# Cedar Falls Utilities

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

**Including Independent Auditors' Reports**

**For The Years Ended December 31, 2015 and 2014**

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

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# Independent Auditor's Report

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

## Report on the Financial Statements

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

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

## Opinion

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

**Emphasis of Matter**
As discussed in Notes 1 and 6 to the financial statements, the Municipal Electric Utility has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of January 1, 2014. Our opinion is 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, Schedule of Utilities Proportionate Share of the Net Pension Liability, Schedule of Utilities Contributions, and Schedule of Funding Progress for the Other Post-Employment Benefits Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Restatement of Prior Year Financial Statements*
The financial statements of the Municipal Electric Utility as of December 31, 2014, were audited by other auditors, whose report dated March 27, 2015, expressed an unmodified opinion on those statements. As part of our audit of the 2015 financial statements, we also audited adjustments described in Note 1 that were applied to restate the 2014 financial statements for the retroactive implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2014 financial statements of the Municipal Electric Utility other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 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 May 26, 2016 on our consideration of the Municipal Electric Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Electric Utility's internal control over financial reporting and compliance.

Eide Bailly LLP

Dubuque, Iowa
May 26, 2016

# MANAGEMENT'S DISCUSSION AND ANALYSIS

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2015 and 2014
Unaudited

The following discussion and analysis of the Municipal Electric Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2015 and 2014. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

## Financial Highlights

2015 was warmer than 2014, especially through the fall and into December, resulting in decreased retail usage of nearly 17 million kWh or 3.4%. Wholesale sales also weakened due to warmer weather and a decrease in market prices resulting in a decrease of nearly 30 million kWh or 7.2%. Due to the decrease in wholesale market prices and no rate increase, the Utility experienced a $9.2 million or 15.6% decrease in operating revenues. Operating expenses decreased $8.0 million or 15.1% due to an $8.7 million, or 31.3% decrease in fuel and purchased power costs from lower wholesale market prices. The Utility's net position continued to grow due to strong operating income and non-operating revenues.

## Overview of the Financial Statements

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

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

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

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

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

## Condensed Financial Information & Analysis

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

### Condensed Statement of Net Position

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| | | *(Restated)* | *(Not Restated)* |
| Capital assets, net | $ 156,953,311 | $ 155,670,376 | $ 142,466,988 |
| Other noncurrent assets | 18,608,890 | 21,346,665 | 13,804,392 |
| Current assets | 62,995,778 | 63,302,051 | 63,796,622 |
| Total assets | 238,557,979 | 240,319,092 | 220,068,002 |
| Deferred outflows of resources | 2,037,325 | 834,175 | 295,968 |
| Total assets and deferred outflows of resources | 240,595,304 | 241,153,267 | 220,363,970 |
| Long-term debt | 40,229,717 | 42,830,805 | 46,224,434 |
| Current liabilities | 9,949,417 | 13,123,896 | 11,777,201 |
| Noncurrent liabilities | 8,399,116 | 7,147,815 | 2,749,418 |
| Total liabilities | 58,578,250 | 63,102,516 | 60,751,053 |
| Deferred inflows of resources | 19,878,421 | 22,206,605 | 13,162,185 |
| Total liabilities and deferred inflows of resources | 78,456,671 | 85,309,121 | 73,913,238 |
| Net investment in capital assets | 114,243,153 | 109,715,942 | 93,557,553 |
| Restricted | 7,000,449 | 7,031,590 | 6,623,104 |
| Unrestricted | 40,895,031 | 39,096,614 | 46,270,075 |
| Total net position | $ 162,138,633 | $ 155,844,146 | $ 146,450,732 |

### 2015 Compared to 2014

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

        - Increase in fuel inventory of oil, coal and allowances of $416,000 or 9.5% at the Western Units.
        - Increase in materials and supplies inventory of $184,000 or 11.2%.
    - Increase in deferred outflows of resources of $1.2 million or 144.2% due to:
        - Increase of $493,000 or 185.2% in the amortization of the loss on reacquired debt due to the advanced refunding of series 2005 and 2007 debt with series 2015 debt.
        - Increase in deferred outflows of resources of $710,000 or 125.0% due to application of The Government Accounting Standards Board (GASB) Statement No. 68, **"Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27"**.

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

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

**2014 Compared to 2013**

- Total assets and deferred outflows of resources increased $20.8 million or 9.4% primarily due to:
    - Net capital assets increasing $13.2 million or 9.3% due to wind storm recovery capital projects, generation upgrade projects, and overhead to underground distribution system conversions. Net capital assets represent 64.8% of total assets for the Utility in 2014.
    - Increase in other noncurrent assets of $7.5 million or 54.6% due to:
        - Increase in tax increment financing (TIF) receivable of $7.3 million or 55.3% mainly due to the City of Cedar Falls adopting resolutions increasing TIF debt owed to the Electric Utility for certified expenditures.
        - Increase of noncurrent restricted investments of $500,000.

        - Decrease in note receivable of $185,000 or 50.3%.
    - Decrease in current assets of $495,000 or 0.8% primarily due to:
        - Decrease in customer accounts receivable of $1.6 million or 24.2% mainly due to a decrease in cost recoverable through fuel adjustment due to writing off $1.6 million of under recovery and deciding not to pass it through to customers.
        - Increase in cash and investments of $2.2 million or 5.0%.
        - Increase in governmental grants receivable of $554,000 or 16.5% due to additional revenue recognized and not yet reimbursed for grant projects.
        - Decrease in fuel inventory of oil, coal and allowances of $1.3 million or 22.8%.
        - Decrease in materials and supplies inventory of $288,000 or 14.9%.
    - Increase in deferred outflows of resources of $538,000 or 181.8% due to:
        - Decrease of $30,000 or 10.0% due to the annual amortization of the loss on reacquired debt.
        - Increase in deferred outflows of resources of $568,000 or 100.0% due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **"Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27"** in 2015 and restatement of 2014 financial statements.

- Total liabilities and deferred inflows of resources increased $11.4 million or 15.4% primarily due to:
    - Decrease of $3.4 million or 7.3% in long-term debt less current installments is due to principal payments of $2,685,000 in 2014 plus amortization of debt discounts and premiums.
    - Increase in current liabilities of $1.3 million or 11.4% as a result of:
        - Decrease in accounts payable of $804,000 or 12.7% primarily due to a decrease in inventory.
        - Increase in reserve for surplus declaration, or PILOT, of $1.6 million of 108.9%.
        - Increase of $705,000 or 26.3% in current installments of long term debt.
    - Increase in noncurrent liabilities of $4.4 million or 160.0% mainly due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, ***"Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27"*** in 2015 and restatement of 2014 financial statements.
    - Increase in deferred inflows of resources of $9 million or 68.7% due to:
        - Increase of the Tax Increment Financing (TIF) deferred inflow of $7.3 million or 55.3% as a result of the City of Cedar Falls adopting resolutions increasing TIF debt owed to the Electric Utility for certified expenditures.
        - Increase in pension related deferred inflows of $1.8 million or 100.0% due to the implementation of The Government Accounting Standards Board (GASB) Statement No. 68, **"Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27"** in 2015 and restatement of 2014 financial statements.

