

DENISON MUNICIPAL UTILITIES

INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2013

MAHONEY & GOTTO COMPANY

Certified Public Accountants

Denison, Iowa

DENISON MUNICIPAL UTILITIES

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DENISON MUNICIPAL UTILITIES

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brad Nelson	Chairman	2013
Nancy Bradley	Vice Chairman	2016
Dane Dammen	Board Member	2014
Chad Langenfeld	Board Member	2015
Vacant Position	Board Member	2018*
Mark Ramthun	General Manager	Indefinite
Renee Vary	Manager-Finance & Customer Information	Indefinite
D. R. Franck	Attorney	Indefinite

*Currently awaiting appointment by the Mayor

MAHONEY & GOTTO COMPANY
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Denison Municipal Utilities

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities, each major enterprise fund, and the fiduciary fund information of Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involved 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 Utilities' 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 Utility'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities, each major enterprise fund and the fiduciary fund of Denison Municipal Utilities as of June 30, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 10 and 27 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Denison Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2012 and for the three years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 16, 2013 on our consideration of Denison Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 Denison Municipal Utilities' internal control over financial reporting and compliance.

Mahoney & Gotto Company
MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 16, 2013
Denison, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Denison Municipal Utilities annual report presents an analysis of the Utilities financial performance for the fiscal year ended June 30, 2013. Denison Municipal Utilities is organized into four operating divisions. They are the electric utility, water utility, sewer utility, and the joint treatment utility. This discussion and analysis not only points out the highlights of each utility but also reports and discusses highlights in combined form. We encourage readers to consider the information presented here in conjunction with the utilities financial statements and notes to the basic financial statements in order to enhance their understanding of the utilities financial performance.

2013 FINANCIAL HIGHLIGHTS

- Total combined operating revenues increased \$76,178 or 0.53% from the prior year. An increase in wastewater rates contributed to this increase.
- Interest income decreased \$18,915 or 28.9% from the prior year. This decrease is a direct result of the Federal Reserve Bank's low interest rate policy and the use of cash reserve funds for capital improvement projects.
- Operating expenses decreased \$213,314 or 1.77% from the prior year. Wastewater processing costs decreased due to the improvements in the waste discharged for treatment to the joint treatment facility.
- Total assets increased \$663,070 and total liabilities decreased \$528,788, resulting in total net position increasing \$1,191,858 or 3.23% from the prior year. Investments in capital assets increased \$2,138,382 funded by amounts set aside in cash reserve funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Financial Statements and Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

REQUIRED FINANCIAL STATEMENTS

Denison Municipal Utilities presents its proprietary funds financial statements using the flow of economic resources focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities financial activities.

The *Statement of Net Position* presents information on the Utilities assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position

may serve as a useful indicator of whether the financial position of each utility is improving or deteriorating.

All of the current year’s revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position*. This statement measures the success of the Utilities operations. It can be used to determine whether each utility has successfully recovered all its costs through its rates, fees and other revenues. This statement also measures the Utilities profitability and credit worthiness.

The *Statement of Cash Flows* presents the change in the Utilities cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utilities financed its activities and how it met its cash requirements.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

Supplementary Information provides comparative financial information for each operating division.

FINANCIAL ANALYSIS OF THE UTILITIES

The Statement of Net Position includes all of the Utilities assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utilities.

The analysis below focuses on the net assets and changes in net position of the Utilities.

<u>Condensed Statement of Net Position</u>			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 11,989,779	\$ 12,024,308	\$ 14,604,169
Capital Assets	<u>30,757,224</u>	<u>30,059,625</u>	<u>26,827,615</u>
Total Assets	<u>42,747,003</u>	<u>42,083,933</u>	<u>41,431,784</u>
Long-term debt outstanding	2,515,000	2,926,000	3,434,191
Other liabilities	<u>2,216,369</u>	<u>2,334,157</u>	<u>2,494,290</u>
Total Liabilities	<u>4,731,369</u>	<u>5,260,157</u>	<u>5,928,481</u>
Net Investment in Capital Assets	27,851,120	27,253,008	22,770,294
Restricted Net Position	726,434	716,000	776,067
Unrestricted Net Position	<u>9,438,080</u>	<u>8,854,768</u>	<u>11,956,942</u>
Total Net Position	<u>\$ 38,015,634</u>	<u>\$ 36,823,776</u>	<u>\$ 35,503,303</u>

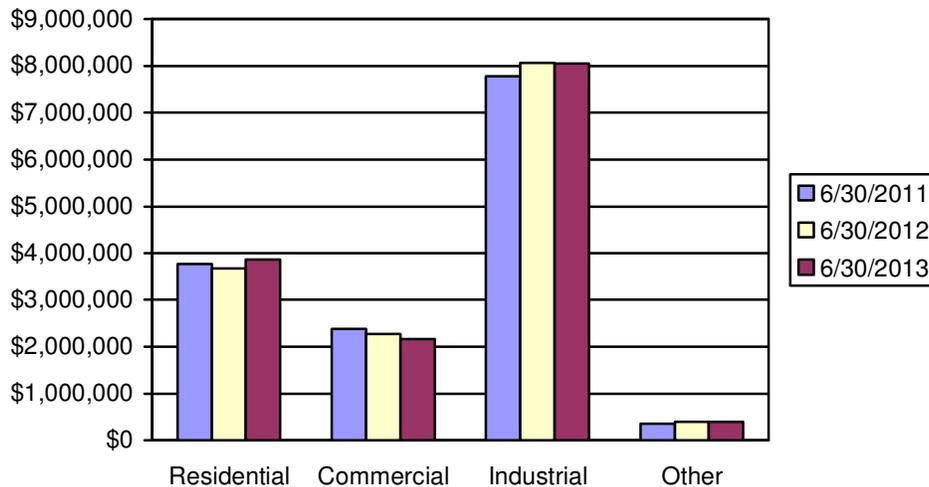
2013 OPERATING RESULTS

The Statement of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which affect the change in net position.

<u>Condensed Statements of Revenues, Expenses, and Changes in Net Position</u>			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Program revenues			
Operating revenues	\$14,463,238	\$ 14,387,060	\$ 14,288,827
Miscellaneous	320,092	511,527	482,528
Unrestricted investment earnings	46,496	65,411	114,121
Total revenues	<u>14,829,826</u>	<u>14,963,998</u>	<u>14,885,476</u>
Program expenses			
Operating expenses	11,840,284	12,053,598	11,533,458
Depreciation	1,527,017	1,401,490	1,326,990
Interest on long-term debt	96,252	121,823	143,095
Economic development	100,000	0	0
Payment in lieu of taxes	74,415	66,614	0
Total expenses	<u>13,637,968</u>	<u>13,643,525</u>	<u>13,003,543</u>
Change in net position	1,191,858	1,320,473	1,881,933
Unrestricted Net Position July 1	<u>36,823,776</u>	<u>35,503,303</u>	<u>33,621,370</u>
Unrestricted Net Position June 30	<u>\$ 38,015,634</u>	<u>\$ 36,823,776</u>	<u>\$ 35,503,303</u>

The following graph shows a comparison of total operating revenue by customer category for the fiscal years ended June 30, 2013, 2012 and 2011.

Comparison of Total Operating Revenues



Following is a schedule of the number of electric meters and the kilowatts used by customer class for the fiscal years ended June 30, 2013, 2012 and 2011:

	Comparison of Electric Meters & Usage by Customer Class					
	2013		2012		2011	
	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>
Commercial C1	608	14,425,811	619	18,670,720	628	19,023,247
Commercial C1M	16	394,946	16	416,715	19	779,771
Residential R1	2,444	29,954,273	2,434	31,683,204	2,439	30,350,038
Residential R2M	257	4,704,645	254	4,500,368	257	4,884,164
Industrial	72	95,651,941	61	97,117,347	52	91,338,647
Water plant		3,118,136		3,352,184		3,058,031
Sewer plant		5,625,770		6,921,629		5,815,992
City Government		2,578,958		2,827,847		2,763,204
Other DMU uses		<u>571,843</u>		<u>565,351</u>		<u>582,894</u>
Total Meters & KWH Billed	<u>3,397</u>	<u>157,026,323</u>	<u>3,384</u>	<u>166,055,365</u>	<u>3,395</u>	<u>158,595,988</u>

The number of water meters and gallons used by customer class for the fiscal years ended June 30, 2013, 2012 and 2011 is as follows:

	Comparison of Water Meters & Usage by Customer Class					
	2013		2012		2011	
	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>
Residential	2,258	118,523,000	2,255	134,883,000	2,244	116,905,000
Commercial	396	105,864,000	394	110,361,000	398	90,357,000
West Central Rural Water	4	216,105,000	4	216,700,000	4	194,039,000
Residential Outside City	130	13,486,000	129	13,863,000	130	11,329,000
Commercial Outside City	20	29,391,000	19	29,234,000	18	27,754,000
Industrial	8	369,288,000	9	392,298,000	8	413,894,000
Electric Department		192,000		1,040,000		1,158,000
Sewer plant		2,563,000		2,047,000		1,816,000
City Government		<u>5,130,000</u>		<u>4,665,000</u>		<u>3,655,000</u>
Total Meters & Gals. Billed	<u>2,816</u>	<u>860,542,000</u>	<u>2,810</u>	<u>905,091,000</u>	<u>2,802</u>	<u>860,907,000</u>

ANALYSIS BY FUND

The Electric Utility, which accounts for the operation and maintenance of the electric system, ended fiscal year 2013 with a net position of \$14,412,104 compared to the prior year ending net position of \$14,436,678, a decrease of 0.17%. An increase in amounts invested in capital assets with cash reserve funds contributed to the decrease.

