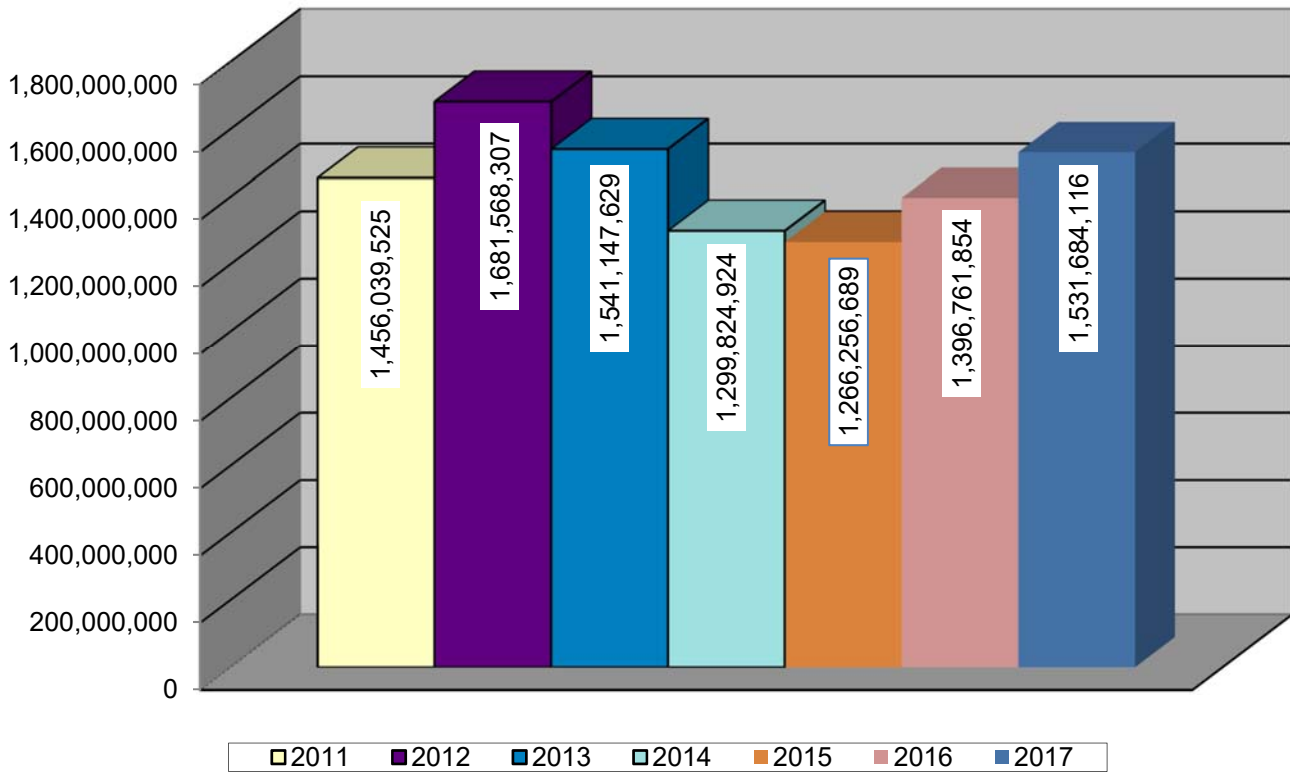
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Management's Discussion and Analysis