*Additional detail on the change in capital assets and long-term obligation can be found in Notes 4 and 5, respectively.*

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| | | *(Restated)* | *(Not Restated)* |
| Sales of electricity | $ 46,379,385 | $ 56,165,288 | $ 52,473,648 |
| Other | 3,362,536 | 2,787,207 | 2,646,820 |
| Total operating revenues | 49,741,921 | 58,952,495 | 55,120,468 |
| Fuel and purchased power | 19,189,385 | 27,917,524 | 23,790,442 |
| Other, Transmission and Distribution | 10,774,519 | 11,027,624 | 10,225,877 |
| Depreciation and amortization | 4,596,566 | 4,183,539 | 3,530,577 |
| Services and administrative | 10,601,216 | 10,093,655 | 9,386,352 |
| Total operating expenses | 45,161,686 | 53,222,342 | 46,933,248 |
| Operating Income | 4,580,235 | 5,730,153 | 8,187,220 |
| Interest income | 61,075 | 69,605 | 122,424 |
| Other, net | 1,653,177 | 9,322,454 | 1,860,677 |
| Total non-operating revenues (expenses) | 1,714,252 | 9,392,059 | 1,983,101 |
| Change in net position | 6,294,487 | 15,122,212 | 10,170,321 |
| Net position, beginning of year | 155,844,146 | 140,721,934 | 136,280,411 |
| Net position, end of year | $162,138,633 | $155,844,146 | $146,450,732 |

**2015 Compared to 2014**

- Total operating revenues decreased $9.2 million or 15.6% due to:
  - Decrease in electric sales of $5.1 million or 12.0% due to lower energy prices from a decrease of $5 million or 29.5% in the energy costs adjustment (ECA) which is passed through to revenue and a decrease in retail kWh usage of nearly 17,000,000 or 3.4%.
  - Decrease in wholesale revenues of $4.7 million or 34.6% due to decreased market prices and a decrease of 30,000,000 kWh or 7.2% in wholesale unit sales.
  - Increase in other operating revenues of $575,000 or 20.6% as a result of increases in Neal 4 rental income, interdepartmental rents, grant revenues and transmission revenues.

- Total operating expenses decreased $8.1 million or 15.1% due to:
  - Decrease in fuel and purchased power costs of $8.7 million or 31.3%.
    - Fuel costs decreased $3.3 million or 35.6% due to Streeter Station and the Western Units generating less at lower fuel costs.
    - Decrease of $5.5 million or 29.1% in purchased power costs due to lower MISO market costs. The Electric Utility purchases all its power needs from MISO, except when conditions in the wholesale market are favorable to generating power at Streeter Station.
  - Decrease of $278,000 or 11.0% in distribution costs from a reduction in meter socket replacements for the overhead to underground distribution conversion project.
  - Increase of $413,000 or 9.9% in depreciation & amortization expense due to the completion of capital asset projects placed into service in 2014.
  - Increase in services and administrative expenses of $508,000 or 5.0% due to:
    - Increase in customer service and information expense of $187,000 or 24.1% due to an increase in customer incentive expenses.

- Increase in administrative & general expenses of $305,000 or 3.9% due to:
  - Decrease in outside services of $188,000 or 38.4% mostly due to a decrease in legal fees related to arbitration costs of the bag house litigation that was settled in late 2014.
  - Increase in employee insurance & benefits of $498,000 or 30.1% due to a reallocation of health insurance that increased claims expense for the Utility and an increase in employee pensions and benefits due to The Government Accounting Standards Board (GASB) Statement No. 68, ***"Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27"***.

❖ Interest Income decreased $9,000 or 12.3% due to a reduction in the amount of investments held throughout 2015.

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

**2014 Compared to 2013**

❖ Total operating revenues increased $3.8 million or 7.0% due to:
- Increase in electric sales revenues of $2.9 million or 7.2% due to higher energy prices from an increase of $3.5 million or 26.5% in the energy costs adjustment (ECA) which are passed through to revenue, an overall 0.5% rate increase and a decrease in retail kWh usage of 730,637 or 0.1%.
- Increase in wholesale revenues of $831,000 or 6.6% due to increased market prices and an increase of 24,000,000 kWh or 6.1% in wholesale sales.
- Increase in other operating revenues of $140,000 or 5.3% as a result of an increase of $235,000 in transmission revenues.

❖ Total operating expenses increased $6.3 million or 13.4% due to:
- Increase in fuel and purchased power costs of $4.1 million or 17.3%.
  - Fuel costs increased $2.8 million or 44.1% due to Streeter Station and the Western Units generating more plus higher fuel costs.
  - Increase of $1.3 million or 7.6% in purchased power costs due to higher MISO market costs. The Electric Utility purchases all its power needs from MISO, except when conditions in the wholesale market are favorable to generating power at Streeter Station.
- Increase of $802,000 or 7.8% in other, transmission and distribution due to an increase in MISO transmission allocations and new build projects and other production maintenance costs of rebuilding the gas turbine partially offset by a decrease in distribution costs from a reduction in meter socket replacements for the overhead to underground conversion project.

- Increase of $653,000 or 18.5% in depreciation & amortization expense due to the completion of capital asset projects placed into service in 2013.
- Increase in services and administrative expenses of $707,000 or 7.5% due to:
  - Increase in administrative & general expenses of $705,000 or 10.0% due to:
    - Decrease in outside services of $305,000 or 38.4% mostly due to a decrease in legal fees related to arbitration costs of the bag house litigation that was settled in 2014.
    - Decrease in employee insurance & benefits of $635,000 or 27.8% due to:
      - Increase in employee insurance & benefits of $310,000 or 13.6% due to a decrease in medical claims.
      - Decrease in IPERS Unfunded Pension expense of $325,000 or 100.0% implementation of The Government Accounting Standards Board (GASB) Statement No. 68, ***"Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27"*** in 2015 and restatement of the 2014 financial statements.
    - Increase in operating transfers out (PILOT) of $1.6 million or 108.9%.

- Interest Income decreased $53,000 or 43.1% due to a reduction in the amount of investments held throughout 2014.

- Other, net increased $7.4 million or 373.6% primarily due to:
  - Increase in miscellaneous net revenues of $3.9 million or 1867.6% resulting from receipt of a $3.6 million award in settlement of litigation over the design of the Streeter Station bag house.
  - Increase in intergovernmental grant revenues (FEMA reimbursements) of $3.4 million or 153.5% due to the significant completion of the wind mitigation project replacing some overhead distribution lines which was completed in 2015.
  - Decrease in interest expense on long term debt of $872,000 or 30.9% due to the write off of $728,000 in debt issuance costs per GASB 65 in 2013.
  - Decrease in the allowance for funds used during construction (AFUDC) of $156,000 or 33.8%.
  - Decrease of $668,000 or 36.9% in contributed capital mainly due to a decrease of $639,000 or 38.9% in TIF revenues received from the City of Cedar Falls for certified projects.

**Condensed Statement of Cash Flows**

| | 2015 | 2014 *(Restated)* | 2013 *(Not Restated)* |
|---|---|---|---|
| Cash Flows from Operating Activities | $ 9,544,239 | $13,350,001 | $10,385,413 |
| Cash Flows from Noncapital Financing Activities | (403) | (204) | (602) |
| Cash Flows from Capital and Related Financing Activities | (5,776,639) | (10,887,831) | (8,880,970) |
| Cash Flows from Investing Activities | 2,546,426 | 932,931 | 5,354,539 |
| Net Change in Cash and Cash Equivalents | 6,313,623 | 3,394,897 | 6,858,380 |
| Cash and Cash Equivalents-Beginning of Year | 38,809,762 | 35,414,865 | 28,556,485 |
| Cash and Cash Equivalents-End of Year | $45,123,385 | $38,809,762 | $35,414,865 |

**2015 Compared to 2014**

- Cash inflows from operations decreased by $3.8 million or 28.5% primarily due to:
  - Decrease in cash received from customers of $8.3 million or 14.1%.
  - Decrease in cash paid to suppliers of $5.9 million or 14.8%.
  - Increase in payment in lieu of taxes paid to the City of Cedar Falls of $1.6 million or 108.9%.