The Water Utility, which accounts for the operation and maintenance of the water treatment and distribution system, ended fiscal year 2013 with a \$11,596,053 net position compared to the prior year ending net position of \$11,397,979, an increase of 1.74%. An increase in capital assets and a decrease in the related debt contributed to the increase in net position.

The Sewer Utility, which accounts for the operation and maintenance of the wastewater treatment and sanitary sewer system, ended fiscal year 2013 with a net position of \$4,218,757 compared to \$3,827,128 for the previous fiscal year, an increase of 10.2%. An increase in amounts invested in capital assets and a decrease in current liabilities contributed to the increase in net position along with a rate increase for gallons of wastewater processed.

The Joint Treatment Utility, which accounts for the operation and maintenance of the waste water treatment system to which the major industries in the City of Denison discharge their pretreated waste water, ended the fiscal year 2013 with a net position of \$7,788,720 compared to the prior year ending net position of \$7,161,991, an increase of 8.75%. An increase in amounts invested in capital assets and a decrease in the related debt contributed to the increase in the net asset balance.

CAPITAL ASSETS

The Utilities capital assets include land, buildings, improvements, service lines, automobiles and equipment, and street lights. A total of \$2,224,617 was invested in new capital assets, after accounting for depreciation, there was an increase of \$697,600 in Capital Assets from June 30, 2012.

LONG-TERM DEBT

As of June 30, 2013, the Utilities had \$2.926 million in outstanding debt compared to \$3.329 million as of June 30, 2012. The decrease represents principal payments made during the fiscal year ended June 30, 2013. The outstanding debt of the Water Utility consists entirely of revenue bonds, which are secured by future water revenues.

Additional information on the Utilities long-term debt is provided in Note 5 of the financial statements.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget was not amended during the fiscal year. The budget was not exceeded.

The Utilities receipts were \$532,683 less than budgeted. A bond issue was anticipated when the budget was prepared but was not issued during the current fiscal year.

Total expenditures were \$1,028,357 less than budgeted. Delays in capital projects in each utility contributed to this variance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Various economic factors were considered when establishing the Utilities budget for fiscal 2013. Anticipated industry expansion and demographic changes are all considered in order to determine capital expenditures and expected revenues. During fiscal year 2014, the Utilities will review all rate structures to determine if any rate changes will be needed. Planned capital additions will be financed through cash reserves and operating cash flows thereby reducing the assets that bear interest and reducing interest income for the coming fiscal years.

COMMUNITY BENEFITS PROVIDED

As a municipal utility, DMU is able to provide the citizens of Denison with a variety of community benefits through lower rates and various customer programs. Following is a schedule of community benefits provided during the fiscal years ended June 30, 2013, 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
KWH Billed	157,026,323	166,055,365	158,595,988
Rate difference between Iowa average utility rate and Denison Municipal Utilities	<u>0.0158</u>	<u>0.0153</u>	<u>0.0165</u>
(1) Calculated total electric savings	\$ 2,481,016	\$ 2,540,647	\$ 2,616,834
(2) Transfer to City general fund in lieu of taxes	294,491	342,200	283,386
(3) New housing assistance program	2,000	0	0
(4) Water heater rebates	<u>6,580</u>	<u>7,520</u>	<u>7,480</u>
Total Community Benefits	<u>\$ 2,784,087</u>	<u>\$ 2,890,367</u>	<u>\$ 2,907,700</u>

- (1) The Iowa average utility rate is arrived at by comparing the most recent data available from the US Energy Information Administration on Iowa investor owned utilities.
- (2) Payment of utility bills based upon the costs associated with street and public recreation area lighting are remitted by the city monthly. A cash remittance of the same amount is given to the city as a payment in lieu of taxes. Additional funds are also provided to the City to achieve a contribution amount to the City in an amount determined by the Board of Trustees.
- (3) Denison Municipal Utilities has agreed to support local housing projects by reimbursing 90% of costs associated with installing electric, water, and sewer connections from main lines to the house or duplex; however, the reimbursement amount is not to exceed \$2,000 per structure. In the case of multi-family dwellings, in excess of two units, the reimbursement amount is not to exceed \$500 per dwelling unit.
- (4) Denison Municipal Utilities has agreed to support an energy efficient water heater rebate program. All participants in the water heater rebate program are required to be on the load management system.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Utilities rate payers, creditors and other interested parties with a general overview of the Utilities finances and operating activities. If you have any questions regarding the information included in this report or wish to request additional financial information, please contact the Manager of Finance and Customer Information at PO Box 518, Denison, IA 51442.

BASIC FINANCIAL STATEMENTS

**DENISON MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
June 30, 2013 and 2012**

Exhibit A

ASSETS	BUSINESS-TYPE ACTIVITIES	
	2013	2012
UTILITY PLANT		
Plant in Service, at cost	\$ 59,323,968	\$ 57,185,586
Less: Accumulated depreciation	28,566,744	27,125,961
Net Utility Plant	\$ 30,757,224	\$ 30,059,625
OTHER ASSETS		
Restricted		
Revenue bond reserve	\$ 734,460	\$ 726,419
Loan origination fee, net of accumulated amortization	19,896	22,383
Unrestricted		
Note receivable	250,000	375,000
Equipment replacement investment	1,158,789	1,005,512
	\$ 2,163,145	\$ 2,129,314
CURRENT ASSETS		
Restricted		
Consumers' deposit fund	\$ 69,660	\$ 73,211
Unrestricted		
Cash	3,075,902	3,348,996
Deposits and investments	4,516,083	4,341,382
Accounts receivable	26,541	25,416
Unbilled usage	1,080,363	1,178,927
Due from other funds	30,400	30,452
Interest receivable	9,686	17,063
Grant funds receivable	0	39,401
Inventory	748,304	586,471
Prepaid insurance	144,695	128,675
Note receivable	125,000	125,000
Total Current Assets	\$ 9,826,634	\$ 9,894,994
Total Assets	\$ 42,747,003	\$ 42,083,933

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
June 30, 2013 and 2012**

Exhibit A

	BUSINESS-TYPE ACTIVITIES	
	2013	2012
LIABILITIES AND NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 27,851,120	\$ 27,253,008
Restricted:		
Debt Service	726,434	712,274
Consumer Deposits	0	3,726
Unrestricted net assets	9,438,080	8,854,768
Total Net Position	\$ 38,015,634	\$ 36,823,776
LONG-TERM DEBT		
Net of current maturities	\$ 2,515,000	\$ 2,926,000
CURRENT LIABILITIES		
Accounts payable	\$ 1,204,404	\$ 1,349,106
Due to other funds	30,400	30,452
Accrued vacation and sick leave	365,096	346,661
Other accrued liabilities	120,028	111,308
Payable from restricted assets		
Current maturities of long-term debt	411,000	403,000
Interest payable	15,526	24,145
Consumers' deposits	69,915	69,485
Total Current Liabilities	\$ 2,216,369	\$ 2,334,157
 Total Liabilities and Net Position	 \$ 42,747,003	 \$ 42,083,933