June 30, 2018 and 2017

Table C

Water Sold 2011 - 2017



Contacting the Urbandale Water Utility's Financial Management

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

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Statements of Net Position

June 30, 2018 and 2017

	2018	2017 (Not Restated)
Assets and Deferred Outflows of Resources		
Current assets:		
Cash (note 2)	\$ 106,258	97,160
Cash equivalents (note 2)	7,021,951	3,744,358
Accounts receivable	1,526,091	1,530,069
Due from City of Urbandale	15,542	21,127
Prepaid expense and other assets	75,796	41,607
Accrued interest receivable	1,354	355
Inventories, at cost	160,074	215,562
Total current assets	8,907,066	5,650,238
Restricted assets:		
Cash and cash equivalents (note 2)	298,575	295,404
Due from City of Urbandale	280	340
Total restricted assets	298,855	295,744
Capital assets (note 3):		
Building	1,181,173	1,181,173
Distribution system	34,794,072	33,661,982
Land	2,198,900	2,198,900
Equipment	853,937	856,934
Construction in progress	103,312	172,671
	39,131,394	38,071,660
Less accumulated depreciation	13,619,476	12,867,621
Net capital assets	25,511,918	25,204,039
Total assets	34,717,839	31,150,021
Deferred outflows of resources:		
Pension related deferred outflows	331,040	291,200
OPEB related deferred outflows	13,474	—
Total deferred outflows of resources	344,514	291,200
Total assets and deferred outflows of resources	\$ 35,062,353	31,441,221

See accompanying notes to financial statements.

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
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Statements of Net Position

June 30, 2018 and 2017

	2018	2017 (Not Restated)
Liabilities, Deferred Inflows and Net Position	2018	2017 (Not Restated)
Liabilities:		
Current liabilities payable from current assets:		
Accounts payable	\$ 127,261	95,427
Due to other governments	716,145	814,257
Due to City of Urbandale	68,362	59,584
Compensation and payroll taxes	80,141	79,966
Compensated absences (note 4)	95,858	90,741
Interest payable	10,389	14,090
Current portion of capital loans payable (note 4)	375,000	363,000
	1,473,156	1,517,065
Current liabilities payable from restricted assets:		
Customer deposits	69,260	66,740
Total current liabilities	1,542,416	1,583,805
Long-term liabilities:		
Capital loans payable (note 4):	3,857,000	4,232,000
Compensated absences (note 4):	196,238	181,333
Total OPEB Liability (note 6):	208,311	115,628
Net pension liability (note 5):	1,125,122	1,072,327
Total long-term liabilities	5,386,671	5,601,288
Total liabilities	6,929,087	7,185,093
 Deferred inflows of resources:		
Pension related deferred inflows	54,610	46,757
 Net Position:		
Net investment in capital assets	22,243,918	21,632,039
Unrestricted	5,834,738	2,577,332
Total net position	28,078,656	24,209,371
 Commitments (note 8)		
Total liabilities, deferred inflows and net position	\$ 35,062,353	31,441,221

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
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Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2018 and 2017

	2018	2017 (Not Restated)
Operating revenues:		
Metered sales	\$ 10,332,491	8,800,431
Other	592,944	578,382
Total operating revenues	10,925,435	9,378,813
Operating expenses:		
Water purchases	3,103,361	2,616,041
Distribution operations	1,026,542	1,539,671
Distribution maintenance	681,696	639,370
Accounting and collection	646,330	621,032
General and administrative	780,822	687,022
Depreciation	793,379	727,943
Total operating expenses	7,032,130	6,831,079
Operating income	3,893,305	2,547,734
Nonoperating revenues (expenses):		
Interest income	22,249	6,670
Interest expense and fiscal charges	(132,871)	(145,146)
Contribution (note 8)	(1,071,041)	(1,331,972)
Lease revenue	115,833	133,948
Miscellaneous income	166,399	24,603
Total nonoperating revenues (expenses), net	(899,431)	(1,311,897)
Income before capital contributions	2,993,874	1,235,837
Capital contributions	939,647	724,302
Change in net position	3,933,521	1,960,139
Net position at beginning of year, as restated (note 9)	24,145,135	22,249,232
Net position at end of year	\$ 28,078,656	24,209,371

See accompanying notes to financial statements.

