

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA**

Independent Auditors' Reports
Basic Financial Statements
and Supplemental Information
Schedule of Findings

June 30, 2013

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

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MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Board of Trustees and Officials
June 30, 2013

| <u>Name</u> | <u>Title</u> | <u>Term Expiration</u> |
|-----------------|----------------------------|------------------------|
| Dan McCabe | Chairman of the Board | October, 2017 |
| David George | Board Member | October, 2013 |
| Bobby Stull | Board Member | October, 2013 |
| Harvey Ungerman | Board Member | October, 2015 |
| Carol Nemitz | Board Member | October, 2015 |
| Jack Hedgecock | General Manager | Indefinite |
| Randall Neff | Treasurer/Business Manager | Indefinite |
| David McCoid | Attorney | Indefinite |

Offices located in:

Burlington
(319) 753-9877
Cedar Rapids
(319) 393-2374
Centerville
(641) 437-4296
Fairfield
(641) 472-6171
Mt. Pleasant
(319) 385-3026



TD&T Financial Group, P.C.

Offices located in:

Muscatine
(563) 264-2727
Oskaloosa
(641) 672-2523
Ottumwa
(641) 683-1823
Pella
(641) 628-9411
Sigourney
(641) 622-1013

Independent Auditors' Report

To the Board of Trustees
Mt. Pleasant Municipal Utilities
Mt. Pleasant, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, 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 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Mt. Pleasant Municipal 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 Mt. Pleasant Municipal Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinions

As explained in Note 2 of the Notes to Financial Statements, an accurate listing of property and equipment acquired in prior years has not been retained. Because of this, it is likely that Mt. Pleasant Municipal Utilities no longer owns some of the assets included in the property and equipment. In our opinion, an accurate listing should be kept in order to make sure that the balance conforms with accounting principles generally accepted in the United States of America. The effect on the financial statements of this practice is not reasonably determined.

Qualified Opinions

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of June 30, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management’s Discussion and Analysis and Budgetary Comparison Information on pages 4 through 8 and 25 through 27 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 auditing standards generally accepted in the United States of America, 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 required supplementary 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 Mt. Pleasant Utilities’ basic financial statements. The supplemental information included in pages 28 through 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. The information on pages 29 through 38 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements and has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on pages 29 through 38 is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information on page 28 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2013, on our consideration of Mt. Pleasant Municipal Utilities’, a component unit of the City of Mt. Pleasant, Iowa, 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* and should be considered in assessing the results of our audit.

T&T Financial Group, P.C.

Mt. Pleasant, Iowa
September 10, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Mt. Pleasant Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 2.3%, or approximately \$234,200, from fiscal year 2012 to fiscal year 2013.
- Operating expenses decreased 5.0%, or approximately \$478,100, from fiscal year 2012 to fiscal year 2013.
- Mt. Pleasant Municipal Utilities' net position increased 7.8%, or approximately \$1,278,000, from June 30, 2012 to June 30, 2013.

USING THIS ANNUAL REPORT

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 Financial Statements consist of a Combining Statement of Net Position, a Combining Statement of Revenue, Expenses and Changes in Net Position, and a Combining Statement of Cash Flows. These provide information about the activities of Mt. Pleasant Municipal Utilities as a whole and present an overall view of the Utilities' finances.

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

Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides unaudited comparative operating statistics as well as additional detail for the Combining Statement of Net Position, Combining Statement of Revenue, Expenses and Changes in Net Position, and note maturities.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

The Combining Statement of Net Position and the Combining Statement of Revenue, Expenses and Changes in Net Position

One of the most important questions asked about the Utilities' finances is, "Is Mt. Pleasant Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Position and the Combining Statement of Revenue, Expenses and Changes in Net Position report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Combining Statement of Net Position presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the Utilities' net position may serve as a useful indicator of whether the financial position of Mt. Pleasant Municipal Utilities is improving or deteriorating.

The Combining Statement of Revenue, Expenses and Changes in Net Position presents information showing how the Utilities' net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Combining Statement of Net Position and the Combining Statement of Revenue, Expenses and Changes in Net Position report one kind of activity:

- Business type activities, which include the water and the electric funds. These activities are financed primarily by user charges.

FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for business type activities.

| | Net Position June 30, | |
|----------------------------------|--------------------------|-------------------|
| | <u>2013</u> | <u>2012</u> |
| Current and other assets | \$ 5,686,531 | 4,873,312 |
| Capital assets | <u>17,723,860</u> | <u>18,065,218</u> |
| Total assets | \$ <u>23,410,391</u> | <u>22,938,530</u> |
| Long-term liabilities | \$ 3,581,476 | 4,358,000 |
| Other liabilities | <u>2,142,856</u> | <u>2,172,501</u> |
| Total liabilities | \$ <u>5,724,332</u> | <u>6,530,501</u> |
| Net position: | | |
| Net investment in capital assets | \$ 13,234,590 | 12,856,006 |
| Restricted | 360,155 | 359,937 |
| Unrestricted | <u>4,091,314</u> | <u>3,192,086</u> |
| Total net position | \$ <u>17,686,059</u> | <u>16,408,029</u> |

Net position of business type activities increased approximately \$1,278,000, or 7.8%, over fiscal year 2012. The largest portion of the Utilities' net assets is the invested in capital assets (e.g., buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements, is \$4,091,314 at the end of this year.

Changes in Net Position
Year Ended June 30,

| | 2013 | 2012 |
|--|---------------|------------|
| Revenues: | | |
| Operating revenues: | | |
| Charges for services and sales | \$ 10,591,661 | 10,357,426 |
| Non-operating revenues: | | |
| Investment earnings | 4,771 | 7,540 |
| Grant revenue | 7,167 | - |
| Other non-operating revenue | 11,239 | 37,075 |
| Total revenues | 10,614,838 | 10,402,041 |
| Operating expenses: | | |
| Power, pumping and treatment plant | 6,377,540 | 6,785,625 |
| Transmission and distribution | 1,374,083 | 1,386,405 |
| General and administration | 1,364,182 | 1,421,875 |
| Non-operating expenses: | | |
| Interest expense | 120,503 | 172,046 |
| Other non-operating expense | 500 | 49,090 |
| Total expenses | 9,236,808 | 9,815,041 |
| Increase in net position | 1,378,030 | 587,000 |
| Net position beginning of year | 16,408,029 | 15,921,029 |
| Permanent transfer to City of Mt. Pleasant | (100,000) | (100,000) |
| Net position end of year | \$ 17,686,059 | 16,408,029 |

Revenues for business type activities increased by approximately \$213,000 over the prior year while total expenses were approximately \$578,000 less than the prior fiscal year.

INDIVIDUAL MAJOR FUND ANALYSIS

- The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2013 with a \$7,401,034 net position balance compared to the prior year ending net position balance of \$7,236,155.
- The Electric Fund, which accounts for the operation and maintenance of the Utilities' electric system, ended fiscal 2013 with a \$10,285,025 net position balance compared to the prior year ending net position balance of \$9,171,874.

BUDGETARY HIGHLIGHTS

Over the course of the year, Mt. Pleasant Municipal Utilities amended its budget two times. The first amendment was done in February of 2013 and the second was in May of 2013. The amendments were done to decrease budgeted expenses based on decreases in rates charged for the Utilities to purchase power.

The Utilities' receipts were \$89,083 more than budgeted, a variance of 0.8% and total disbursements were \$483,450 less than budgeted, a variance of 4.7%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utilities' capital assets include buildings, improvements, and equipment. Capital assets totaled \$17,723,860 (net of accumulated depreciation) at June 30, 2013. See Note 2 to the financial statements for more information about the Utilities' capital assets.

Construction in progress at June 30, 2013 for electric and water activities consists primarily of new construction in the Mt. Pleasant area.

Long-Term Debt

At June 30, 2013, long-term debt, including notes payable and a capital lease, outstanding was \$4,475,487. Debt decreased as a result of scheduled payments.

Additional information about the Utilities' long-term debt is presented in Note 11 to the financial statements.

ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE

Several economic factors affected decisions made by the Utilities in setting its fiscal 2014 budget.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Mt. Pleasant Municipal Utilities' finances and operating activities. If you have any questions or require additional financial information, please contact the General Manager, 509 N. Adams; Mt. Pleasant, Iowa.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Net Position
June 30, 2013

| | <u>Assets</u> | | |
|---------------------------------|-----------------------------|--------------------------|--------------------------|
| | <u>Electric</u> | <u>Water</u> | <u>Total</u> |
| Current assets: | | | |
| Cash | \$ 2,455,591 | 314,493 | 2,770,084 |
| Receivables: | | | |
| Customer | 542,165 | 108,986 | 651,151 |
| Unbilled usage | 560,446 | 119,784 | 680,230 |
| Due from water fund | 109,849 | - | 109,849 |
| Material and supplies inventory | 444,557 | 117,583 | 562,140 |
| Prepaid expenses | 199,158 | 90,315 | 289,473 |
| Restricted assets: | | | |
| Cash | 230,378 | 33,071 | 263,449 |
| Certificates of deposit | 360,000 | - | 360,000 |
| Accrued interest receivable | 155 | - | 155 |
| Total current assets | <u>4,902,299</u> | <u>784,232</u> | <u>5,686,531</u> |
| Non-current assets: | | | |
| Property and equipment | 24,407,935 | 18,475,459 | 42,883,394 |
| Accumulated depreciation | (16,036,853) | (9,122,681) | (25,159,534) |
| Total non-current assets | <u>8,371,082</u> | <u>9,352,778</u> | <u>17,723,860</u> |
| | | | |
| Total assets | \$ <u><u>13,273,381</u></u> | <u><u>10,137,010</u></u> | <u><u>23,410,391</u></u> |

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Net Position
June 30, 2013

Liabilities and Net Position

| | <u>Electric</u> | <u>Water</u> | <u>Total</u> |
|---------------------------------------|----------------------|-------------------|-------------------|
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ 917,158 | 69,723 | 986,881 |
| Due to electric fund | - | 109,849 | 109,849 |
| Customer deposits | 138,332 | - | 138,332 |
| Accrued interest | 10,379 | 3,404 | 13,783 |
| Capital lease payable | 38,011 | - | 38,011 |
| Notes payable | 490,000 | 366,000 | 856,000 |
| Total current liabilities | <u>1,593,880</u> | <u>548,976</u> | <u>2,142,856</u> |
| Long-term liabilities: | | | |
| Capital lease payable | 79,476 | - | 79,476 |
| Notes payable | 1,315,000 | 2,187,000 | 3,502,000 |
| Total long-term liabilities | <u>1,394,476</u> | <u>2,187,000</u> | <u>3,581,476</u> |
| Total liabilities | <u>2,988,356</u> | <u>2,735,976</u> | <u>5,724,332</u> |
| Net position: | | | |
| Net investment in capital assets | 6,438,216 | 6,796,374 | 13,234,590 |
| Restricted for: | | | |
| Reserve account | 360,155 | - | 360,155 |
| Unrestricted | 3,486,654 | 604,660 | 4,091,314 |
| Total net position | <u>10,285,025</u> | <u>7,401,034</u> | <u>17,686,059</u> |
| Total liabilities and net position | <u>\$ 13,273,381</u> | <u>10,137,010</u> | <u>23,410,391</u> |