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
June 30, 2013 and 2012

Exhibit B

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Joint Treatment</u>	<u>Total 2013</u>	<u>Total 2012</u>
ASSETS						
UTILITY PLANT						
Plant in Service, at cost	\$ 20,994,003	21,800,148	6,768,948	9,760,869	59,323,968	57,185,586
Less: Accumulated depreciation	11,864,573	9,936,867	3,038,760	3,726,544	28,566,744	27,125,961
Net Utility Plant	<u>\$ 9,129,430</u>	<u>11,863,281</u>	<u>3,730,188</u>	<u>6,034,325</u>	<u>30,757,224</u>	<u>30,059,625</u>
OTHER ASSETS						
Restricted						
Revenue bond reserve	\$ 0	734,460	0	0	734,460	726,419
Loan origination fee, net of accumulated amortization	0	19,896	0	0	19,896	22,383
Unrestricted						
Note receivable - Joint Treatment Utility	250,000	0	0	0	250,000	375,000
Equipment replacement investment	0	0	0	1,158,789	1,158,789	1,005,512
Total Other Assets	<u>\$ 250,000</u>	<u>754,356</u>	<u>0</u>	<u>1,158,789</u>	<u>2,163,145</u>	<u>2,129,314</u>
CURRENT ASSETS						
Restricted						
Consumers' deposit fund	\$ 69,660	0	0	0	69,660	73,211
Unrestricted						
Cash	1,672,936	454,108	116,163	832,695	3,075,902	3,348,996
Deposits and investments	3,197,623	1,001,391	317,069	0	4,516,083	4,341,382
Accounts receivable	(39,557)	35,819	30,279	0	26,541	25,416
Unbilled usage	623,857	176,033	110,710	169,763	1,080,363	1,178,927
Due from other funds	4,669	8,421	16,090	1,220	30,400	30,452
Interest receivable	9,411	275	0	0	9,686	17,063
Grant funds receivable	0	0	0	0	0	39,401
Inventory	653,520	94,784	0	0	748,304	586,471
Prepaid insurance	57,952	50,558	13,073	23,112	144,695	128,675
Note receivable - Joint Treatment Utility	125,000	0	0	0	125,000	125,000
Total Current Assets	<u>\$ 6,375,071</u>	<u>1,821,389</u>	<u>603,384</u>	<u>1,026,790</u>	<u>9,826,634</u>	<u>9,894,994</u>
Total Assets	<u>\$ 15,754,501</u>	<u>14,439,026</u>	<u>4,333,572</u>	<u>8,219,904</u>	<u>42,747,003</u>	<u>42,083,933</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
June 30, 2013 and 2012

Exhibit B

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2013	Total 2012
LIABILITIES AND NET POSITION						
NET POSITION						
Net Investment in Capital Assets	\$ 9,129,430	9,332,177	3,730,188	5,659,325	27,851,120	27,253,008
Restricted:						
Debt Service	0	726,434	0	0	726,434	712,274
Consumer Deposits	0	0	0	0	0	3,726
Unrestricted	5,282,674	1,537,442	488,569	2,129,395	9,438,080	8,854,768
Total Net Position	\$ 14,412,104	11,596,053	4,218,757	7,788,720	38,015,634	36,823,776
LONG-TERM DEBT -						
Net of current maturities	\$ 0	2,265,000	0	250,000	2,515,000	2,926,000
CURRENT LIABILITIES						
Accounts payable	\$ 987,381	156,467	26,742	33,814	1,204,404	1,349,106
Due to other funds	22,801	2,770	3,613	1,216	30,400	30,452
Accrued vacation and sick leave	211,143	91,009	62,944	0	365,096	346,661
Other accrued liabilities	51,157	33,701	21,516	13,654	120,028	111,308
Payable from restricted assets						
Current maturities of long-term debt	0	286,000	0	125,000	411,000	403,000
Interest payable	0	8,026	0	7,500	15,526	24,145
Consumers' deposits	69,915	0	0	0	69,915	69,485
Total Current Liabilities	\$ 1,342,397	577,973	114,815	181,184	2,216,369	2,334,157
Total Liabilities and Net Position	\$ 15,754,501	14,439,026	4,333,572	8,219,904	42,747,003	42,083,933

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
Years Ended June 30, 2013 and 2012

Exhibit C

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2013	Total 2012
OPERATING REVENUES						
Sales to consumers	\$ 9,142,174	2,329,235	1,264,583	1,694,123	14,430,115	14,350,975
Other operating revenues	33,123	0	0	0	33,123	36,085
Total operating revenues	<u>\$ 9,175,297</u>	<u>2,329,235</u>	<u>1,264,583</u>	<u>1,694,123</u>	<u>14,463,238</u>	<u>14,387,060</u>
OPERATING EXPENSES						
Cost of Power	\$ 7,288,412	0	0	0	7,288,412	7,291,856
Administrative & general	348,724	194,944	91,784	135,919	771,371	665,520
Transportation	52,476	15,163	18,241	9,985	95,865	85,425
Property, liability & work comp Insurance	64,786	58,600	15,082	25,889	164,357	156,197
Payroll tax expense	117,102	74,889	42,563	41,762	276,316	267,089
Employee insurance	162,555	98,949	41,649	45,178	348,331	362,379
Waste water processing expense	0	0	0	601,678	601,678	744,944
Joint treatment costs	0	0	251,657	0	251,657	266,542
Repair & maintenance	89,674	0	141,138	0	230,812	228,342
Power & pumping	0	210,484	24,835	0	235,319	261,751
Transmission & distribution	484,094	214,211	155,983	0	854,288	906,667
Purification	0	511,588	0	0	511,588	574,736
Consumer accounting & collection	67,165	79,187	63,938	0	210,290	242,150
Total operating expenses excluding depreciation	<u>\$ 8,674,988</u>	<u>1,458,015</u>	<u>846,870</u>	<u>860,411</u>	<u>11,840,284</u>	<u>12,053,598</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 500,309	871,220	417,713	833,712	2,622,954	2,333,462
DEPRECIATION	<u>549,008</u>	<u>632,257</u>	<u>135,915</u>	<u>209,837</u>	<u>1,527,017</u>	<u>1,401,490</u>
OPERATING INCOME (LOSS)	\$ (48,699)	238,963	281,798	623,875	1,095,937	931,972
NONOPERATING REVENUES (EXPENSES)						
Miscellaneous	\$ 165,534	30,339	108,300	15,919	320,092	472,126
Hazard Mitigation grant	0	0	0	0	0	39,401
Interest income	33,006	7,524	1,531	4,435	46,496	65,411
Interest expense	0	(78,752)	0	(17,500)	(96,252)	(121,823)
Payment in lieu of taxes	(74,415)	0	0	0	(74,415)	(66,614)
Economic Development expense	(100,000)	0	0	0	(100,000)	0
Total nonoperating revenues (expenses)	<u>\$ 24,125</u>	<u>(40,889)</u>	<u>109,831</u>	<u>2,854</u>	<u>95,921</u>	<u>388,501</u>
CHANGE IN NET POSITION	\$ (24,574)	198,074	391,629	626,729	1,191,858	1,320,473
NET POSITION, BEGINNING OF YEAR	<u>14,436,678</u>	<u>11,397,979</u>	<u>3,827,128</u>	<u>7,161,991</u>	<u>36,823,776</u>	<u>35,503,303</u>
NET POSITION, END OF YEAR	<u>\$ 14,412,104</u>	<u>11,596,053</u>	<u>4,218,757</u>	<u>7,788,720</u>	<u>38,015,634</u>	<u>36,823,776</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
Years Ended June 30, 2013 and 2012

Exhibit D

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2013	Total 2012
CASH FLOWS FROM OPERATING ACTIVITIES						
Change in Net Position	\$ (24,574)	198,074	391,629	626,729	1,191,858	1,320,473
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:						
Depreciation	549,008	632,257	135,915	209,837	1,527,017	1,401,490
Amortization of origination fees	0	2,487	0	0	2,487	2,487
ARRA Loan Forgiven	0	0	0	0	0	(107,000)
Changes in assets and liabilities						
(Increase) decrease in consumers' deposit fund	3,551	0	0	0	3,551	(2,600)
(Increase) decrease in trade receivables	(13,860)	(29)	12,764	0	(1,125)	883,851
(Increase) decrease in unbilled usage	100,439	39,025	(11,162)	(29,738)	98,564	(474,537)
(Increase) decrease in grant funds receivable	39,401	0	0	0	39,401	(39,401)
(Increase) decrease in inventories	(165,187)	3,354	0	0	(161,833)	32,667
(Increase) decrease in prepaid expenses	(7,520)	(3,986)	(1,623)	(2,891)	(16,020)	(5,302)
(Increase) decrease in other current assets	5,501	4,482	(2,351)	(203)	7,429	8,053
Increase (decrease) in accounts payable and accrued liabilities	(105,084)	82,407	(111,139)	7,599	(126,217)	85,672
Increase (decrease) in customer deposits	430	0	0	0	430	(805)
Net cash provided by (used in) operating activities	<u>382,105</u>	<u>958,071</u>	<u>414,033</u>	<u>811,333</u>	<u>2,565,542</u>	<u>3,105,048</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale/maturities of securities	100,000	369,944	100,000	0	569,944	7,631,479
Purchase of investment securities	(113,060)	(639,252)	(374)	(153,277)	(905,963)	(5,074,537)
Purchase of property and equipment	(877,941)	(682,985)	(459,629)	(204,062)	(2,224,617)	(4,633,500)
Interfund loan to Joint Treatment	125,000	0	0	0	125,000	125,000
Net cash provided by (used in) investing activities	<u>(766,001)</u>	<u>(952,293)</u>	<u>(360,003)</u>	<u>(357,339)</u>	<u>(2,435,636)</u>	<u>(1,951,558)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from long-term borrowing	0	0	0	0	0	809
Principal payments on long-term borrowings	0	(278,000)	0	(125,000)	(403,000)	(647,000)
Net cash provided by (used in) financing activities	<u>0</u>	<u>(278,000)</u>	<u>0</u>	<u>(125,000)</u>	<u>(403,000)</u>	<u>(646,191)</u>
Net increase (decrease) in cash and cash equivalents	(383,896)	(272,222)	54,030	328,994	(273,094)	507,299
Cash and cash equivalents:						
Beginning	<u>2,056,832</u>	<u>726,330</u>	<u>62,133</u>	<u>503,701</u>	<u>3,348,996</u>	<u>2,841,697</u>
Ending	<u>\$ 1,672,936</u>	<u>454,108</u>	<u>116,163</u>	<u>832,695</u>	<u>3,075,902</u>	<u>3,348,996</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2013 and 2012