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
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Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(Not Restated)</u>
Cash flows from operating activities:		
Cash receipts from customers and users	\$ 10,848,244	9,424,979
Cash payments to suppliers	(4,143,070)	(4,179,291)
Cash payments to employees	(1,295,383)	(1,248,708)
Other operating cash payments	<u>(691,187)</u>	<u>(637,702)</u>
Net cash provided by operating activities	<u>4,718,604</u>	<u>3,359,278</u>
Cash flows from noncapital financing activities:		
Cash receipts from lease	115,833	133,948
Cash receipts from miscellaneous income	<u>166,399</u>	<u>24,603</u>
Net cash provided by noncapital financing activities	<u>282,232</u>	<u>158,551</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(161,611)	(528,528)
Cash paid for interest	(136,572)	(145,912)
Principal payments on revenue bonds and capital loans	(363,000)	(357,000)
Cash paid for capital contributions	<u>(1,071,041)</u>	<u>(1,331,972)</u>
Net cash used in capital and related financing activities	<u>(1,732,224)</u>	<u>(2,363,412)</u>
Cash flows from investing activities:		
Cash received from interest	<u>21,250</u>	<u>6,607</u>
Net increase (decrease) in cash and cash equivalents	3,289,862	1,161,024
Cash and cash equivalent at beginning of year	<u>4,136,922</u>	<u>2,975,898</u>
Cash and cash equivalents at end of year	<u>\$ 7,426,784</u>	<u>4,136,922</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash	\$ 106,258	97,160
Cash equivalent	7,021,951	3,744,358
Restricted assets - cash and cash equivalents	<u>298,575</u>	<u>295,404</u>
Total cash and cash equivalents at end of year	<u>\$ 7,426,784</u>	<u>4,136,922</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 3,893,305	2,547,734
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	793,379	727,943
Change in:		
Accounts receivable	3,978	(81,486)
Due from City of Urbandale	5,645	(15,258)
Prepaid expense	(34,189)	(10,364)
Inventories, at cost	55,488	(94,051)
Accounts payable	31,834	70,863
Due to other governments	(98,112)	135,706
Due to City of Urbandale	8,778	9,014
Compensation and payroll taxes	101,439	303,861
Deferred inflows and outflows of resources	(45,461)	(232,874)
Customer deposits	<u>2,520</u>	<u>(1,810)</u>
Net cash provided by operating activities	<u>\$ 4,718,604</u>	<u>3,359,278</u>

Schedule of noncash capital and related financing activities –

 Contribution from developers, water distribution system, \$939,647 in 2018 and \$724,302 in 2017.

See accompanying notes to financial statements.

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(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.

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

(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, 2018 and 2017.

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(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.

(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 after June 30, 2018 and 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

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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 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, 2018 and 2017 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, 2018 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) Total OPEB Liability

For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and OPEB expense, information has been determined based on the Utility's actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

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(l) *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 and OPEB expense and contributions from the employer after the measurement date, but before the end of the employer's reporting period.

(m) *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 IPERS' investments.

(n) *Implementation of GASB 75*

As of July 1, 2017, the Utility adopted GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB) in their basis financial statements. Employers are required to recognize OPEB amounts for all benefits provided through the plan which include the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense. The effect of the implementation of this standard on beginning net position is disclosed in Note 9 and additional disclosures required by this standard is included in Note 6.

(2) *Cash Deposits and Cash Equivalents*

At June 30, 2018 and 2017, 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, 2018 and 2017, cash equivalents included a money market account of \$6,953,180 and \$3,674,400, respectively, and an investment in the Iowa Public Agency Investment Trust (IPAIT) \$138,031 and \$136,698 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 \$170,785 and checking accounts with \$164,788 and \$155,075, 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

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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.

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.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

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(3) Capital Assets

Capital assets activity for the year ended June 30, 2018 and 2017 is as follows:

	2018			June 30, 2018 Balance
	June 30, 2017 Balance	Increases	Decreases	
Capital assets, not being depreciated				
Land	\$ 2,198,900	—	—	2,198,900
Construction in progress	172,671	103,312	172,671	103,312
Total capital assets, not being depreciated	<u>2,371,571</u>	<u>103,312</u>	<u>172,671</u>	<u>2,302,212</u>
Capital assets being depreciated:				
Equipment	856,934	36,440	39,437	853,937
Buildings	1,181,173	—	—	1,181,173
Distribution system	33,661,982	1,134,177	2,087	34,794,072
Total capital assets being depreciated	<u>35,700,089</u>	<u>1,170,617</u>	<u>41,524</u>	<u>36,829,182</u>
Less accumulated depreciation for:				
Equipment	687,744	58,356	39,437	706,663
Buildings	713,894	30,617	—	744,511
Distribution system	11,465,983	704,406	2,087	12,168,302
Total accumulated depreciation	<u>12,867,621</u>	<u>793,379</u>	<u>41,524</u>	<u>13,619,476</u>
Total capital assets, net	<u>\$ 25,204,039</u>	<u>480,550</u>	<u>172,671</u>	<u>25,511,918</u>