- Cash outflows from capital and related financing activities decreased by $5.1 million or 46.9% due to:
  - Decrease in cash of $151,000 from series 2015 debt proceeds and series 2005 and 2007 refunding.
  - Decrease in capital expenditures of $8.6 million or 52.9%.
  - Decrease in receipts for reimbursement of utility construction costs of $2.5 million or 51.9%.
  - Decrease in receipts from intergovernmental grants of $329,000 or 6.4%.

- Cash inflows from investing activities increased $1.6 million or 172.9% due to fewer reinvestments (purchases) of investment securities during 2015.

**2014 Compared to 2013**

- Cash inflows from operations increased by $3.0 million or 28.5% primarily due to:
  - Increase in cash received from customer of $4.9 million or 9.0%.
  - Increase in cash paid to suppliers of $1.4 million or 3.6%.
  - Increase in cash paid to employees of $360,000 or 10.0%.

- Cash outflows from capital and related financing activities increased by $2.0 million or 22.6% due to:
  - Increase in capital expenditures of $4.1 million or 34.1%.
  - Increase in receipts for reimbursement of utility construction costs of $3.0 million or 163.1%.
  - Decrease in receipts from intergovernmental grants of $833,000 or 14.0%.

- Cash inflows from investing activities decreased $4.4 million or 82.6% due to the lower funds available in 2014 for reinvestment (purchase) of investment securities.

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# FINANCIAL STATEMENTS

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Net Position
December 31, 2015 and 2014

| Assets | 2015 | 2014 *(Restated)* |
|---|---|---|
| Capital assets: (note 4) | | |
| Capital assets, in service | $ 239,316,367 | $ 225,598,620 |
| Less accumulated depreciation | 84,179,837 | 80,133,418 |
| Capital assets, net | 155,136,530 | 145,465,202 |
| Construction work in progress | 1,816,781 | 10,205,174 |
| Total capital assets, net | 156,953,311 | 155,670,376 |
| Noncurrent assets: | | |
| Investments - restricted (note 2 and 3) | - | 500,000 |
| Note receivable (note 9) | - | 183,090 |
| Loans receivable | 69,811 | 111,200 |
| Other (note 9) | 18,429,622 | 20,442,918 |
| Prepayments and other | 109,457 | 109,457 |
| Total noncurrent assets | 18,608,890 | 21,346,665 |
| Current assets: | | |
| Cash and cash equivalents - unrestricted (note 3) | 42,931,716 | 36,864,207 |
| Cash and cash equivalents - restricted (note 2 and 3) | 2,191,669 | 1,945,555 |
| Investments - unrestricted (note 3) | 500,000 | 2,500,000 |
| Investments - restricted (note 2 and 3) | 5,790,000 | 5,590,000 |
| Receivables: | | |
| Customer accounts, less allowance for doubtful accounts of $35,674 in 2015 and $34,485 in 2014 | 3,722,331 | 4,855,623 |
| Loans receivable | 39,515 | 49,757 |
| Interest | 17,870 | 18,221 |
| Current installment of note receivable (note 9) | 183,090 | 185,000 |
| Government grants (note 12 and 13) | 102,235 | 3,920,507 |
| Trade | 511,246 | 1,031,145 |
| Inventories: | | |
| Fuel | 4,789,039 | 4,373,266 |
| Material and supplies | 1,832,520 | 1,648,566 |
| Prepayments and other | 384,547 | 320,204 |
| Total current assets | 62,995,778 | 63,302,051 |
| Total assets | 238,557,979 | 240,319,092 |
| Deferred outflows of resources: | | |
| Pension related deferred outflows (note 6) | 1,277,767 | 567,804 |
| Unamortized loss on reacquired debt | 759,558 | 266,371 |
| Total deferred outflows of resources | 2,037,325 | 834,175 |
| Total assets and deferred outflows of resources | $ 240,595,304 | $ 241,153,267 |

*See accompanying notes to financial statements.*

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Net Position
December 31, 2015 and 2014

| Liabilities | 2015 | 2014 *(Restated)* |
|---|---|---|
| Long-term debt, less current installments (note 5) | $ 40,229,717 | $ 42,830,805 |
| Current liabilities: | | |
| Accounts payable | 2,556,526 | 5,532,451 |
| Reserve for surplus declaration (note 9) | 3,053,920 | 3,134,241 |
| Accrued wages and vacations | 615,078 | 577,631 |
| Accrued interest | 169,798 | 178,788 |
| Other accrued expenses | 314,095 | 310,785 |
| Current installments of long-term debt (note 5) | 3,240,000 | 3,390,000 |
| Total current liabilities | 9,949,417 | 13,123,896 |
| Noncurrent liabilities: (note 5) | | |
| Customer advances for construction | 198,100 | 139,200 |
| Net pension liability | 4,954,618 | 4,208,071 |
| Other liabilities (note 5 and 11) | 3,246,398 | 2,800,544 |
| Total noncurrent liabilities | 8,399,116 | 7,147,815 |
| Total liabilities | 58,578,250 | 63,102,516 |
| Deferred inflows of resources: | | |
| Pension related deferred inflows (note 6) | 1,448,799 | 1,763,687 |
| TIF related deferred inflows (note 9) | 18,429,622 | 20,442,918 |
| Total deferred inflows of resources | 19,878,421 | 22,206,605 |
| Total liabilities and deferred inflows of resources | 78,456,671 | 85,309,121 |
| **Net Position** | | |
| Net investment in capital assets | 114,243,153 | 109,715,942 |
| Restricted | 7,000,449 | 7,031,590 |
| Unrestricted | 40,895,031 | 39,096,614 |
| Total net position | 162,138,633 | 155,844,146 |
| Total liabilities, deferred inflows of resources and net position | $ 240,595,304 | $ 241,153,267 |

*See accompanying notes to financial statements.*

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MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Revenues, Expenses and Changes in Net Position
Years ended December 31, 2015, and 2014

| | 2015 | 2014 |
|---|---|---|
| Operating revenues: | | *(Restated)* |
| Sales of electricity: | | |
| Residential | $ 15,505,965 | $ 17,523,383 |
| Large industrial & commercial | 2,833,070 | 3,356,331 |
| Small industrial & commercial | 15,559,998 | 17,630,609 |
| Governmental (note 9) | 3,462,495 | 3,944,974 |
| Sales for resale | 8,807,738 | 13,464,729 |
| Interdepartmental | 210,119 | 245,262 |
| Total sales of electricity | 46,379,385 | 56,165,288 |
| Other operating revenues (note 12 and 13) | 3,362,536 | 2,787,207 |
| Total operating revenues | 49,741,921 | 58,952,495 |
| Operating expenses: | | |
| Production and generation: | | |
| Fuel | 5,894,065 | 9,157,694 |
| Purchased power | 13,295,320 | 18,759,830 |
| Other | 5,270,326 | 5,274,542 |
| Transmission | 3,255,897 | 3,227,178 |
| Distribution | 2,248,296 | 2,525,904 |
| Depreciation and amortization | 4,596,566 | 4,183,539 |
| Customer accounts | 609,280 | 616,453 |
| Customer service and information expenses | 962,289 | 775,645 |
| Sales | 56,970 | 65,033 |
| Administrative and general (note 9) | 8,078,848 | 7,773,549 |
| Taxes other than income taxes | 893,829 | 862,975 |
| Total operating expenses | 45,161,686 | 53,222,342 |
| Operating income | 4,580,235 | 5,730,153 |
| Non-operating revenues (expenses): | | |
| Interest income (note 9) | 61,075 | 69,605 |
| Miscellaneous revenue (expense), net (note 9) | 141,768 | 4,139,246 |
| Intergovernmental grant funds (note 12 and 13) | 983,093 | 5,683,978 |
| Interest expense on long-term debt | (2,053,859) | (1,946,433) |
| AFUDC (note 1) | 290,207 | 304,790 |
| Contributed capital (note 9) | 2,294,366 | 1,144,527 |
| Interest income (expense) on security deposits | (2,398) | (3,654) |
| Total nonoperating revenues (expenses) | 1,714,252 | 9,392,059 |
| Change in net position | 6,294,487 | 15,122,212 |
| Net position, beginning of year, as restated (note 1) | 155,844,146 | 140,721,934 |
| Net position, end of year | $ 162,138,633 | $ 155,844,146 |