Exhibit E

	2013	2012
ASSETS		
OTHER ASSETS		
Restricted		
Deferred compensation	\$ 330,454	\$ 268,194
CURRENT ASSETS		
None	\$ <u>0</u>	\$ <u>0</u>
Total Assets	\$ <u><u>330,454</u></u>	\$ <u><u>268,194</u></u>
 LIABILITIES AND NET POSITION		
NET POSITION		
None	\$ <u>0</u>	\$ <u>0</u>
CURRENT LIABILITIES		
Payable from restricted assets		
Deferred compensation	\$ <u>330,454</u>	\$ <u>268,194</u>
Total Current Liabilities	\$ <u>330,454</u>	\$ <u>268,194</u>
Total Liabilities and Net Position	\$ <u><u>330,454</u></u>	\$ <u><u>268,194</u></u>

DENISON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies

The Denison Municipal Utilities (the Utilities) is governed by a Board of Trustees who are appointed by the Mayor of Denison, Iowa and approved by the City Council. Services provided are electric, water, sewer and joint treatment for industrial waste. A communication utility was established by referendum in November, 1997. To date, it has no assets and no customers.

The financial statements of Denison Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board. The significant accounting principles and policies utilized by the utilities are described below:

Reporting entity

Criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those offices and activities over which the Board of Trustees exercises oversight responsibility are included in these financial statements. Manifestations of oversight responsibility over an entity include: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations and (5) accountability for fiscal matters.

In accordance with these criteria the Denison Municipal Utilities has been identified as a component unit of the City of Denison, Iowa, due primarily to the fact that the City of Denison selects the Board of Trustees.

Basis of Presentation

The accounts of Denison Municipal Utilities are organized on the basis of enterprise funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, net position, revenues and expenses. The various funds are Electric, Water, Sewer and Joint Treatment.

The Statement of Net Position (previously referred to as net assets) displays the Utilities assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Net Investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets.” Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

Measurement Focus and Basis of Accounting

The proprietary funds financial statements are reported using the flow of economic resources focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of related cash flows.

GASB pronouncements and non-conflicting pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989 are applied in the preparation of the accompanying financial statements. Management does not apply FASB pronouncements issued after November 30, 1989.

Denison Municipal Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Denison Municipal Utilities’ principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the financial statements:

Cash, Investments and Cash Equivalents - The Utilities considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. There were no cash equivalents as of June 30, 2013. Investments consist of non-negotiable certificates of deposit which are stated at cost.

Restricted Assets - Funds set aside for payment of customer deposits are classified as restricted. Also, funds set aside for payment of bond principal and interest are classified as restricted. Funds classified as restricted are not available to pay expenses other than those expenses for which the fund is restricted in accordance with the Utilities policy. The amount and purpose of the restricted net assets are as follows:

Restricted For	2013	2012	2011
Debt Service	\$ 726,434	\$ 712,274	\$ 775,746
Consumer Deposits	0	3,726	321

Receivables, Unbilled Usage and Credit Policies - Accounts receivable are uncollateralized customer obligations due under normal terms requiring payment twenty days after the billing date. Unpaid accounts receivable are considered delinquent and are assessed a penalty. Payments of accounts receivable are allocated to the specific bills identified by the customer, or if unspecified, are applied to the earliest unpaid bill.

Accounts receivable are stated at the amount billed to the customer plus any unpaid penalties and are recorded in the period the service is billed. Management reviews all accounts receivable balances that are delinquent and charges those amounts to expense that are deemed to be uncollectible.

Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Inventories - Materials and supplies inventory are held for consumption and are valued at average cost.

Utility Plant - The electric plant was estimated at replacement cost at August 31, 1969 and the Water Utility fixed assets were valued by utility employees at March 31, 1951. The employees used estimated historical costs because original historical cost was not available and the difference between such amounts was believed to be immaterial. All subsequent additions are valued at historical cost. Where additions are made by Utilities personnel, the direct cost of materials and labor are capitalized.

Major costs for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the utility plant constructed, net of interest earned on the invested proceeds over the same period. There were no qualifying assets acquired during the year ended June 30, 2013.

Capital assets in service are depreciated using the straight-line method over the following useful lives:

Plant	20-40 years
Distribution & Collection	15-40 years
Machinery & Equipment	5-10 years
General Buildings	30-40 years
Transportation Equipment	5-10 years

Compensated Absences - The Utilities allows employees to accumulate a maximum of 25 working days of vacation leave. An employee may carry forward a maximum of ten days of each year's earned vacation. Any vacation leave in excess of these two limits will be lost. Upon separation from the Utilities, unused vacation leave will be paid to the employee.

The Utilities also allows employees to accumulate up to a total of 60 working days of sick leave. If sick leave is not used during the year, a minimum of six days of unused sick leave must be carried forward. Employees may elect to take pay for unused sick leave in excess of the six days which must be carried forward to the maximum accumulation of 60 days. At such time as 60 days of sick leave have been accumulated, an employee may elect to take pay for all unused sick leave in a year. Pay shall be granted to an employee for unused sick leave upon separation from the Utilities.

Long-Term Liabilities - Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts, as well as origination fee, are deferred and amortized over the life of the respective debt.

Designated Net Position - The Board of Trustees has designated certain funds to be placed in cash reserve funds. These cash reserve funds, which are from unrestricted net position, are designated as emergency funds and shall only be expended for that purpose. The cash reserve funds are not to be used to pay for ongoing operating expenditures or capital improvements unless approved by the Board. The Board has also designated certain funds to be placed in an Economic Development Savings Account to be used for future economic development within the City of Denison.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget for Electric, Water, Sewer and Joint Treatment. The budget of the Utilities is submitted following required public notice and hearing.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, disbursements did not exceed the amounts budgeted.

Note 2 – Deposits and Investments

The Utilities deposits, in banks, at June 30, 2013 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Note 3 – Utility Plant

Capital asset activity for the year ended June 30, 2013 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 1,086,792	\$ 0	\$ 0	\$ 1,086,792
River Levee	<u>212,153</u>	<u>0</u>	<u>0</u>	<u>212,153</u>
Non-Depreciable Capital Assets	<u>1,298,945</u>	<u>0</u>	<u>0</u>	<u>1,298,945</u>
Plant	19,592,030	406,292	0	19,998,322
Distribution & Collection	22,874,166	1,422,279	0	24,296,445
Machinery & Equipment	958,396	8,152	0	966,548
General Buildings	2,132,268	0	0	2,132,268
Transportation Equipment	1,222,535	228,702	86,234	1,365,003
Joint Treatment Facility	<u>9,107,246</u>	<u>159,191</u>	<u>0</u>	<u>9,266,437</u>
Depreciable Capital Assets	55,886,641	2,224,616	86,234	58,025,023
Less Accumulated Depreciation	<u>27,125,961</u>	<u>1,527,017</u>	<u>86,234</u>	<u>28,566,744</u>
Depreciable Capital Assets-Net	<u>28,760,680</u>	<u>697,599</u>	<u>0</u>	<u>29,458,279</u>
Net Capital Assets	<u>\$30,059,625</u>	<u>\$ 697,599</u>	<u>\$ 0</u>	<u>\$30,757,224</u>

Depreciation charged to operations for the years ended June 30, 2013, 2012, and 2011 was \$1,527,017, \$1,401,490, and \$1,326,990 respectively. Construction in progress included in the above amounts is \$74,500, \$1,737,852, and \$1,970,464 for June 30, 2013, 2012, and 2011 respectively. No depreciation was taken on the construction in progress amounts.

Note 4 – Loan Origination Fee

The original cost of the loan origination fee for the Water Revenue Capital Loan – Series 2001 was \$48,080, which was incurred in March 2002 and is being amortized over the remaining life of the loan.