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	2017			June 30, 2017 Balance
	June 30, 2016 Balance	Increases	Decreases	
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

(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, 2018 the restricted cash on the balance sheet includes \$20,612 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.

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Principal and interest requirements to maturity for obligations at June 30, 2018 are as follows:

Years Ending June 30,	Water Revenue Refunding Capital Loan	
	Principal	Interest
2019	\$ 214,000	26,825
2020	218,000	22,567
2021	222,000	18,228
2022	227,000	13,811
2023	231,000	9,293
2024	236,000	4,696
	\$ 1,348,000	95,420

(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 maturity in 2031. At June 30, 2018 the restricted cash on the balance sheet includes \$22,957 in the Sinking Fund.

Principal and interest requirements to maturity for obligations at June 30, 2018 are as follows:

Years Ending June 30,	Capital Loan	
	Principal	Interest
2019	\$ 61,000	28,920
2020	63,000	27,090
2021	65,000	25,200
2022	67,000	23,250
2023	69,000	21,240
2024-2028	380,000	73,770
2029-2031	259,000	15,690
	\$ 964,000	215,160

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(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, 2018 the restricted cash on the balance sheet includes \$14,960 in the Sinking Fund and \$170,785 in the Reserve Fund.

Principal and interest requirements to maturity for obligations at June 30, 2018 are as follows:

<u>Years Ending June 30,</u>	<u>Water Revenue Capital Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 100,000	68,928
2020	105,000	65,338
2021	105,000	61,569
2022	110,000	57,799
2023	115,000	53,850
2024-2028	635,000	204,271
2029-2033	<u>750,000</u>	<u>82,570</u>
	<u>\$ 1,920,000</u>	<u>594,325</u>

Changes in long-term obligations for the year ended June 30, 2018 and 2017 are as follows:

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>	<u>Due within 1 year</u>
Water revenue refunding	\$ 1,557,000	—	209,000	1,348,000	214,000
Capital loans	3,038,000	—	154,000	2,884,000	161,000
Compensated absences	272,074	20,022	—	292,096	95,858
Total	<u>\$ 4,867,074</u>	<u>20,022</u>	<u>363,000</u>	<u>4,524,096</u>	<u>470,858</u>

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Due within 1 year</u>
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	<u>\$ 5,197,590</u>	<u>26,484</u>	<u>357,000</u>	<u>4,867,074</u>	<u>453,741</u>

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(5) Retirement Plans

(a) Iowa Public Employee Retirement System

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

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

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.

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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.

In fiscal years 2018 and 2017, pursuant to the required rate, Regular members contributed 5.95 percent of covered payroll and the Utility contributed 8.93 percent of covered payroll for a total rate of 14.88 percent.

The Utility's total contributions to IPERS for the year ended June 30, 2018 and 2017 were \$116,645 and \$112,589, respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018 and 2017, the Utility reported a liability of \$1,125,122 and \$1,072,327 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2017, the Utility's collective proportion was .0168905 percent which was a decrease of .000149 percent from its proportion measured as of June 30, 2016 of .017039 percent.