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

**Combining Statement of Revenue, Expenses
and Changes in Net Position
Year Ended June 30, 2013**

| | <u>Electric</u> | <u>Water</u> | <u>Total</u> |
|---|----------------------|------------------|-------------------|
| Operating revenue: | | | |
| Metered sales | \$ 8,536,263 | 1,865,251 | 10,401,514 |
| Other sales | 34,767 | - | 34,767 |
| Other revenue | 34,292 | 47,549 | 81,841 |
| Cut-off notice fee | 9,444 | 2,056 | 11,500 |
| Sewer and solid waste service fee | 14,782 | 3,218 | 18,000 |
| Penalty charges and bad debt recoveries | 36,167 | 7,872 | 44,039 |
| Total operating revenue | <u>8,665,715</u> | <u>1,925,946</u> | <u>10,591,661</u> |
| Operating expenses: | | | |
| Power, pumping and treatment plant | 5,568,649 | 808,891 | 6,377,540 |
| Transmission and distribution | 705,364 | 668,719 | 1,374,083 |
| General and administration | 1,120,334 | 243,848 | 1,364,182 |
| Total operating expenses | <u>7,394,347</u> | <u>1,721,458</u> | <u>9,115,805</u> |
| Net operating income | <u>1,271,368</u> | <u>204,488</u> | <u>1,475,856</u> |
| Non-operating revenue: | | | |
| Interest income | 1,057 | (400) | 657 |
| Interest income - restricted | 2,983 | 1,131 | 4,114 |
| Gain on disposition of property and equipment | 6,286 | 4,953 | 11,239 |
| Grant revenue | 7,167 | - | 7,167 |
| Total other revenue | <u>17,493</u> | <u>5,684</u> | <u>23,177</u> |
| Non-operating expenses: | | | |
| Interest expense | 75,710 | 44,793 | 120,503 |
| Banking fees | - | 500 | 500 |
| Total other expenses | <u>75,710</u> | <u>45,293</u> | <u>121,003</u> |
| Change in net position | 1,213,151 | 164,879 | 1,378,030 |
| Net position, beginning of year | 9,171,874 | 7,236,155 | 16,408,029 |
| Permanent transfer to City of Mt. Pleasant | <u>(100,000)</u> | <u>-</u> | <u>(100,000)</u> |
| Net position, end of year | <u>\$ 10,285,025</u> | <u>7,401,034</u> | <u>17,686,059</u> |

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows
Year Ended June 30, 2013

| | Electric | Water | Total |
|---|--------------|-----------|-------------|
| Cash flows from operating activities: | | | |
| Cash received from customers and users | \$ 8,717,666 | 1,925,740 | 10,643,406 |
| Cash paid to employees for services | (1,031,558) | (716,617) | (1,748,175) |
| Cash paid to suppliers | (5,841,959) | (570,468) | (6,412,427) |
| Net cash provided (used) by operating activities | 1,844,149 | 638,655 | 2,482,804 |
| Cash flows from non-capital financing activities: | | | |
| Permanent transfer to city | (100,000) | - | (100,000) |
| Cash flows from capital and related financing activities: | | | |
| Principal paid on notes payable | (475,000) | (359,000) | (834,000) |
| Interest paid on notes payable | (78,660) | (45,272) | (123,932) |
| Principal paid on capital lease | (40,000) | - | (40,000) |
| Cash paid for banking fees on notes payable | - | (500) | (500) |
| Grant revenue | 7,167 | - | 7,167 |
| Purchase of property and equipment | (215,425) | (367,023) | (582,448) |
| Proceeds from disposition of property and equipment | 6,286 | 4,953 | 11,239 |
| Net cash provided (used) by capital activities | (795,632) | (766,842) | (1,562,474) |
| Cash flows from investing activities: | | | |
| Interest on investments | 4,040 | 731 | 4,771 |
| Net change in cash | 952,557 | (127,456) | 825,101 |
| Cash and cash equivalents at beginning of year | 1,733,412 | 475,020 | 2,208,432 |
| Cash and cash equivalents at end of year | \$ 2,685,969 | 347,564 | 3,033,533 |

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)
Year Ended June 30, 2013

| | Electric | Water | Total |
|--|--------------|-----------|-------------|
| Cash flows from operating activities: | | | |
| Operating income | \$ 1,271,368 | 204,488 | 1,475,856 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Depreciation | 631,817 | 449,476 | 1,081,293 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in due from other fund | 800 | (800) | - |
| (Increase) decrease in accounts receivable | 4,660 | 733 | 5,393 |
| (Increase) decrease in unbilled usage | 43,033 | (139) | 42,894 |
| (Increase) decrease in inventories | (30,008) | 8,842 | (21,166) |
| (Increase) decrease in prepaid expense | 5,535 | (21,574) | (16,039) |
| Increase (decrease) in customer deposits | 3,458 | - | 3,458 |
| Increase (decrease) in accounts payable and accrued expenses | (86,514) | (2,371) | (88,885) |
| Net cash provided (used) by operating activities | 1,844,149 | 638,655 | 2,482,804 |
| Cash flows from non-capital financing activities: | | | |
| Permanent transfer to city | (100,000) | - | (100,000) |
| Cash flows from capital and related financing activities: | | | |
| Principal paid on notes payable | (475,000) | (359,000) | (834,000) |
| Interest paid on notes payable | (78,660) | (45,272) | (123,932) |
| Principal paid on capital lease | (40,000) | - | (40,000) |
| Cash paid for banking fees on notes payable | - | (500) | (500) |
| Grant revenue | 7,167 | - | 7,167 |
| Purchase of property and equipment | (215,425) | (367,023) | (582,448) |
| Proceeds from disposition of property and equipment | 6,286 | 4,953 | 11,239 |
| Net cash provided (used) by capital activities | (795,632) | (766,842) | (1,562,474) |