*See accompanying notes to financial statements.*

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Cash Flows
Years ended December 31, 2015 and 2014

| | 2015 | 2014 *(Restated)* |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from customers | $ 50,723,423 | $ 59,066,982 |
| Intergovernmental grants | 90,274 | 1,318 |
| Cash paid to suppliers | (33,933,979) | (39,822,050) |
| Cash paid to employees | (3,748,944) | (3,938,228) |
| Payment in lieu of taxes to the City of Cedar Falls | (3,134,241) | (1,500,000) |
| Property tax paid | (452,294) | (458,021) |
| Net cash provided by operating activities | 9,544,239 | 13,350,001 |
| Cash flows from noncapital financing activities: | | |
| Interest paid on customer deposits | (403) | (204) |
| Net cash used in noncapital financing activities | (403) | (204) |
| Cash flows from capital and related financing activities: | | |
| Proceeds from issuance of capital loan notes | 26,395,000 | - |
| Premium on issuance of capital loan notes | 3,125,072 | - |
| Discount on issuance of capital loan notes | (31,950) | - |
| Cost of issuance of capital loan notes | (340,469) | - |
| Recall of 2005 & 2007 revenue bonds | (29,298,167) | |
| Principal payments on long-term debt | (3,390,000) | (2,685,000) |
| Interest paid | (1,768,605) | (1,929,011) |
| Proceeds from customer advances for construction | 164,900 | 64,600 |
| Refunds of customer advances for construction | (106,000) | (149,644) |
| Acquisition, construction and removal cost of capital assets | (7,662,800) | (16,284,219) |
| Proceeds from sale of capital assets | 40,650 | 195,824 |
| Reimbursement of utility construction costs | 2,294,366 | 4,769,526 |
| Intergovernmental grants | 4,801,364 | 5,130,093 |
| Net cash used in capital and related financing activities | (5,776,639) | (10,887,831) |
| Cash flows from investing activities: | | |
| Proceeds from repayment of loan by associated utility | 185,000 | 185,000 |
| Proceeds from maturities of investment securities | 8,090,000 | 9,270,000 |
| Purchase of investment securities | (5,790,000) | (8,590,000) |
| Interest received | 61,426 | 67,931 |
| Net cash provided by investing activities | 2,546,426 | 932,931 |
| Net increase in cash and cash equivalents | 6,313,623 | 3,394,897 |
| Cash and cash equivalents, beginning of year | 38,809,762 | 35,414,865 |
| Cash and cash equivalents, end of year (note 1) | $ 45,123,385 | $ 38,809,762 |

*See accompanying notes to financial statements.*

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Cash Flows, Continued
Years ended December 31, 2015 and 2014

| | 2015 | 2014 *(Restated)* |
|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | $ 4,580,235 | $ 5,730,153 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization of capital assets | 4,596,566 | 4,183,539 |
| Other Income (expense), net | 141,768 | 2,126,321 |
| (Increase) decrease in accounts receivable | 1,653,191 | 119,919 |
| (Increase) decrease in loans receivable | 51,631 | 61,368 |
| (Increase) decrease in inventories | (599,727) | 1,576,987 |
| (Increase) decrease in prepayments and other | (64,343) | (51,861) |
| Increase (decrease) in accounts payable | (943,068) | (1,797,469) |
| Increase (decrease) in reserve for surplus declaration | (80,321) | 1,634,241 |
| Increase (decrease) in accrued wages and vacation | 37,447 | (217,762) |
| Increase (decrease) in other accrued expenses | 3,310 | 34,039 |
| Increase (decrease) in other liabilities | 167,550 | (49,474) |
| Net cash provided by operating activities | $ 9,544,239 | $ 13,350,001 |
| Schedule of noncash investing, capital and financing activities: | | |
| AFUDC | 290,207 | 304,790 |
| Reconciliation of cash and cash equivalents to statement of net position accounts: | | |
| Cash and cash equivalents | 42,931,716 | 36,864,207 |
| Cash - restricted | 2,191,669 | 1,945,555 |
| Cash and cash equivalents | $ 45,123,385 | $ 38,809,762 |

*See accompanying notes to financial statements.*

# NOTES TO FINANCIAL STATEMENTS

## (1) Summary of Significant Accounting Policies

### Organization and Basis of Accounting

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

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

The Utility's present capacity consists of one wholly owned natural gas and coal-fired plant and three jointly owned coal-fired plants, Walter Scott Energy Center Unit 3, Walter Scott Energy Center Unit 4, and George Neal Generating Station Unit 4 (Western Units) and one assigned by contract for a combined generating capacity of 111.9 megawatts. The Utility owns two combustion turbines with a generating capacity of 43.4 megawatts. In August 2013, an explosion occurred in Gas Turbine Unit 2 which removed the 23.8 megawatt turbine from service until July 2014. The Utility jointly owns 1.5 megawatts of generating capacity in a wind turbine facility. The Utility also has contractual rights for the purchase of 6 megawatts of wind energy which expires in 2022. The Utility owns a total of 162.8 megawatts of generating capacity.

### Accounting Changes

The Government Accounting Standards Board (GASB) Statement No. 68, ***"Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27"*** was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state and local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, the 2014 beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by GASB Statement No. 71, ***"Pension Transition for Contributions Made Subsequent to the Measurement Date"***. The 2014 beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

| | Electric Utility |
|---|---|
| Net position December 31, 2013 as previously reported | $ 146,450,732 |
| Net pension liability at December 31, 2013 | (6,035,228) |
| Change in outflows of resources related to contributions made after the June 30 ,2013 measurement date | 306,430 |
| Net position December 31, 2013, as restated | $ 140,721,934 |

## (1) Summary of Significant Accounting Policies, Continued

### Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 3.02% in 2015 and 4.35% 2014. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: land improvements 45 years; infrastructure 25 to 55 years; buildings and improvements 20 to 70 years; and equipment 10 to 60 years. The depreciation provisions were equivalent to an overall composite rate of 2.2% and 2.2% of depreciable assets for 2015 and 2014, respectively.

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

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

### Cash and Investments

Investments are stated at their fair value on the statement of net position. The Utility's investments stated at fair value reflect quoted market prices at the statement of net position date, for U.S. Treasury and government agency debt securities. The cost of certificates of deposit approximates fair value.

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December 31, 2015 and 2014 were $2,750,000 and $2,750,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

### Accounts Receivable and Allowance for Doubtful Accounts

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

### Inventories

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

### Deferred Outflows of Resources

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

## (1) Summary of Significant Accounting Policies, Continued

### Pensions

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

### Deferred Inflows of Resources

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

### Bond Premiums and Discounts

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

### Net Position

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

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

### Operating Revenues and Expenses

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

Revenues from the sale of electricity are based on billing rates, which are applied to customers' consumption of electricity. The Utility records estimated unbilled revenue, including amounts to be billed under a fuel adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2015 and 2014, were $1,796,171, and $2,097,642, respectively, and are recorded in customer accounts receivable. The Utility uses a fuel adjustment clause whereby increases or decreases in fuel costs and purchase power costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

## (1) Summary of Significant Accounting Policies, Continued

### Estimates

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

### Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2015, there was a budget amendment of $11,141,186 primarily due to the unbudgeted refunding of debt. In 2014, there were no budget amendments.