For the year ended June 30, 2018 and 2017, the Utility recognized pension expense of \$137,454 and \$111,365, respectively. At June 30, 2018 and 2017, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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		<u>2018</u>		<u>2017</u>	
		<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual results	\$	10,330	\$ 9,748	9,478	-
Changes of assumptions		195,494		16,360	-
Net difference between projected and actual earnings on IPERS' investments.		-	11,751	152,773	12,798
Changes in proportion and differences between Utility contributions and the Utility's share of contributions		8,571	33,111	-	33,959
Utility contributions subsequent to the measurement date		<u>116,645</u>	<u>-</u>	<u>112,589</u>	<u>-</u>
Total	\$	<u>331,040</u>	<u>54,610</u>	<u>291,200</u>	<u>46,757</u>

The \$116,645 in 2018 and \$112,589 in 2017 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, 2019 and 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>		<u>2018</u>	<u>2017</u>
2019	\$	9,967	-
2020		80,264	4,849
2021		51,503	4,849
2022		5,189	75,676
2023		12,862	46,599
2024		<u>-</u>	<u>(119)</u>
	\$	<u>159,785</u>	<u>131,854</u>

There were no non-employer contributing entities to IPERS.

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Actuarial Assumptions – The total pension liability in the June 30, 2017 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, 2017)	2.60% per annum
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term Investment rate of return (effective June 30, 2017)	7.00%, compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience study dated March 24, 2017.

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, 2018 and 2017

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public Credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. 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 7.00%, 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 (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Utility's proportionate share of the net pension liability at June 30, 2017	\$ 1,853,750	1,125,122	512,935
	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Utility's proportionate share of the net pension liability at June 30, 2016	\$ 1,734,880	1,072,327	513,124

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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.

Payables to IPERS – At June 30, 2018 and 2017, the Utility reported payables to IPERS of \$8,855 and \$8,655, respectively for legally required employer contributions and \$5,899 and \$5,767, 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 \$52,702 and \$47,535 for the years ended June 30, 2018 and 2017, respectively. The Water Utility's employees made contributions to the plan of \$87,836 and \$79,223 for the years ended June 30, 2018 and 2017, respectively.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The Utility administers a single-employer benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the Utility are eligible to participate in the group health plan and are eligible to continue healthcare benefits upon a bona fide retirement as defined by IPERS or Social Security. Retirees under age 65 receive one month of insurance for each year of service which results in an implicit rate subsidy and an OPEB liability.

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Retired participants must be age 55 or older at retirement. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	0
Active employees	17

Total OPEB Liability- The Utility’s total OPEB liability of \$208,311 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017.

Actuarial Assumptions- The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all period included in the measurement.

Rate of inflation (effective June 30, 2018)	3.00% per annum
Discount rate (effective June 30, 2018)	3.72%, compounded annually, including inflation.
Health care cost trend rate (effective June 30, 2018)	6.00%

Discount Rate – The discount rate used to measure the total OPEB liability was 3.72% which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study with dates corresponding to those listed above.

Changes in the Total OPEB Liability

	Total OPEB Liability
Total OPEB liability beginning of year, as restated	\$ <u>179,864</u>
Changes for the year:	
Service cost	7,084
Interest	6,954
Differences between expected and actual experience	<u>14,409</u>
Net changes	<u>28,447</u>
Total OPEB obligation liability end of year	<u><u>\$ 208,311</u></u>

URBANDALE WATER UTILITY

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June 30, 2018 and 2017

Sensitivity of the Utility’s total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Utility, as well as what the Utility’s total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.72%) or 1% higher (4.72%) than the current discount rate.

	<u>1% Decrease</u> <u>(2.72%)</u>	<u>Discount Rate</u> <u>(3.72%)</u>	<u>1% Increase</u> <u>(4.72%)</u>
Total OPEB liability	\$ 224,170	208,311	193,883

Sensitivity of the Utility’s Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the total OPEB liability of the City, as well as what the Utility’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.00%) or 1% higher (7.00%) than the current healthcare cost trend rates.

	<u>1% Decrease</u> <u>(5.00%)</u>	<u>Healthcare</u> <u>Discount Rate</u> <u>(6.00%)</u>	<u>1% Increase</u> <u>(7.00%)</u>
Total OPEB liability	\$ 201,970	208,311	214,797

OPEB Expense and Deferred Outflows of Resources Related to OPEB - For the year ended June 30, 2018, the Utility recognized OPEB expense of \$14,973.

At June 30, 2018, the Utility reported deferred outflows of resources related to OPEB from the following resources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 13,474
Total	\$ <u>13,474</u>

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June 30, 2018 and 2017

The amount reported as deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$ 935
2020	935
2021	935
2022	935
Thereafter	9,734
	<u>\$ 13,474</u>

(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. 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 it’s 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.