Note 5 – Long-Term Debt

Following is a summary of changes in the water utility long-term debt for the year ended June 30, 2013:

	Series 2001 Water Revenue Capital Loan Note	Series 2012 Water Revenue Capital Loan Note	Total Debt Payable
Balance July 1, 2012	2,518,000	311,000	2,829,000
Redeemed	<u>(248,000)</u>	<u>(30,000)</u>	<u>(278,000)</u>
Balance June 30, 2013	2,270,000	281,000	2,551,000
Less: current portion	<u>(255,000)</u>	<u>(31,000)</u>	<u>(286,000)</u>
Long-term debt, net of current portion	<u>2,015,000</u>	<u>250,000</u>	<u>2,265,000</u>

Annual debt service requirements to maturity for water revenue notes are as follows:

Year Ending <u>June 30</u>	<u>Series 2001</u>			<u>Series 2010</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>
2014	\$ 255,000	68,100	5,675	31,000	8,430	702
2015	263,000	60,450	5,038	32,000	7,500	625
2016	271,000	52,560	4,380	33,000	6,540	545
2017	279,000	44,430	3,703	35,000	5,550	463
2018	287,000	36,060	3,005	36,000	4,500	375
2019	296,000	27,450	2,287	37,000	3,420	285
2020	305,000	18,570	1,547	38,000	2,310	193
2021	<u>314,000</u>	<u>9,420</u>	<u>785</u>	<u>39,000</u>	<u>1,170</u>	<u>97</u>
	\$ <u>2,270,000</u>	<u>317,040</u>	<u>26,420</u>	\$ <u>281,000</u>	<u>39,420</u>	<u>3,285</u>

During the current year the State Revolving Fund (SRF) reduced the interest rate on all existing SRF loans that were at least ten years old. The loan agreement with SRF was amended to reduce the interest rate on the Series 2001 from 3.0% to 1.75% over the remaining loan term.

The Utilities has pledged future water utility revenue, net of specified operating expenses, to repay outstanding water revenue bonds. The bonds are payable solely from the water utility's net revenues. Revenue bond provisions include requirements to make sufficient monthly transfers to Water sinking fund accounts for the purpose of paying bond principal and interest when due. These requirements have been met.

During the fiscal year ended June 30, 2006, the electric utility had advanced funds to the joint treatment utility to expand the waste treatment facility. The loan bears an interest rate of 4.0% and is due in annual installments payable on January 1 of each year. Following is the long-term liability activity for the fiscal year ended June 30, 2013:

	<u>Notes Payable</u>
Balance July 1, 2012	\$ 500,000
Redeemed	<u>(125,000)</u>
Balance June 30, 2013	375,000
Less: current portion	<u>(125,000)</u>
Long-term debt, net of current portion	\$ <u>250,000</u>

Annual debt service requirements to maturity for the inter-fund loan are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	125,000	15,000
2015	125,000	10,000
2016	<u>125,000</u>	<u>5,000</u>
	\$ <u>375,000</u>	<u>30,000</u>

Note 6 – Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary and the Utilities is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$135,073, \$123,430, and \$104,388 respectively, equal to the required contributions for the year.

The Utilities sponsors a deferred compensation plan under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary to future years. All full-time employees who have completed six months of continuous employment and are 18 years of age are eligible to participate. The Utilities will contribute up to \$75 per month for all employees contributing at least \$75 per month of their salary. The Utilities' contribution for the year ended June 30, 2013, 2012 and 2011 was \$20,250, \$14,625 and \$14,900 respectively.

Note 7 – Major Customers

A significant portion of the Electric Utility and Water Utility revenue is derived from a single customer. This customer accounted for approximately 32.5% of the Electric Utility usage and 40.5% of the Water Utility usage for the year ended June 30, 2013.

Note 8 – Concentrations

Denison Municipal Utilities provides utility services to residential, commercial, and industrial customers in a specified service area in and around the City of Denison, Iowa. Credit is granted to substantially all customers, all of whom are local businesses and residents. All new customers of the Utilities are required to pay a deposit to start service unless the customer provides a credit reference from a previous utility company. The deposit is applied to the customer's utility account after seven months of timely payments or refunded to a customer if a deposit remains when they move out of the Utilities service area. Possible credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

Note 9 – Post-employment Benefits (OPEB)

Plan Description - In addition to the pension benefits described in Note 6, the Utilities provides health insurance coverage for long-term employees after retirement. The health insurance coverage provided is through the Utilities group health insurance plan, which covers both active and retired members. The benefits are 100% of premium costs for employees retiring with thirty years of employment, 75% for employees with twenty-five years of employment and 50% for employees with twenty years of employment. Benefits terminate once a retired employee qualifies for Medicare. Benefit provisions are established by the Board of Trustees.

Funding Policy – The Utilities currently finances the retiree benefit plan on a pay-as-you-go basis. The Utilities incurred \$6,916 for retiree health premiums and \$10,291 of self-funding costs during the current fiscal year as a result of this program.

Annual OPEB Cost and Net OPEB Obligation - The Utilities annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utilities. Denison Municipal Utilities has elected to calculate the ARC and related information using the alternative measurement method permitted by the Government Accounting Standards Board for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Utilities annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the Utilities net OPEB obligation:

Annual required contribution	\$ 23,864
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost	23,864
Contributions made	<u>(6,916)</u>
Increase in net OPEB obligation	16,948
Net OPEB obligation beginning of year	<u>23,607</u>
Net OPEB obligation end of year	<u>\$ 40,555</u>

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$ 23,864	53.4%	\$ 23,607
6/30/13	\$ 23,864	29.0%	\$ 40,555

Funded Status and Funding Progress - As of June 30, 2013, the actuarial accrued liability for benefits was \$280,831, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,547,689, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 18.1%. As of June 30, 2013 there were no trust fund assets.

Actuarial Methods and Assumptions - The 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. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Note 10 – Related Party Transactions

The Utilities had business transactions between the Utilities and Utility officials totaling \$7,232 during the year ended June 30, 2013.

Note 11 – Construction and Other Commitments

The Utilities has entered into a construction contract totaling \$240,000 for the purchase and installation of a boiler/heat exchanger at the wastewater treatment plant. At June 30, 2013, \$10,066 had been paid under the construction contract.

The Utilities has entered into a construction contract totaling \$59,288 for the installation of a water pumping station. As of June 30, 2013, no funds had been paid under the construction contract. Upon completion of the installation of the water pumping station, WCIRW will reimburse Denison Municipal Utilities one-third of the total project cost.

The Utilities has entered into a construction contract totaling \$103,698 for the installation of a water main. At June 30, 2013, no funds had been paid under the construction contract.

On September 12, 1997, the Utilities entered into a contract, for a period of 40 years, for the sale of an undivided interest in Capacity of Water Supply, Treatment Works and Transmission Facilities with West Central Iowa Rural Water Association (WCIRW). In April of 1999, WCIRW and the Utilities entered into an amended contract (first amendment) that arrives at the respective capital contribution of water production capital expenditures. The amendment contemplates WCIRW paying for 1.5 million gallons per day maximum plant capacity. In accordance with the contract, WCIRW has contributed capital in the amount of \$2,649,179 for its share of the capacity of the plant required by WCIRW. WCIRW has agreed to purchase water from Denison Municipal Utilities at Denison Municipal Utilities' cost of production.

The WCIRW contract also provides that Denison Municipal Utilities shall retain ownership of its line, appurtenances, altitude valves, other valves and meters up to and including the meter within the present corporate limits of the City of Denison. Denison Municipal Utilities may purchase portions of WCIRW's system if the city limits of Denison are expanded.

Note 12 – Risk Management

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

Note 13 – Subsequent Events

Management has evaluated subsequent events through September 16, 2013, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

DENISON MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

	<u>Per Financial Statements</u>	<u>Accrual Adjustments</u>	<u>Budget Adjustments</u>	<u>Cash Basis</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue/Receipts						
Charges for services	\$ 14,463,238	97,438	0	14,560,676	14,518,225	42,451
Interest income	46,496	7,377	0	53,873	53,000	873
Miscellaneous	<u>320,092</u>	<u>39,401</u>	<u>125,000</u>	<u>484,493</u>	<u>1,060,500</u>	<u>(576,007)</u>
Total Revenue/Receipts	14,829,826	144,216	125,000	15,099,042	15,631,725	(532,683)
Expenses/Expenditures						
Operating expenses	11,840,284	136,006	0	11,976,290	11,816,300	(159,990)
Interest expense & Payment in lieu of taxes	270,667	8,619	0	279,286	260,250	(19,036)
Debt payments	0	0	403,000	403,000	428,500	25,500
Depreciation & capital expenditures	<u>1,527,017</u>	<u>0</u>	<u>697,600</u>	<u>2,224,617</u>	<u>3,406,500</u>	<u>1,181,883</u>
Total Expenses/Expenditures	13,637,968	144,625	1,100,600	14,883,193	15,911,550	1,028,357
Change in Net Position	1,191,858	(409)	(975,600)	215,849	<u>(279,825)</u>	<u>495,674</u>
Beginning Net Position	<u>36,823,776</u>	<u>(19,278,965)</u>	<u>(6,917,736)</u>	<u>10,627,075</u>		
Ending Net Position	\$ <u>38,015,634</u>	<u>(19,279,374)</u>	<u>(7,893,336)</u>	<u>10,842,924</u>		

This budgetary comparison is presented as Required Supplementary Information in accordance with governmental generally accepted accounting principles. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds except Agency Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund type level. The budget was not exceeded.