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)
Year Ended June 30, 2013

| | <u>Electric</u> | <u>Water</u> | <u>Total</u> |
|---|----------------------------|-----------------------|-------------------------|
| Cash flows from investing activities: | | | |
| Interest on investments | <u>4,040</u> | <u>731</u> | <u>4,771</u> |
| Net change in cash | 952,557 | (127,456) | 825,101 |
| Cash and cash equivalents at beginning of year | <u>1,733,412</u> | <u>475,020</u> | <u>2,208,432</u> |
| Cash and cash equivalents at end of year | \$ <u><u>2,685,969</u></u> | <u><u>347,564</u></u> | <u><u>3,033,533</u></u> |
| | | | |
| Cash and cash equivalents at end of year consists of: | | | |
| Current assets: | | | |
| Cash | \$ 2,455,591 | 314,493 | 2,770,084 |
| Restricted assets: | | | |
| Customer deposits | 138,332 | - | 138,332 |
| Notes payable retirement | <u>92,046</u> | <u>33,071</u> | <u>125,117</u> |
| Total cash and cash equivalents at end of year | \$ <u><u>2,685,969</u></u> | <u><u>347,564</u></u> | <u><u>3,033,533</u></u> |
| | | | |
| Noncash activity: | | | |
| Acquisition of equipment through capital lease | \$ <u><u>157,487</u></u> | <u><u>-</u></u> | <u><u>157,487</u></u> |

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements
June 30, 2013

Note 1 – Significant Accounting Policies

Mt. Pleasant Municipal Utilities is a component unit of the City of Mt. Pleasant, Iowa. It was first formed in 1897 and operates under a trustee form of government provided by the Code of Iowa. A five-member board of trustees is appointed by the City Council of Mt. Pleasant to six year staggered terms. The Utilities provides electric and water service to citizens, businesses, industry, and other entities in Mt. Pleasant and surrounding areas.

The financial statements of Mt. Pleasant Municipal Utilities have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Mt. Pleasant Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities.

These financial statements present the Mt. Pleasant Municipal Utilities and there are no component units to be presented. The Utilities is legally separate, but financially accountable to the City of Mt. Pleasant. The Mt. Pleasant City Council appoints the board and the Utilities' legal budget is subject to approval by the City Council.

Basis of Presentation

The accounts of Mt. Pleasant Municipal Utilities are organized on the basis of enterprise funds. 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. Mt. Pleasant Municipal Utilities reports the following major enterprise funds:

The Electric Fund is used to account for the operation and maintenance of the electric system.

The Water Fund is used to account for the operation and maintenance of the water system.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2013

Note 1 – Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. Operating expenses for the Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash Equivalents

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

Accounts Receivable and Unbilled Usage

The Utilities grants credit to the businesses and residents of Mt. Pleasant and surrounding areas to which electric and water services are supplied. Accounts receivable are recorded at the time the service is billed. 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.

Due from and Due to Other Funds

During the course of its operations, the Utilities has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2013, balances of interfund amounts receivable or payable have been recorded.

Inventories

Inventories are valued at the lower of average cost or market. Inventories consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2013

Note 1 – Significant Accounting Policies (Continued)

Restricted Assets

Funds set aside for payment of revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

General and Administrative

The allocation of general and administrative expenses and penalty income on the Combining Statement of Revenue, Expenses and Changes in Net Position are allocated 82.125% and 17.875% to the Electric and Water Funds, respectively.