### Grants

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

### Employee Benefits

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

The Electric Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay only applies to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date are not entitled to the benefit. As of December 31, 2015 and 2014 the accrued liability was $831,930 and $792,422, respectively.

### Customer Advances

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

### Reclassifications

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

## (2) Restricted Assets

The composition of restricted assets as of December 31, 2015 and 2014 was as follows:

| 2015 | Cash | Investments | Total |
|---|---|---|---|
| Current Assets – Restricted | | | |
| Bond Reserve | $ 286 | $ 4,290,000 | $ 4,290,286 |
| Bond and Interest | 1,065,109 | - | 1,065,109 |
| Streeter Landfill | 775,000 | - | 775,000 |
| Self-Insured Medical and Dental | 351,274 | 500,000 | 851,274 |
| Improvement and Extension | - | 1,000,000 | 1,000,000 |
| Total Current Assets – Restricted | 2,191,669 | 5,790,000 | 7,981,669 |
| Noncurrent Assets - Restricted | | | |
| Bond Reserve | $ - | $ - | $ - |
| Total Noncurrent Assets - Restricted | $ - | $ - | $ - |
| Total restricted assets | $ 2,191,669 | $ 5,790,000 | $ 7,981,669 |

| 2014 | Cash | Investments | Total |
|---|---|---|---|
| Current Assets – Restricted | | | |
| Bond Reserve | $ 10,407 | $ 4,090,000 | $ 4,100,407 |
| Bond and Interest | 434,705 | - | 434,705 |
| Streeter Landfill | 756,000 | - | 756,000 |
| Self-Insured Medical and Dental | 744,443 | 500,000 | 1,244,443 |
| Improvement and Extension | - | 1,000,000 | 1,000,000 |
| Total Current Assets – Restricted | 1,945,555 | 5,590,000 | 7,535,555 |
| Noncurrent Assets - Restricted | | | |
| Bond Reserve | $ - | $ 500,000 | $ 500,000 |
| Total Noncurrent Assets - Restricted | $ - | $ 500,000 | $ 500,000 |
| Total restricted assets | $ 1,945,555 | $ 6,090,000 | $ 8,035,555 |

The monies deposited into the various funds have been invested in interest-bearing securities as required by the bond resolutions or legal requirement. Amounts deposited in the bond reserve, bond interest, construction, and improvement and extension funds may only be used for the purpose of paying principal and interest on the bonds when due or such other purposes as set forth in the bond resolutions and as a result are classified as restricted. Amounts deposited in the Streeter Landfill fund may only be used to cover costs related to the closure of the ash landfill. Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

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

### Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2015 and 2014 was $345.

## (3) Cash on Hand, Deposits, and Investments, Continued

### Deposits

At December 31, 2015, the Utility's carrying amount of deposits, including $6,290,000 of certificates of deposits and $16,657,391 of money market accounts, was $48,663,040. At December 31, 2014, the Utility's carrying amount of deposits, including $8,590,000 of certificates of deposits and $16,645,191 of money market accounts, was $44,649,417.

### Investments

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

As of December 31, 2015 and 2014, the Utility had no Federal Agency Obligations investments and maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of $2,750,000 and $2,750,000 at December 31, 2015 and 2014, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

### Interest Rate Risk

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

### Credit Risk

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2015 or 2014. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

### Concentration of Credit Risk

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2015 or 2014.

### Custodial Credit Risk – Deposits

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

## (3) Cash on Hand, Deposits, and Investments, Continued

### Custodial Credit Risk – Investments

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

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

| | 2015 | 2014 |
|---|---|---|
| Cash on hand | $ 345 | $ 345 |
| Carrying amount of deposits | 48,663,040 | 44,649,417 |
| Carrying amount of Iowa Agency Investment Trust | 2,750,000 | 2,750,000 |
| Total | $ 51,413,385 | $ 47,399,762 |

| | | |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents - unrestricted | $ 42,931,716 | $ 36,864,207 |
| Investments | 500,000 | 2,500,000 |
| Cash and cash equivalents - restricted | 2,191,669 | 1,945,555 |
| Restricted investments | 5,790,000 | 5,590,000 |
| Noncurrent Investments | | |
| Restricted | - | 500,000 |
| Total | $ 51,413,385 | $ 47,399,762 |

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

| Unrestricted Cash and Investments | 2015 | 2014 |
|---|---|---|
| Board Designated | | |
| Western Units Landfill | $ 860,518 | $ 499,548 |
| Security Deposits | 295,931 | 295,239 |
| Operating | 42,275,267 | 38,569,420 |
| Total Cash and Investments-Unrestricted | $ 43,431,716 | $ 39,364,207 |

## (4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2015 and 2014 follows:

| 2015 | Beginning Balance | Additions and Transfers In | Deletions and Transfers Out | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 1,373,577 | $ 503,227 | $ - | $ 1,876,804 |
| Construction, work-in-progress | 10,205,174 | 6,128,600 | 14,516,993 | 1,816,781 |
| Total capital assets, not being depreciated | 11,578,751 | 6,631,827 | 14,516,993 | 3,693,585 |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 171,616,108 | 12,596,828 | 513,162 | 183,699,774 |
| Buildings and improvements | 32,176,437 | 793,238 | 35,872 | 32,933,803 |
| Equipment | 20,432,498 | 623,700 | 250,212 | 20,805,986 |
| Total capital assets, being depreciated | 224,225,043 | 14,013,766 | 799,246 | 237,439,563 |
| Less accumulated depreciation | 80,133,418 | 5,272,151 | 1,225,732 | 84,179,837 |
| Total capital assets, being depreciated, net | 144,091,625 | 8,741,615 | (426,486) | 153,259,726 |
| Capital assets, net | $ 155,670,376 | $ 15,373,442 | $ 14,090,507 | $ 156,953,311 |

| 2014 | Beginning Balance | Additions and Transfers In | Deletions and Transfers Out | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 1,373,577 | $ - | $ - | $ 1,373,577 |
| Construction, work-in-progress | 7,054,663 | 17,668,588 | 14,518,077 | 10,205,174 |
| Total capital assets, not being depreciated | 8,428,240 | 17,668,588 | 14,518,077 | 11,578,751 |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 160,729,533 | 12,685,348 | 1,798,773 | 171,616,108 |
| Buildings and improvements | 31,373,791 | 840,275 | 37,629 | 32,176,437 |
| Equipment | 20,072,032 | 946,815 | 586,349 | 20,432,498 |
| Total capital assets, being depreciated | 212,175,356 | 14,472,438 | 2,422,751 | 224,225,043 |
| Less accumulated depreciation | 78,136,608 | 4,987,631 | 2,990,821 | 80,133,418 |
| Total capital assets, being depreciated, net | 134,038,748 | 9,484,807 | (568,070) | 144,091,625 |
| Capital assets, net | $ 142,466,988 | $ 27,153,395 | $ 13,950,007 | $ 155,670,376 |