DENISON MUNICIPAL UTILITIES
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,436,882	10.1%
2010	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,491,370	9.8%
2011	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,533,107	9.5%
2012	June 30, 2012	\$ 0	\$ 280,831	\$ 280,831	0.00%	\$1,510,275	18.6%
2013	June 30, 2012	\$ 0	\$ 280,831	\$ 280,831	0.00%	\$1,547,689	18.1%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2013 and 2012

Schedule 1

	2013	2012
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in Service, at cost	\$ 20,994,003	\$ 20,202,296
Less: Accumulated depreciation	11,864,573	11,401,799
Net Electric Utility Plant	\$ 9,129,430	\$ 8,800,497
OTHER ASSETS		
Note receivable-Joint Treatment Utility	\$ 250,000	\$ 375,000
CURRENT ASSETS		
Restricted		
Consumers' deposit fund	\$ 69,660	\$ 73,211
Unrestricted		
Cash	1,672,936	2,056,832
Deposits and investments	3,197,623	3,184,563
Accounts receivable	(39,557)	(53,417)
Unbilled usage	623,857	724,296
Due from other funds	4,669	5,437
Interest receivable	9,411	14,144
Grant funds receivable	0	39,401
Inventory	653,520	488,333
Prepaid insurance	57,952	50,432
Note receivable-Joint Treatment Utility	125,000	125,000
Total Current Assets	\$ 6,375,071	\$ 6,708,232
 Total Assets	 \$ 15,754,501	 \$ 15,883,729
 LIABILITIES AND NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 9,129,430	\$ 8,800,497
Restricted for Consumer Deposits	0	3,726
Unrestricted	5,282,674	5,632,455
Total Net Position	\$ 14,412,104	\$ 14,436,678
CURRENT LIABILITIES		
Accounts payable	\$ 987,381	\$ 1,105,871
Due to other funds	22,801	22,470
Accrued vacation and sick leave	211,143	199,595
Other accrued liabilities	51,157	49,630
Payable from restricted assets		
Consumers' deposits	69,915	69,485
Total Current Liabilities	\$ 1,342,397	\$ 1,447,051
 Total Liabilities and Net Position	 \$ 15,754,501	 \$ 15,883,729

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

Schedule 1

	2013	2012
OPERATING REVENUES		
Sales to consumers	\$ 9,142,174	\$ 8,963,736
Other operating revenues	33,123	36,085
Total operating revenues	\$ 9,175,297	\$ 8,999,821
 OPERATING EXPENSES		
Cost of Power	\$ 7,288,412	\$ 7,291,856
Administrative & general	348,724	321,145
Transportation	52,476	45,492
Property, liability, work comp insurance	64,786	59,852
Payroll tax expense	117,102	113,909
Employee insurance	162,555	165,363
Repair & maintenance	89,674	83,166
Transmission & distribution	484,094	522,013
Consumer accounting & collection	67,165	100,435
Total operating expenses excluding depreciation	\$ 8,674,988	\$ 8,703,231
OPERATING INCOME BEFORE DEPRECIATION	\$ 500,309	\$ 296,590
DEPRECIATION	549,008	518,054
OPERATING INCOME (LOSS)	\$ (48,699)	\$ (221,464)
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 165,534	\$ 309,656
Hazard Mitigation Grant	0	39,401
Interest income	33,006	46,678
Payment in lieu of taxes	(74,415)	(66,614)
Economic Development expense	(100,000)	0
Total nonoperating revenues (expenses)	\$ 24,125	\$ 329,121
CHANGE IN NET POSITION	\$ (24,574)	\$ 107,657
NET POSITION, BEGINNING OF YEAR	14,436,678	14,329,021
NET POSITION, END OF YEAR	\$ 14,412,104	\$ 14,436,678

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2013 and 2012**

Schedule 1

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ (24,574)	\$ 107,657
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	549,008	518,054
Changes in assets and liabilities		
(Increase) decrease in consumers' deposit fund	3,551	(2,600)
(Increase) decrease in trade receivables	(13,860)	528,393
(Increase) decrease in unbilled usage	100,439	(220,935)
(Increase) decrease in grant funds receivable	39,401	(39,401)
(Increase) decrease in inventories	(165,187)	24,831
(Increase) decrease in prepaid expenses	(7,520)	(3,065)
(Increase) decrease in other current assets	5,501	3,161
Increase (decrease) in accounts payable and accrued liabilities	(105,084)	312,107
Increase (decrease) in customer deposits	430	(805)
Net cash provided by (used in) operating activities	\$ 382,105	\$ 1,227,397
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 100,000	\$ 3,286,939
Purchase of investment securities	(113,060)	(2,884,314)
Interfund loan to Joint Treatment	125,000	125,000
Purchase of property and equipment	(877,941)	(997,558)
Net cash provided by (used in) investing activities	\$ (766,001)	\$ (469,933)
CASH FLOWS FROM FINANCING ACTIVITIES		
None	\$ 0	\$ 0
Net cash provided by (used in) financing activities	\$ 0	\$ 0
Net increase (decrease) in cash and cash equivalents	\$ (383,896)	\$ 757,464
Cash and cash equivalents:		
Beginning	2,056,832	1,299,368
Ending	\$ 1,672,936	\$ 2,056,832

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2013

Schedule 2

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 9,142,174	9,430,300	(288,126)
Other operating revenues	33,123	34,000	(877)
Total operating revenues	\$ 9,175,297	9,464,300	(289,003)
 OPERATING EXPENSES			
Cost of Power	\$ 7,288,412	7,400,000	111,588
Administrative & general	348,724	316,500	(32,224)
Transportation	52,476	40,000	(12,476)
Property, liability, work comp insurance	64,786	59,000	(5,786)
Payroll tax expense	117,102	108,600	(8,502)
Employee insurance	162,555	150,000	(12,555)
Repair & maintenance	89,674	88,100	(1,574)
Transmission & distribution	484,094	439,000	(45,094)
Consumer accounting & collection	67,165	86,500	19,335
Total operating expenses excluding depreciation	\$ 8,674,988	8,687,700	12,712
 OPERATING INCOME BEFORE DEPRECIATION	\$ 500,309	776,600	(276,291)
 DEPRECIATION	549,008	500,000	(49,008)
 OPERATING INCOME (LOSS)	\$ (48,699)	276,600	(325,299)
 NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 165,534	178,000	(12,466)
Hazard Mitigation Grant	0	0	0
Interest income	33,006	40,000	(6,994)
Payment in lieu of taxes	(74,415)	(50,000)	(24,415)
Economic Development expense	(100,000)	(100,000)	0
Total nonoperating revenues (expenses)	\$ 24,125	68,000	(43,875)
 CHANGE IN NET POSITION	\$ (24,574)	344,600	(369,174)
 NET POSITION, BEGINNING OF YEAR	14,436,678	11,306,530	
 NET POSITION, END OF YEAR	\$ 14,412,104	11,651,130	

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
WATER UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2013 and 2012

Schedule 3

	2013	2012
ASSETS		
WATER UTILITY PLANT		
Plant in Service, at cost	\$ 21,800,148	\$ 21,117,164
Less: Accumulated depreciation	9,936,867	9,304,611
Net Water Utility Plant	\$ 11,863,281	\$ 11,812,553
OTHER ASSETS		
Revenue bond reserve	\$ 734,460	\$ 726,419
Loan origination fee	19,896	22,383
Total Other Assets	\$ 754,356	\$ 748,802
CURRENT ASSETS		
Unrestricted		
Cash	\$ 454,108	\$ 726,330
Deposits and investments	1,001,391	740,124
Accounts receivable	35,819	35,790
Unbilled usage	176,033	215,058
Due from other funds	8,421	10,259
Interest receivable	275	2,919
Inventory	94,784	98,138
Prepaid insurance	50,558	46,572
Total Current Assets	\$ 1,821,389	\$ 1,875,190
Total Assets	\$ 14,439,026	\$ 14,436,545
LIABILITIES AND NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 9,332,177	\$ 9,005,936
Restricted for Debt Service	726,434	712,274
Unrestricted	1,537,442	1,679,769
Total Net Position	\$ 11,596,053	\$ 11,397,979
LONG-TERM DEBT - Net of current maturities	\$ 2,265,000	\$ 2,551,000
CURRENT LIABILITIES		
Accounts payable	\$ 156,467	\$ 77,315
Due to other funds	2,770	3,318
Accrued vacation and sick leave	91,009	82,056
Other accrued liabilities	33,701	32,732
Payable from restricted assets		
Current maturities of long-term debt	286,000	278,000
Interest payable	8,026	14,145
Total Current Liabilities	\$ 577,973	\$ 487,566
Total Liabilities and Net Position	\$ 14,439,026	\$ 14,436,545