Budgets and Budgetary Accounting

The Utilities adopts an accrual basis budget for operating purposes. The Utilities then submits a cash basis (legal) budget to the City Council for approval in the City's budget process. The legal budget may be amended during the year utilizing the statutory procedures available to the City.

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – Property and Equipment Accounting Policies

An accurate listing of assets acquired in prior years has not been retained by the Utilities. Because of this, it is likely that there are items included in the balance of property and equipment that are no longer owned by the Utilities, which is not in accordance with accounting principles generally accepted in the United States of America. Because the cost records are not available, it is impossible to determine the effect on the presentation of financial position and results of operations.

Property and equipment is recorded at historical cost. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2013

Note 2 – Property and Equipment Accounting Policies (Continued)

| <u>Asset Class</u> | <u>Amount</u> |
|----------------------------|---------------|
| Buildings and improvements | \$ 25,000 |
| Equipment and vehicles | 5,000 |
| Infrastructure | 25,000 |
| Intangibles | 5,000 |

Capital assets are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|-----------------------------------|--|
| Buildings | 20-40 |
| Improvements other than buildings | 15 |
| Vehicles | 7-8 |
| Equipment | 5-30 |
| Infrastructure | 30-40 |
| Intangibles | 5-8 |

A summary of the Electric Fund's capital assets at June 30, 2013 follows:

| | <u>Balance Beginning of Year</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance End of Year</u> |
|---|--|--------------------|-------------------|------------------------------------|
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ <u>26,296</u> | <u>46,614</u> | (<u>26,296</u>) | <u>46,614</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 1,075,034 | 17,744 | - | 1,092,778 |
| Generating equipment | 12,037,966 | 5,534 | - | 12,043,500 |
| Distribution equipment | 9,392,431 | 88,860 | - | 9,481,291 |
| Other equipment | <u>1,517,796</u> | <u>240,456</u> | (<u>14,500</u>) | <u>1,743,752</u> |
| Total capital assets being depreciated | <u>24,023,227</u> | <u>352,594</u> | (<u>14,500</u>) | <u>24,361,321</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 881,574 | 13,338 | - | 894,912 |
| Generating equipment | 6,006,848 | 336,231 | - | 6,343,079 |
| Distribution equipment | 7,138,819 | 226,939 | - | 7,365,758 |
| Other equipment | <u>1,392,295</u> | <u>55,309</u> | (<u>14,500</u>) | <u>1,433,104</u> |
| Total accumulated depreciation | <u>15,419,536</u> | <u>631,817</u> | (<u>14,500</u>) | <u>16,036,853</u> |
| Total capital assets being depreciated, net | <u>8,603,691</u> | (<u>279,223</u>) | - | <u>8,324,468</u> |
| Total capital assets, net | \$ <u>8,629,987</u> | (<u>232,609</u>) | (<u>26,296</u>) | <u>8,371,082</u> |

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2013

Note 2 – Property and Equipment Accounting Policies (Continued)

A summary of the Water Fund's capital assets at June 30, 2013 follows:

| | <u>Balance Beginning of Year</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance End of Year</u> |
|---|--|------------------|-------------------|------------------------------------|
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ 650,589 | 51,725 | (650,589) | 51,725 |
| Land | <u>131,975</u> | - | - | <u>131,975</u> |
| Total capital assets not being depreciated | <u>782,564</u> | <u>51,725</u> | <u>(650,589)</u> | <u>183,700</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 1,433,026 | - | - | 1,433,026 |
| Pumping and treatment equipment | 7,504,111 | 266,684 | - | 7,770,795 |
| Distribution equipment | 5,938,989 | 666,369 | - | 6,605,358 |
| Water tower | 1,582,798 | 10,000 | - | 1,592,798 |
| Other equipment | <u>886,699</u> | <u>22,834</u> | <u>(19,751)</u> | <u>889,782</u> |
| Total capital assets being depreciated | <u>17,345,623</u> | <u>965,887</u> | <u>(19,751)</u> | <u>18,291,759</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,009,314 | 29,247 | - | 1,038,561 |
| Pumping and treatment equipment | 2,762,553 | 192,051 | - | 2,954,604 |
| Water tower | 751,482 | 39,723 | - | 791,205 |
| Distribution equipment | 3,450,022 | 140,772 | - | 3,590,794 |
| Other equipment | <u>719,585</u> | <u>47,683</u> | <u>(19,751)</u> | <u>747,517</u> |
| Total accumulated depreciation | <u>8,692,956</u> | <u>449,476</u> | <u>(19,751)</u> | <u>9,122,681</u> |
| Total capital assets being depreciated, net | <u>8,652,667</u> | <u>516,411</u> | <u>-</u> | <u>9,169,078</u> |
| Total capital assets, net | \$ <u>9,435,231</u> | <u>568,136</u> | <u>(650,589)</u> | <u>9,352,778</u> |