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June 30, 2018 and 2017

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, 2018 were \$13,307.

(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 775 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.

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, 2018 were \$47,287.

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.

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Notes to Financial Statements

June 30, 2018 and 2017

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, 2018, no liability has been recorded in the Utility’s financial statements. As of June 30, 2018, 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.

(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, 2018 and 2017 to contribute to Des Moines Water Works \$7,629,916 and \$8,853,046, respectively.

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

Year Ending June 30,		Saylorville Treatment Plant
2019	\$	1,078,378
2020		1,082,977
2021		1,087,067
2022		1,091,121
2023		1,092,131
2024-2026		<u>2,198,242</u>
	\$	<u>7,629,916</u>

URBANDALE WATER UTILITY

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Notes to Financial Statements

June 30, 2018 and 2017

(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.

(9) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method, and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported. Beginning net position was restated to retroactively report the change in valuation of the beginning total OPEB liability, as follows:

	<u>Water Utility</u>
Net position June 30, 2017	
as previously reported	\$ 24,209,371
Net OPEB Obligation measured under	
previous standards	115,628
Total OPEB liability at June 30, 2017	<u>-179,864</u>
Net position, July 1, 2017, as restated	<u>\$ 24,145,135</u>

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
For the Last Four Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Utility's proportion of the net pension liability (asset)	0.0168905%	0.0170391%	0.0170161%	0.0175847%
Utility's proportion of the net pension liability (asset)	\$ 1,125,122	1,072,327	840,677	697,393
Utility's covered payroll	\$ 1,260,797	1,222,791	1,165,755	1,150,666
Utility's proportionate share of the net pension liability as a percentage of its covered payroll	89.24%	87.70%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability.	82.21%	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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Statutorily required contribution	\$	116,645	112,589	109,195	104,102	102,751	104,545	97,864	75,503	69,343	64,107
Contributions in relation to the statutorily required contribution		<u>116,645</u>	<u>112,589</u>	<u>109,195</u>	<u>104,102</u>	<u>102,751</u>	<u>104,545</u>	<u>97,864</u>	<u>75,503</u>	<u>69,343</u>	<u>64,107</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	\$	1,306,205	1,260,797	1,222,791	1,165,755	1,150,666	1,205,835	1,212,689	1,086,368	1,042,752	1,010,253
Contributions as a percentage of covered payroll		8.93%	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%

See accompanying notes to required supplementary information.

URBANDALE WATER UTILITY

(A Component Unit of the City of Urbandale, Iowa)
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Notes to Required Supplementary Information – Pension Liability
Year ended June 30, 2018

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% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of a quadrennial experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.6%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.5% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL (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

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Required Supplementary Information

Schedule of Changes in the Utility's Total OPEB Liability, Related Ratios and Notes
As of June 30, 2018

	<u>2018</u>
Service cost	\$ 7,084
Interest cost	6,954
Difference between expected and actual experience	<u>14,409</u>
Net change in total OPEB liability	<u>28,447</u>
Total OPEB liability beginning of year, as restated	<u>179,864</u>
Total OPEB liability end of year	<u>\$ 208,311</u>
Covered-employee payroll	\$ 1,284,137
Total OPEB liability as a percentage of covered-employee payroll	16.22%

Notes to Schedule of Changes in the Utility's Total OPEB Liability and Related Ratios

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Changes in benefit terms:

There were no significant changes in benefit terms.