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
WATER UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

Schedule 3

	2013	2012
OPERATING REVENUES		
Sales to consumers	\$ 2,329,235	\$ 2,363,119
OPERATING EXPENSES		
Administrative & general	\$ 194,944	\$ 128,283
Transportation	15,163	13,888
Property, liability, work comp insurance	58,600	58,278
Payroll tax expense	74,889	76,618
Employee insurance	98,949	104,511
Power & pumping	210,484	239,209
Transmission & distribution	214,211	212,507
Purification	511,588	574,736
Consumer accounting & collection	79,187	78,911
Total operating expenses excluding depreciation	\$ 1,458,015	\$ 1,486,941
OPERATING INCOME BEFORE DEPRECIATION	\$ 871,220	\$ 876,178
DEPRECIATION	632,257	603,687
OPERATING INCOME (LOSS)	\$ 238,963	\$ 272,491
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 30,339	\$ 144,295
Interest income	7,524	11,502
Interest expense	(78,752)	(99,323)
Total nonoperating revenues (expenses)	\$ (40,889)	\$ 56,474
CHANGE IN NET POSITION	\$ 198,074	\$ 328,965
NET POSITION, BEGINNING OF YEAR	11,397,979	11,069,014
NET POSITION, END OF YEAR	\$ 11,596,053	\$ 11,397,979

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
WATER UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2013 and 2012

Schedule 3

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 198,074	\$ 328,965
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	632,257	603,687
Amortization of origination fees	2,487	2,487
ARRA loan forgiven	0	(107,000)
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(29)	144,673
(Increase) decrease in unbilled usage	39,025	(93,645)
(Increase) decrease in inventories	3,354	7,836
(Increase) decrease in prepaid expenses	(3,986)	(304)
(Increase) decrease in other current assets	4,482	(3,192)
Increase (decrease) in accounts payable and accrued liabilities	82,407	(233,680)
Net cash provided by (used in) operating activities	\$ 958,071	\$ 649,827
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 369,944	\$ 3,492,309
Purchase of investment securities	(639,252)	(1,793,006)
Purchase of property and equipment	(682,985)	(1,787,599)
Net cash provided by (used in) investing activities	\$ (952,293)	\$ (88,296)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowing	\$ 0	\$ 809
Principal payments on long-term borrowing	(278,000)	(522,000)
Net cash provided by (used in) financing activities	\$ (278,000)	\$ (521,191)
Net increase (decrease) in cash and cash equivalents	\$ (272,222)	\$ 40,340
Cash and cash equivalents:		
Beginning	726,330	685,990
Ending	\$ 454,108	\$ 726,330

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
WATER UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2013

Schedule 4

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 2,329,235	2,362,500	(33,265)
OPERATING EXPENSES			
Administrative & general	\$ 194,944	144,500	(50,444)
Transportation	15,163	14,000	(1,163)
Property, liability, work comp insurance	58,600	57,500	(1,100)
Payroll tax expense	74,889	71,500	(3,389)
Employee insurance	98,949	108,500	9,551
Power & pumping	210,484	237,500	27,016
Transmission & distribution	214,211	207,000	(7,211)
Purification	511,588	505,000	(6,588)
Consumer accounting & collection	79,187	71,000	(8,187)
Total operating expenses excluding depreciation	\$ 1,458,015	1,416,500	(41,515)
OPERATING INCOME BEFORE DEPRECIATION	\$ 871,220	946,000	(74,780)
DEPRECIATION	632,257	565,000	(67,257)
OPERATING INCOME (LOSS)	\$ 238,963	381,000	(142,037)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 30,339	40,000	(9,661)
Interest income	7,524	10,000	(2,476)
Interest expense	(78,752)	(87,500)	8,748
Total nonoperating revenues (expenses)	\$ (40,889)	(37,500)	(3,389)
CHANGE IN NET POSITION	\$ 198,074	343,500	(145,426)
NET POSITION, BEGINNING OF YEAR	11,397,979	8,510,426	
NET POSITION, END OF YEAR	\$ 11,596,053	8,853,926	

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2013 and 2012

Schedule 5

	2013	2012
ASSETS		
SEWER UTILITY PLANT		
Plant in Service, at cost	\$ 6,768,948	\$ 6,309,319
Less: Accumulated depreciation	3,038,760	2,902,844
Net Sewer Utility Plant	\$ 3,730,188	\$ 3,406,475
 CURRENT ASSETS		
Unrestricted		
Cash	116,163	62,133
Deposits and investments	317,069	416,695
Accounts receivable	30,279	43,043
Unbilled usage	110,710	99,548
Due from other funds	16,090	13,739
Interest receivable	0	0
Prepaid insurance	13,073	11,450
Total Current Assets	\$ 603,384	\$ 646,608
Total Assets	\$ 4,333,572	\$ 4,053,083
 LIABILITIES AND NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 3,730,188	\$ 3,406,475
Restricted	0	0
Unrestricted	488,569	420,653
Total Net Position	\$ 4,218,757	\$ 3,827,128
 CURRENT LIABILITIES		
Accounts payable	\$ 26,742	\$ 141,412
Due to other funds	3,613	3,447
Accrued vacation and sick leave	62,944	65,010
Other accrued liabilities	21,516	16,086
Total Current Liabilities	\$ 114,815	\$ 225,955
Total Liabilities and Net Position	\$ 4,333,572	\$ 4,053,083

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

Schedule 5

	2013	2012
OPERATING REVENUES		
Sales to consumers	\$ 1,264,583	\$ 1,207,278
OPERATING EXPENSES		
Administrative & general	\$ 91,784	\$ 116,027
Transportation	18,241	14,014
Property, liability, work comp insurance	15,082	13,916
Payroll tax expense	42,563	38,750
Employee insurance	41,649	43,548
Joint treatment processing	251,657	266,542
Repair & maintenance	141,138	145,176
Power & pumping	24,835	22,542
Plant & main maintenance	155,983	172,147
Consumer accounting & collection	63,938	62,804
Total operating expenses excluding depreciation	\$ 846,870	\$ 895,466
OPERATING INCOME BEFORE DEPRECIATION	\$ 417,713	\$ 311,812
DEPRECIATION	135,915	95,191
OPERATING INCOME (LOSS)	\$ 281,798	\$ 216,621
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 108,300	\$ 3,988
Loss on the sale of property and equipment	0	0
Interest income	1,531	2,486
Total nonoperating revenues (expenses)	\$ 109,831	\$ 6,474
CHANGE IN NET POSITION	\$ 391,629	\$ 223,095
NET POSITION, BEGINNING OF YEAR	3,827,128	3,604,033
NET POSITION, END OF YEAR	\$ 4,218,757	\$ 3,827,128

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2013 and 2012

Schedule 5

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 391,629	\$ 223,095
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	135,915	95,191
Changes in assets and liabilities		
(Increase) decrease in trade receivables	12,764	75,018
(Increase) decrease in unbilled usage	(11,162)	(19,932)
(Increase) decrease in prepaid expenses	(1,623)	(700)
(Increase) decrease in other current assets	(2,351)	8,277
Increase (decrease) in accounts payable and accrued liabilities	(111,139)	138,706
Net cash provided by (used in) operating activities	\$ 414,033	\$ 519,655
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 100,000	\$ 852,231
Purchase of investment securities	(374)	(243,651)
Purchase of property and equipment	(459,629)	(1,137,785)
Proceeds from the sale of property and equipment	0	0
Net cash provided by (used in) investing activities	\$ (360,003)	\$ (529,205)
CASH FLOWS FROM FINANCING ACTIVITIES		
None	\$ 0	\$ 0
Net cash provided by (used in) financing activities	\$ 0	\$ 0
Net increase (decrease) in cash and cash equivalents	\$ 54,030	\$ (9,550)
Cash and cash equivalents:		
Beginning	62,133	71,683
Ending	\$ 116,163	\$ 62,133

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2013

Schedule 6

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 1,264,583	1,152,000	112,583
OPERATING EXPENSES			
Administrative & general	\$ 91,784	70,500	(21,284)
Transportation	18,241	12,500	(5,741)
Property, liability, work comp insurance	15,082	14,000	(1,082)
Payroll tax expense	42,563	30,300	(12,263)
Employee insurance	41,649	43,000	1,351
Joint treatment processing	251,657	270,000	18,343
Repair & maintenance	141,138	115,000	(26,138)
Power & pumping	24,835	17,000	(7,835)
Plant & main maintenance	155,983	200,000	44,017
Consumer accounting & collection	63,938	51,500	(12,438)
Total operating expenses excluding depreciation	\$ 846,870	823,800	(23,070)
OPERATING INCOME BEFORE DEPRECIATION	\$ 417,713	328,200	89,513
DEPRECIATION	135,915	95,000	(40,915)
OPERATING INCOME (LOSS)	\$ 281,798	233,200	48,598
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 108,300	230,500	(122,200)
Interest income	1,531	1,000	531
Interest expense	0	(5,250)	5,250
Total nonoperating revenues (expenses)	\$ 109,831	226,250	(116,419)
CHANGE IN NET POSITION	\$ 391,629	459,450	(67,821)
NET POSITION, BEGINNING OF YEAR	3,827,128	2,771,900	
NET POSITION, END OF YEAR	\$ 4,218,757	3,231,350	