## (5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2015 and 2014 was as follows:

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

| 2014 | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Revenue Bonds: | | | | | |
| Series 2005 | $19,180,000 | $ - | $ 1,420,000 | $17,760,000 | $1,480,000 |
| Series 2007 | 14,110,000 | - | 805,000 | 13,305,000 | 840,000 |
| Capital Loan Notes: | | | | | |
| Series 2010A | 8,790,000 | - | 410,000 | 8,380,000 | 420,000 |
| Series 2010B | 6,720,000 | - | 50,000 | 6,670,000 | 650,000 |
| Unamortized premium | 341,719 | - | 19,480 | 322,239 | |
| Unamortized discount | (232,285) | - | (15,851) | (216,434) | |
| | 48,909,434 | - | 2,688,629 | 46,220,805 | $3,390,000 |
| Current installments of long-term debt | (2,685,000) | (705,000) | | (3,390,000) | |
| Long-term debt, less current installments | 46,224,434 | (705,000) | 2,688,629 | 42,830,805 | |
| Customer advances for construction | 224,244 | 69,200 | 154,244 | 139,200 | |
| Landfill Closure | 1,081,094 | 174,455 | - | 1,255,549 | |
| Net pension liability | - | 4,208,071 | - | 4,208,071 | |
| Accrued severance and OPEB | 1,444,080 | 253,105 | 152,190 | 1,544,995 | |
| Noncurrent liabilities | 2,749,418 | 4,704,831 | 306,434 | 7,147,815 | |
| Total noncurrent liabilities | $48,973,852 | $ 3,999,831 | $ 2,995,063 | $49,978,620 | |

**(5) Noncurrent Liabilities, Continued**

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

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

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

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

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

## (5) Noncurrent Liabilities, Continued

| | Series 2010A Electric Revenue Capital Loan Notes | | Series 2010B Electric Revenue Refunding Capital Loan Notes | |
|---|---|---|---|---|
| Year | December 1 Principal Amount | 3.00% - 4.75% Interest Amount | December 1 Principal Amount | 2.50% - 3.80% Interest Amount |
| 2016 | $ 430,000 | $ 318,787 | $ 670,000 | $ 188,480 |
| 2017 | 435,000 | 305,888 | 685,000 | 171,730 |
| 2018 | 445,000 | 292,837 | 710,000 | 154,605 |
| 2019 | 455,000 | 279,488 | 735,000 | 135,080 |
| 2020 | 470,000 | 264,700 | 755,000 | 113,030 |
| 2021 – 2025 | 2,580,000 | 1,047,500 | 2,465,000 | 183,370 |
| 2026 – 2030 | 3,145,000 | 450,875 | - | - |
| | $ 7,960,000 | $ 2,960,075 | $ 6,020,000 | $ 946,295 |

| | Series 2015 Electric Revenue Refunding Capital Loan Notes | |
|---|---|---|
| Year | December 1 Principal Amount | 5.00% - 2.50% Interest Amount |
| 2016 | $ 2,140,000 | $ 1,187,375 |
| 2017 | 2,250,000 | 1,080,375 |
| 2018 | 2,370,000 | 967,875 |
| 2019 | 2,490,000 | 849,375 |
| 2020 | 2,625,000 | 724,875 |
| 2021 – 2025 | 13,185,000 | 1,597,500 |
| 2026 | 1,335,000 | 40,050 |
| | $ 26,395,000 | $ 6,447,425 |

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

All Utility revenues net of specified operating expenses are pledged as security of the above bonds until the bonds are defeased. Principal and interest paid for 2015 and 2014 were $5,158,605 and $4,614,011, respectively. Total sales of electricity gross revenues as defined for the same periods were $46,379,385 and $56,165,288. Annual principal and interest payments are expected to require 7.29% of gross revenues on average.

Iowa Administrative Code requires the Utility to place a final cover on its ash landfill site for its Streeter Station Generating Facility when it is closed and thereupon to have in place surveying monuments and an approved groundwater monitoring system. Iowa Administrative Code also requires the Utility to maintain the final cover, monitor ground water, and file reports with the Iowa Department of Natural Resources for ten years following closure of the site if closed by October 19, 2015. After that date, the Utility is required to maintain the cover, monitor the ground water, and files reports with the Iowa Department of Natural Resources for thirty years. Although closure and post closure costs are paid only near or after the date that the landfill is closed, the Utility reports a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used as of each statement of net position date.

**(5) Noncurrent Liabilities, Continued**

Landfill closure and post closure care costs at December 31, 2015 are estimated to be $775,000. This represents the cumulative estimated amount to date, based on the use of 100% of the estimated capacity of the landfill, to perform all closure and post closure care in 2015. Currently, the Utility has $775,000 in restricted funds to cover the cost of the closure (see note 2). The Utility closed the landfill October 19, 2015. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. In 2008 the Utility created a Landfill Closure liability for its ownership share of Walter Scott Energy Center - Unit 3, and George Neal Generating Station – Unit 4 generating units. The Walter Scott Energy Center – Unit 3 dry ash landfill is expected to be closed December 1, 2020 and its wet ash landfill is expected to be closed December 1, 2044. The Neal – Unit 4 land fill is expected to be closed December 1, 2022. A liability has been established and funds designated to pay the closing costs in the amount of $860,518 (see note 3).

**(6) Pension Plan - IPERS**

**Plan Description**

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

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

**Plan Benefits**

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

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

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

## (6) Pension Plan – IPERS, Continued

### Plan Benefits, Continued

earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

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

### Disability and Death Benefits

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

### Contributions

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

In fiscal years 2015 and 2014, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's total contributions to IPERS for the years ended December 31, 2015 and 2014 were $600,278 and $649,951, respectively.

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

At December 31, 2015 and 2014, the Utility reported a liability of $4,954,618 and $4,208,071, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utilities' collective proportion was 0.190318 percent which was a decrease of 0.010180 percent from its proportion measured as of June 30, 2014 of 0.200498 percent.

## (6) Pension Plan – IPERS, Continued

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

For the years ended December 31, 2015 and 2014, the Utility recognized pension expense of $321,974 and $325,107, respectively. At December 31, 2015 and 2014 the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | $ 75,008 | $ - | $ 45,734 | $ - |
| Changes of assumptions | 137,024 | - | 185,711 | - |
| Net difference between projected and actual earnings on pension plan investments | 741,309 | 1,158,833 | - | 1,604,837 |
| Changes in proportion and differences between Utility's contributions and proportionate share of contributions | 1,326 | 289,966 | - | 158,850 |
| Utility's contributions subsequent to the measurement date | 323,100 | - | 336,359 | - |
| Total | $1,277,767 | $1,448,799 | $ 567,804 | $1,763,687 |

$323,100 reported as deferred outflows of resources related to pensions resulting from the Utility's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ended | 2015 | 2014 |
|---|---|---|
| December 31, 2015 | na | $ 384,246 |
| December 31, 2016 | $ 215,491 | $ 384,246 |
| December 31, 2017 | $ 215,491 | $ 384,246 |
| December 31, 2018 | $ 215,487 | $ 384,243 |
| December 31, 2019 | $ (160,023) | $ (4,739) |
| December 31, 2020 | $ 7,686 | na |

There were no non-employer contributing entities at IPERS.