URBANDALE WATER UTILITY

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Schedule of Cash Receipts and Cash Disbursements –
 Budget and Actual

Year ended June 30, 2018

	2018		
	Original and Final	Actual	Actual over (under) budget
Cash receipts:			
Metered sales	\$ 9,357,390	10,308,270	950,880
Bulk and construction water sales	23,000	18,894	(4,106)
Water service hookup	116,250	158,743	42,493
Other service	10,000	9,455	(545)
Other:			
Collections for sewer districts	4,942,746	4,401,839	(540,907)
Taps	4,000	3,980	(20)
Meters and parts	106,990	91,425	(15,565)
Hydrant meter charge	6,000	5,979	(21)
Sewer collection fees	125,442	127,275	1,833
Sales tax	683,302	754,319	71,017
Bacteriological samples	4,100	2,820	(1,280)
Late charges	35,000	31,060	(3,940)
Miscellaneous	45,000	63,832	18,832
Main reimbursements	10,000	25,179	15,179
Interest on investments	8,000	21,214	13,214
Trust receipts	31,500	29,030	(2,470)
Lease revenue	125,004	115,833	(9,171)
Solid Waste	2,016,000	2,046,408	30,408
Solid waste collect	28,600	29,014	414
Storm Water	2,267,462	2,292,342	24,880
Storm Water collect	31,500	31,703	203
Miscellaneous Non-Operating	182,044	166,399	(15,645)
Loan Proceeds	4,250,000	—	(4,250,000)
Total other	<u>14,902,690</u>	<u>10,239,651</u>	<u>(4,663,039)</u>
Total cash receipts	<u>\$ 24,409,330</u>	<u>20,735,013</u>	<u>(3,674,317)</u>
Cash disbursements:			
Water purchases	\$ 2,901,028	3,190,407	289,379
Distribution operations:			
Personnel:			
Salaries	\$ 474,599	470,540	(4,059)
Part-time	30,000	11,428	(18,572)
FICA	38,602	36,819	(1,783)
Retirement	42,382	41,450	(932)
Group insurance	122,465	122,925	460
	<u>708,048</u>	<u>683,162</u>	<u>(24,886)</u>
Operations and maintenance:			
Telephone and communication	\$ 13,500	8,001	(5,499)
Bacteriological samples	13,048	12,225	(823)
Drafting supplies	2,000	245	(1,755)
Vehicle repair and maintenance	32,000	21,094	(10,906)
Buildings and grounds	160,010	110,963	(49,047)
Utility systems and structures	560,000	110,160	(449,840)
Inspections	4,325,000	437	(4,324,563)
New meters	318,745	114,746	(203,999)
Automotive equipment	56,250	16,792	(39,458)
Easements	2,500	—	(2,500)
Miscellaneous	2,500	63	(2,437)
	<u>5,485,553</u>	<u>394,726</u>	<u>(5,090,827)</u>
Total distribution operations	<u>6,193,601</u>	<u>1,077,888</u>	<u>(5,115,713)</u>

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Schedule of Cash Receipts and Cash Disbursements –
 Budget and Actual

Year ended June 30, 2018

	2018		
	Original and Final	Actual	Actual over (under) budget
Distribution maintenance:			
Personnel:			
Salaries	\$ 339,134	329,118	(10,016)
FICA	25,944	24,605	(1,339)
Retirement	29,677	29,156	(521)
Group insurance	86,243	86,350	107
	<u>480,998</u>	<u>469,229</u>	<u>(11,769)</u>
Operations and maintenance:			
System maintenance	\$ 52,000	100,496	48,496
Minor equipment and tools	16,750	14,684	(2,066)
Main maintenance supplies	46,000	29,968	(16,032)
Repair maintenance, vehicles, and equipment	15,425	14,676	(749)
Miscellaneous contract work	10,000	—	(10,000)
Meter parts	32,000	14,884	(17,116)
Hydrants, valves, and parts	44,000	30,578	(13,422)
Miscellaneous	750	240	(510)
	<u>216,925</u>	<u>205,526</u>	<u>(11,399)</u>
Total distribution maintenance	<u>697,923</u>	<u>674,755</u>	<u>(23,168)</u>
Accounting and collection:			
Personnel:			
Salaries	\$ 246,544	242,382	(4,162)
Part-time	4,800	—	(4,800)
FICA	19,228	17,412	(1,816)
Retirement	22,016	21,556	(460)
Group insurance	90,091	97,514	7,423
	<u>382,679</u>	<u>378,864</u>	<u>(3,815)</u>
Operations and maintenance:			
Postage and shipping	\$ 138,480	123,594	(14,886)
Computer/Printing	136,245	135,070	(1,175)
Customer refunds	15,000	48,512	33,512
Remittances to sewer districts	4,942,121	4,413,317	(528,804)
Solid Waste remittances	2,016,000	2,046,002	30,002
Storm Water remittances	2,267,462	2,285,366	17,904
Sales tax remittances	683,302	679,011	(4,291)
Miscellaneous	1,000	—	(1,000)
	<u>10,199,610</u>	<u>9,730,872</u>	<u>(468,738)</u>
Total accounting and collection	<u>10,582,289</u>	<u>10,109,736</u>	<u>(472,553)</u>