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2013 and 2012**

Schedule 7

	2013	2012
ASSETS		
JOINT TREATMENT PLANT		
Plant in Service, at cost	\$ 9,760,869	\$ 9,556,807
Less: Accumulated depreciation	3,726,544	3,516,707
Net Joint Treatment Plant	\$ 6,034,325	\$ 6,040,100
OTHER ASSETS		
Unrestricted		
Equipment replacement investment	\$ 1,158,789	\$ 1,005,512
CURRENT ASSETS		
Unrestricted		
Cash	\$ 832,695	\$ 503,701
Accounts receivable	0	0
Unbilled usage	169,763	140,025
Due from other funds	1,220	1,017
Interest receivable	0	0
Prepaid insurance	23,112	20,221
Total Current Assets	\$ 1,026,790	\$ 664,964
Total Assets	\$ 8,219,904	\$ 7,710,576
 LIABILITIES AND NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 5,659,325	\$ 6,040,100
Restricted	0	0
Unrestricted	2,129,395	1,121,891
Total Net Position	\$ 7,788,720	\$ 7,161,991
LONG-TERM DEBT - Net of current maturities	\$ 250,000	\$ 375,000
CURRENT LIABILITIES		
Accounts payable	\$ 33,814	\$ 24,508
Due to other funds	1,216	1,217
Other accrued liabilities	13,654	12,860
Current maturities of long-term debt	125,000	125,000
Interest payable	7,500	10,000
Total Current Liabilities	\$ 181,184	\$ 173,585
Total Liabilities and Net Position	\$ 8,219,904	\$ 7,710,576

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

Schedule 7

	2013	2012
OPERATING REVENUES		
Sales to consumers	\$ 1,694,123	\$ 1,816,842
OPERATING EXPENSES		
Administrative & general	\$ 135,919	\$ 100,065
Transportation	9,985	12,031
Property, liability, work comp insurance	25,889	24,151
Payroll tax expense	41,762	37,812
Employee insurance	45,178	48,957
Waste water processing	601,678	744,944
Total operating expenses excluding depreciation	\$ 860,411	\$ 967,960
OPERATING INCOME BEFORE DEPRECIATION	\$ 833,712	\$ 848,882
DEPRECIATION	209,837	184,558
OPERATING INCOME (LOSS)	\$ 623,875	\$ 664,324
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 15,919	\$ 14,187
Interest income	4,435	4,745
Interest expense	(17,500)	(22,500)
Total nonoperating revenues (expenses)	\$ 2,854	\$ (3,568)
CHANGE IN NET POSITION	\$ 626,729	\$ 660,756
NET POSITION, BEGINNING OF YEAR	7,161,991	6,501,235
NET POSITION, END OF YEAR	\$ 7,788,720	\$ 7,161,991

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2013 and 2012

Schedule 7

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 626,729	\$ 660,756
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	209,837	184,558
Changes in assets and liabilities		
(Increase) decrease in trade receivables	0	135,767
(Increase) decrease in unbilled usage	(29,738)	(140,025)
(Increase) decrease in prepaid expenses	(2,891)	(1,233)
(Increase) decrease in other current assets	(203)	(193)
Increase (decrease) in accounts payable and accrued liabilities	7,599	(131,461)
Net cash provided by (used in) operating activities	\$ 811,333	\$ 708,169
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 0	\$ 0
Purchase of investment securities	(153,277)	(153,566)
Purchase of property and equipment	(204,062)	(710,558)
Net cash provided by (used in) investing activities	\$ (357,339)	\$ (864,124)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from interfund loan	\$ 0	\$ 0
Principal payments on long-term borrowing	(125,000)	(125,000)
Net cash provided by (used in) financing activities	\$ (125,000)	\$ (125,000)
 Net increase (decrease) in cash and cash equivalents	 \$ 328,994	 \$ (280,955)
 Cash and cash equivalents:		
Beginning	503,701	784,656
Ending	\$ 832,695	\$ 503,701

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2013

Schedule 8

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 1,694,123	1,495,000	199,123
OPERATING EXPENSES			
Administrative & general	\$ 135,919	110,800	(25,119)
Transportation	9,985	12,500	2,515
Property, liability, work comp insurance	25,889	26,000	111
Payroll tax expense	41,762	35,000	(6,762)
Employee insurance	45,178	50,000	4,822
Waste water processing	601,678	654,000	52,322
Total operating expenses excluding depreciation	\$ 860,411	888,300	27,889
OPERATING INCOME BEFORE DEPRECIATION	\$ 833,712	606,700	227,012
DEPRECIATION	209,837	190,000	(19,837)
OPERATING INCOME (LOSS)	\$ 623,875	416,700	207,175
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 15,919	17,000	(1,081)
Interest income	4,435	2,000	2,435
Interest expense	(17,500)	(17,500)	0
Total nonoperating revenues (expenses)	\$ 2,854	1,500	1,354
CHANGE IN NET POSITION	\$ 626,729	418,200	208,529
NET POSITION, BEGINNING OF YEAR	7,161,991	798,400	
NET POSITION, END OF YEAR	\$ 7,788,720	1,216,600	

See accompanying independent auditors' report.

MAHONEY & GOTTO COMPANY
Certified Public Accountants

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**Independent Auditors' 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 of the
Denison Municipal Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business type activities, each major enterprise fund, and the fiduciary fund information of the Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated September 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Denison Municipal Utilities' internal control over financial reporting to determine the audit procedures 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 Denison Municipal Utilities' internal control. According, we do not express an opinion on the effectiveness of Denison Municipal Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 a material misstatement of Denison Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We did not find any deficiencies in internal control to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in Part II of the accompanying Schedule of Findings as item II-A-13 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Denison Municipal Utilities' Responses to Findings

Denison Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Denison Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Denison Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Mahoney & Gotto Company
MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 16, 2013
Denison, Iowa

DENISON MUNICIPAL UTILITIES
Schedule of Findings
Year Ended June 30, 2013

Part I: Summary of the Independent Auditors' Results:

- (a) Unmodified opinions were issued on the financial statements.
- (b) The audit did not disclose any non-compliance which is material to the financial statements.
- (c) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-13 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. The placing of orders with vendors, including the preparation and completion of the purchase order, should have adequate separation from those who are approving the vouchers for payment.

Recommendation – We realize that with staffing limitations, segregation of duties is difficult. It is recognized that the Utilities has made reasonable efforts and improvements to segregate these duties. However, the Utilities should continue to monitor and review their control procedures to ensure that those who are approving the vouchers for payment are separated from those who are placing the orders with vendors in order to obtain the maximum internal controls possible. In addition, supervisory review of financial transactions and reports also remains extremely important when incompatible responsibilities cannot be segregated.

Response – We are aware of the need to segregate incompatible duties. We will continue to monitor, update and follow control procedures as they have been established.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

**DENISON MUNICIPAL UTILITIES
Schedule of Findings
Year Ended June 30, 2013**

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-13 Certified Budget – Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Disbursements did not exceed the certified budget during the fiscal year.
- III-B-13 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- III-C-13 Travel Expense - No disbursements of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- III-D-13 Business Transactions – Business transactions between Denison Municipal Utilities and Utility officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Langenfeld Owner, Langenfeld Contracting Father of Board Member	Purchase, hauling and beneficial reuse of municipal lime solids	\$ <u>7,232</u>

This transaction involving the purchase, hauling and beneficial reuse of municipal lime solids does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

Recommendation - The Utilities should continue to use competitive bidding procedures in accordance with Chapter 362.5(4) of the Code of Iowa.

Response – We will do this.

Conclusion – Response accepted.

- III-E-13 Bond Coverage – Surety bond coverage of Utilities officials and employees is in accordance with statutory provision. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- III-F-13 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not. Minutes of the Utilities proceedings were all properly and timely published. Also, the Utilities did publish annual gross salaries for 2012 as in accordance with an Attorney General’s opinion dated April 12, 1978.

DENISON MUNICIPAL UTILITIES
Schedule of Findings
Year Ended June 30, 2013

Part III: Other Findings Related to Required Statutory Reporting, (continued):

III-G-13 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities’ investment policy were noted.

III-H-13 Revenue Notes – No instances of non-compliance with the revenue note provisions were noted.