## (6) Pension Plan – IPERS, Continued

### Actuarial Assumptions

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

| | |
|---|---|
| Rate of Inflation:<br>(effective June 30, 2014) | 3.00 percent per annum |
| Rates of salary increase:<br>(effective June 30, 2010) | 4.00 to 17.00 percent, average, including inflation. Rates vary by membership group |
| Long-term investment rate of return:<br>(effective June 30, 1996) | 7.5 percent, compounded annually, net of investment expense, including inflation |

The actuarial assumptions used in the June 30, 2015 and 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflations) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table from IPERS Comprehensive Annual Financial Reports 2015 (CAFR):

| Asset Class | Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Core-plus Fixed Income | 28% | 2.04 |
| Domestic Equity | 24 | 6.29 |
| International Equity | 16 | 6.75 |
| Private Equity/Debt | 11 | 11.32 |
| Real Estate | 8 | 3.48 |
| Credit Opportunities | 5 | 3.63 |
| US TIPS | 5 | 1.91 |
| Other Real Assets | 2 | 6.24 |
| Cash | 1 | -0.71 |
| Total | 100% | |

## 6) Pension Plan – IPERS, Continued

### Discount Rate

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

### Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

| | 1% Decrease (6.5%) | Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| Utility's proportionate share of the net pension liability at 6-30-15 | $ 8,674,645 | $ 4,954,618 | $ 1,814,648 |
| Utility's proportionate share of the net pension liability at 6-30-14 | $ 7,951,033 | $ 4,208,071 | $ 1,048,624 |

### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

### Payables to the Pension Plan

At December 31, 2015 and 2014, the Utility reported a payable of $78,745 and $79,118, respectively, to the defined benefit pension plan for legally required employer contributions and a payable of $46,004 and $47,319, respectively for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

## (7) Income Tax Status

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

## (8) Jointly-Owned Capital Assets

The Utility's share of jointly owned electric facilities at December 31, 2015 and 2014 is reflected in the following table. These facilities provide approximately 33% of the Utility's total generating capacity. The Utility is required to provide financing for its share of the facilities. The Utility's share of expenses associated with these facilities is included with the appropriate operating expenses in the statements of revenues, expenses and changes in net position.

| | | | Capital Assets, Net | |
|---|---|---|---|---|
| Facility | Percentage Ownership | Capacity MW | 2015 | 2014 |
| Walter Scott Energy Center Unit 3 | 3.10% | 21.0 | $ 13,798,935 | $ 12,474,721 |
| Walter Scott Energy Center Unit 4 | 2.14% | 16.9 | 28,768,255 | 28,878,643 |
| George Neal Generating Station Unit 4 | 2.50% | 15.0 | 11,183,217 | 11,083,037 |
| Iowa Distributed Wind Generation Project | 65.80% | 1.5 | 99,963 | 199,926 |

## (9) Related Party Transactions

The Utility provides electric service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to $1,014,502 and $1,086,096 in 2015 and 2014, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2014 to reimburse the Electric Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of $18,429,622 and $20,442,918 as of December 31, 2015 and 2014, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting deferred inflow of resources at December 31, 2015 and 2014 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to $2,013,296 and $1,005,003 in 2015 and 2014, respectively and is recorded as contributed capital in the statements of revenues, expenses and changes in net position.

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2015 and 2014 were $3,053,920 and $3,134,241, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2015, the Utility's Board of Trustees approved a payment of $3,053,920 related to payments in lieu of taxes for 2015.

The Electric Utility has extended a loan to the Municipal Communications Utility of the City of Cedar Falls, Iowa (Communications Utility), with an outstanding balance of $183,090 and $368,090 as of December 31, 2015 and 2014, respectively. Interest accrues on the loan at 2.0% and is paid semi-annually during December and June. Annual principal payments continue through 2016. Accrued interest receivable was $279 and $612 at December 31, 2015 and 2014, respectively. Interest income for the years ended December 31, 2015 and 2014 was $7,029 and $10,754 respectively. In January 2015 the Board of Trustees of the Municipal Electric Utility adopted resolution No.5574 approving the continuation of the annual interest rate of 2.0%.

## (10) Risk Management

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first $60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2015 plan year for aggregate medical claims exceeding $2.8 million.

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

| | 2015 | 2014 |
|---|---|---|
| Unpaid claims and IBNR, beginning of year | $ 152,000 | $ 325,000 |
| Current year costs including IBNR | 3,016,121 | 2,659,707 |
| Claims paid | (3,043,121) | (2,832,707) |
| Unpaid claims and IBNR, end of year | $ 125,000 | $ 152,000 |

The Electric Utility has recorded $65,000 and $95,760 in accounts payable for its share of these unpaid claims at December 31, 2015 and 2014, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 525 governmental entities participate in the Association as of June 30, 2015. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

**(10) Risk Management, Continued**

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents and investments | $ 82,061,911 | $ 76,450,260 |
| Receivables | 1,944,567 | 1,730,052 |
| Other assets | 773,941 | 828,246 |
| Total assets | $ 84,780,419 | $ 79,008,558 |
| | | |
| Total liabilities | $ 30,479,705 | $ 28,860,654 |
| Total equity | 54,300,714 | 50,147,904 |
| Total liabilities and equity | $ 84,780,419 | $ 79,008,558 |
| | | |
| Total revenue | $ 8,506,228 | $ 10,493,284 |
| Total expenses | 4,353,418 | 4,473,084 |
| Net increase in equity | $ 4,152,810 | $ 6,020,200 |

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

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

**Plan Description**

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

**Funding Policy**

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2015 and 2014, the Utilities contributed $214,857 and $124,345, respectively and retirees receiving benefits contributed $85,269 and $105,738, respectively, through their required contributions.

## (11) Other Post-Employment Benefits (OPEB), Continued

### Annual OPEB and Net OPEB Obligations

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

| | 2015 | 2014 |
|---|---|---|
| Annual required contribution | $ 74,113 | $ 73,136 |
| Interest on net OPEB obligation | 51,446 | 53,435 |
| Adjustment to annual required contribution | (39,646) | (41,179) |
| Annual OPEB expense | 85,913 | 85,392 |
| Contributions and payments made | 129,588 | 18,607 |
| Increase (Decrease) in net OPEB obligation | $ (43,675) | $ 66,785 |
| Net OPEB obligation, December 31, 2014 | 1,028,929 | 962,144 |
| Net OPEB obligation, December 31, 2015 | $ 985,254 | $ 1,028,929 |

The Electric Utility's share of the December 31, 2015 and 2014 Net OPEB obligation is $756,000 and $752,573, respectively.
The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and net OPEB obligation for the years ended December 31, 2015, 2014 and 2013:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| December 31, 2015 | $ 85,913 | 150.84% | $ 985,254 |
| December 31, 2014 | $ 85,392 | 21.79% | $ 1,028,929 |
| December 31, 2013 | $ 85,392 | 248.33% | $ 962,144 |

### Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was $931,950. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of active employees covered by the Plan which was $13,073,650 in 2015 and the ratio using the January 1, 2015 actuarial valuation UAAL to the covered payroll was 7.1%.

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

## (11) Other Post-Employment Benefits (OPEB), Continued

### Funded Status and Funding Progress, Continued

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

Significant methods and assumptions were as follows:

| | |
|---|---|
| Actuarial valuation date: | January 1, 2015 |
| Actuarial cost method: | Projected Unit Credit |
| Amortization method: | Level Percentage of Projected Payroll |
| Remaining amortization period: | 30 years |
| Actuarial assumptions: | |
| Discount Rate | 5.0% |
| Healthcare Trend Rate | 8.0% declining 0.5% annually to 5% |

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

## (12) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, building furnishings and equipment, meters, switches, relays, tools and rendered the Streeter Station power plant units 6 and 7 and coal handling systems inoperable and in need of major repair. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. As of December 31, 2009, damaged Utility administrative facilities were operational. Damaged generation units and power plant office facilities were operational in early 2010. In 2015 and 2014, the Utility has recognized $1,022,407 and $0, respectively, in revenues for FEMA flood recovery reimbursement. As of December 31, 2015 and 2014, the Utility recognized a receivable of $0 and $999,343, respectively, for FEMA flood disaster reimbursement. The Utility concluded its flood work with FEMA in 2015.

## (13) Wind Storm Event

On July 10, 2009, the City of Cedar Falls experienced a storm with extreme winds of approximately 106 MPH. The extreme winds uprooted and sheared trees, blew over poles and lines, and slammed trees and branches into Electric Utility distribution facilities doing millions of dollars of damage. The Utility began immediate clean up and also began working with the Federal Emergency Management Agency (FEMA) for reconstruction and repair of severely damaged Utility distribution assets. As of December 31, 2009, the damaged assets had been temporarily repaired. The damaged assets have been permanently repaired, restored, or replaced as of the end of 2014. In 2015 and 2014, the Electric Utility spent $0 and $315,093, respectively, for wind storm disaster recovery. The Utility concluded its wind work with FEMA in 2015.