URBANDALE WATER UTILITY

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Schedule of Cash Receipts and Cash Disbursements –
 Budget and Actual

Year ended June 30, 2018

	2018		
	Original and Final	Actual	Actual over (under) budget
General and administrative:			
Personnel:			
Salaries	\$ 282,139	280,164	(1,975)
FICA	22,318	20,254	(2,064)
Retirement	74,195	76,137	1,942
Group insurance	79,204	70,666	(8,538)
	<u>457,856</u>	<u>447,221</u>	<u>(10,635)</u>
Operations and maintenance:			
Liability insurance	\$ 69,200	92,548	23,348
Professional fees	34,000	110,547	76,547
Dues, memberships, and subscriptions	12,000	11,593	(407)
Postage and shipping	2,385	1,870	(515)
Telephone	13,440	13,898	458
Training	11,000	8,604	(2,396)
Travel and conference expense	10,000	3,783	(6,217)
Office supplies and equipment	12,600	12,086	(514)
Utilities	15,000	11,988	(3,012)
Advertising and legal publications	2,000	1,290	(710)
Miscellaneous	13,100	11,934	(1,166)
Bank service charge	48,000	67,881	19,881
Capital Contributions	1,070,248	1,071,041	793
Trust disbursements	30,000	26,510	(3,490)
	<u>1,342,973</u>	<u>1,445,573</u>	<u>102,600</u>
Total general and administrative	<u>1,800,829</u>	<u>1,892,794</u>	<u>91,965</u>
2015 Water Revenue Refunding Debt Service - 2015 Capital Loan	\$ 239,984	239,984	—
2010 SRF Capital Loan: Debt Service - SRF Loan	92,248	92,248	—
2012 Capital Loan Note Debt Service	167,339	167,339	—
Treatment Plant	<u>292,309</u>	<u>—</u>	<u>(292,309)</u>
Total Bond/Loan Expenditures	<u>791,880</u>	<u>499,571</u>	<u>(292,309)</u>
Total cash disbursements	<u>22,967,550</u>	<u>17,445,151</u>	<u>(5,522,399)</u>
Cash receipts over cash disbursements	<u>\$ 1,441,780</u>	<u>3,289,862</u>	<u>1,848,082</u>
Cash and cash equivalents at beginning of year		<u>4,136,922</u>	
Cash and cash equivalents at end of year		<u>\$ 7,426,784</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, 2018

	<u>2018</u>
Cash receipts over (under) cash disbursements	\$ 3,289,862
Change in Accrued Revenue	(7,782,101)
Change in Accrued Expense	8,455,076
Reconciling Accruals	<u>(29,316)</u>
Total change in Net Position	<u><u>\$ 3,933,521</u></u>



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

To the Board of Trustees
Urbandale Water Utility

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Urbandale Water Utility (Utility) as of and for the year ended June 30, 2018 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, 2018.

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 a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-A, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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, 2018, 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 response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Utility's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dubuque, Iowa
November 2, 2018

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCY

2018-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 continue to segregate duties as much as possible when assigning duties.

Part II: Other Findings Related to Statutory Reporting:

- 2018-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.
- 2018-IA-B **Travel Expense** - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- 2018-IA-C **Business Transactions** - No business transactions between the Utility and its officials or employees were noted.
- 2018-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.
- 2018-IA-E **Board Minutes** - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2018-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.
- 2018-IA-G **Revenue Notes** - No instances of non-compliance with the revenue note provisions were noted.