## (14) Commitments and Contingencies

The Utility has joint ownership interest in Walter Scott Energy Center Units 3 and 4, and the George Neal Generating Station Unit 4 (see note 8). Coal procurements are made by the agent for the joint owners on a system portfolio basis, which are a mix of 1, 2, and 3-year purchases to minimize risk. The Utility is obligated to purchase at least the annual amount of coal to operate the Utility's share at minimum load. The Utility's share of coal purchases for the years 2015 and 2014 were $5,770,742 and $5,114,099, respectively.

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

In 2006, the Utility contracted with Miron Construction Co., Inc. (Miron) as its General Contractor, to construct a bag house for Streeter Station Generating Unit 6 (Unit 6) to capture particulate matter from this unit. The bag house construction was represented as completed but problems were immediately evident when Unit 6 was to be returned to operation in June 2007. Unit 6 could not be operated in a commercially reasonable manner in accordance with the design criteria. The bags in the bag house become clogged, and the normal cleaning process is unable to keep up with the emission particles flowing through the bag house and Unit 6 is shut down. Formal arbitration measures were invoked under the contract and Miron's performance bond carrier, CNA, was noticed and involved. It is the contention of the Utility that Dustex, the subcontractor that furnished the bag house modules, undersized them to obtain a competitive advantage. As a result of the undersized bag house, Unit 6 cannot be operated at design capacity and does not have a spare module as required under the contract.

Since the bag house has not performed as designed and therefore has not achieved substantial completion, the Utility has withheld progress payments to Miron. Miron disputed this position and initiated arbitration to collect the remaining progress payment and retainage totaling $420,873. The parties executed an agreement to toll statutes of limitations and allow remediation studies by Miron.

Remediation efforts were not successful and the arbitration hearings were held in January, April and August of 2013. The arbitration panel ruled in favor of CFU and entered an award against Miron, CNA and Dustex. The arbitrator's decision was published on November 8, 2013. CFU attorneys filed a motion to confirm the award in Black Hawk County District Court. Miron and CNA had the case remanded to Federal District court in Cedar Rapids, Iowa, asking to have the arbitration ruling vacated. Dustex filed a motion to remand the case as well. The Federal District court affirmed the arbitrator's decision as to Miron, CNA and Dustex. Miron and CNA then appealed to the Eighth Circuit Court of Appeals. Dustex filed an appeal to the Eighth Circuit Court of Appeals as well. Prior to oral arguments on the appeal, Miron and CNA, with presumably some contribution from Dustex, agreed to pay the judgment of $3,625,000 which was received in December 2014 and accounted for in miscellaneous non-operating revenues.

As of December 31, 2015, the Utility was involved in several construction projects with an estimated cost to complete of $13,943,044 and an estimated time frame to complete through 2018.

## (15) Subsequent Events

Subsequent events for the Utility have been evaluated through May 26, 2016, which is the date that the financial statements were available to be issued.

Effective January 1, 2016, the Board of Trustees approved a residential electric rate restructuring. The kWh usage charges were reduced and equal amounts added to the customer charge. The average net impact of these changes for customers is rate neutral and revenue neutral for the Utility.

In January 2016 the Board of Trustees adopted resolution No. 5722 approving the continuation of the annual interest rate on the notes between the Communications Utility and the Electric Utility at 2.0% as reflective of the investment and borrowing markets.

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

| | 2015 | 2014 |
|---|---|---|
| Utilities proportion of the net pension liability (asset) | 0.190318% | 0.200498% |
| Utility's proportionate share of the net pension liability | $ 4,954,618 | $ 4,208,071 |
| Utility's Covered-employee payroll | $ 6,870,511 | $ 6,943,138 |
| Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 72.11% | 60.61% |
| Plan fiduciary net position as a percentage of the total pension liability | 85.19% | 87.61% |

*The amounts presented for each fiscal year were determined as of June 30, 2015.

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

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

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Statutorily required contribution | $ 600,278 | $ 649,951 | $ 611,560 | $ 579,454 | $ 512,851 |
| Contributions in relation to the statutorily required contribution | (600,278) | (649,951) | (611,560) | (579,454) | (512,851) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - |
| Utility's covered-employee payroll | $ 6,722,036 | $ 7,278,286 | $ 6,950,838 | $ 6,960,430 | $ 6,815,498 |
| Contributions as a percentage of covered-employee payroll | 8.93% | 8.93% | 8.80% | 8.33% | 7.52% |

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Statutorily required contribution | $ 458,698 | $ 427,457 | $ 388,089 | $ 341,288 | $ 301,172 |
| Contributions in relation to the statutorily required contribution | (458,698) | (427,457) | (388,089) | (341,288) | (301,172) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - |
| Utility's covered-employee payroll | $ 6,743,466 | $ 6,571,587 | $ 6,261,209 | $ 5,783,294 | $ 5,237,774 |
| Contributions as a percentage of covered-employee payroll | 6.80% | 6.51% | 6.20% | 5.90% | 5.75% |

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

**Changes of Benefit Terms**

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

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

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

**Changes of Assumptions**

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

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

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

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

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

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

**Changes of Assumptions, Continued**

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

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

| Fiscal Year Ended | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| 2015 | January 1, 2015 | $ - | $931,950 | $931,950 | 0.0% | $13,073,650 | 7.1% |
| 2014 | January 1, 2012 | $ - | $908,961 | $908,961 | 0.0% | $13,921,796 | 6.5% |
| 2013 | January 1, 2012 | $ - | $908,961 | $908,961 | 0.0% | $13,400,936 | 6.8% |
| 2012 | January 1, 2012 | $ - | $908,961 | $908,961 | 0.0% | $13,133,950 | 6.9% |
| 2011 | January 1, 2009 | $ - | $2,967,000 | $2,967,000 | 0.0% | $12,936,933 | 22.9% |
| 2010 | January 1, 2009 | $ - | $2,967,000 | $2,967,000 | 0.0% | $12,152,946 | 24.4% |
| 2009 | January 1, 2009 | $ - | $2,967,000 | $2,967,000 | 0.0% | $11,587,064 | 25.6% |
| 2008 | January 1, 2007 | $ - | $3,436,000 | $3,436,000 | 0.0% | $11,162,424 | 30.8% |

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Municipal Electric Utility of the City of Cedar Falls (Municipal Electric Utility) as of and for the year ended December 31, 2015, and have issued our report thereon dated May 26, 2016.

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

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

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

**Compliance and Other Matters**

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

Comments involving statutory and other legal matters about the Municipal Electric Utility's operations for the year ended December 31, 2015, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Municipal Electric Utility and are reported in Part III of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

**Purpose of this Report**

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

Eide Bailly LLP

Dubuque, Iowa
May 26, 2016

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

There were no findings to report.

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

Single audit did not apply for fiscal year 2015.

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

2015-IA-A **Certified Budget** – Disbursements during the year ended December 31, 2015, did not exceed the amount budgeted.

2015-IA-B **Questionable Expenditures** – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

2015-IA-C **Travel Expense** – No expenditures of the Utility's money for travel expenses of spouses of Utility officials or employees were noted.

2015-IA-D **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.

2015-IA-E **Bond Coverage** – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

2015-IA-F **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

2015-IA-G **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.

2015-IA-H **Revenue Bonds** – No instances of noncompliance with the provisions of the Utility's revenue bond resolutions were noted.

2015-IA-I **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.