The land on which the Utilities' general offices, power, and water plants are located is owned by the City of Mt. Pleasant, Iowa. The Utilities paid the City \$48,000 for the permanent use of the land. However, see Note 3 regarding electricity, water, and related services furnished to the City without charge.

Note 3 – Donated Electricity and Water

The municipal parks, city hall, and other municipally operated facilities in the City of Mt. Pleasant are not billed for electricity and water usage, service, and materials provided them during the year. The meters from these facilities are read monthly and the resulting amount computed at normal rates is considered to be a donation to the City. During the year ended June 30, 2013, services donated to the City totaled \$222,992 and \$34,097 for the Electric and Water Funds, respectively. No revenue or expense has been recognized in the financial statements for these amounts.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2013

Note 4 – Cash and Pooled Investments

The Municipal Utilities' deposits 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. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Municipal 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.

Certificates of deposit are carried at historical cost.

Note 5 – Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS), 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, P.O. Box 9117, Des Moines, Iowa, 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 covered salary. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$150,071, \$142,146, and \$122,979, respectively, equal to the required contributions for each year.

Note 6 – Major Suppliers

All of the Utilities' purchased power is from one supplier. The total amount purchased was \$4,425,671 which represents 98.7% of total kilowatt hours generated and purchased.

Note 7 – Compensated Absences

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. A liability is recorded when incurred and has been computed based on rates of pay in effect at June 30, 2013.

Vacation pay has been accrued in the financial records as a liability for time earned but not used at June 30, 2013. This amount based on June 30, 2013 wages and salaries was \$122,582.

(continued)

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Notes to Financial Statements (Continued)
June 30, 2013**

Note 7 – Compensated Absences (Continued)

Employee sick leave accumulates up to a maximum of 120 days, which does not vest. However, upon retirement at age 62 or older, or upon death, whichever occurs first, the employee will be paid 100% of their accumulated sick leave to a maximum of 90 days. To receive this benefit, the employee must have applied for and been approved for IPERS retirement benefits or reached age 62 and retired. An employee who quits or is fired is not eligible for payment of accumulated sick leave. The liability for employee sick leave is reported in the combining statement of net position only for employees who have retired. As of June 30, 2013, there was no liability for sick leave accrued.

The maximum additional contingent liability for employee sick leave accruals at June 30, 2013 is approximately \$195,000.

Note 8 – Unrestricted Net Position Designated by the Board

The Utilities by resolution of the board set aside funds on a monthly basis for specific purposes. These funds are only available upon board authorization. As of June 30, 2013 the amounts that are board designated are as follows:

| <u>Fund</u> | <u>Purpose</u> | <u>Designated Net Position</u> |
|-------------------------------------|-------------------|------------------------------------|
| Electric Fund | Light Improvement | \$ 647,686 |
| Water Fund | Water Improvement | 795,953 |
| Electric Fund | Light Contingency | <u>573,141</u> |
| Total board designated net position | | \$ <u>2,016,780</u> |

Note 9 – Allowance for Doubtful Accounts

As of June 30, 2013, accounts receivable was shown net of their allowance for doubtful accounts for electric and water of \$4,271 and \$930, respectively.

Note 10 – 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 risks have not exceeded commercial insurance coverage in any of the past three years.

The Utilities changed to a partially self funded health insurance plan effective July 1, 2012 and maintains a risk management account for the risks related to the plan. For individual coverage, the employee pays the first \$500 of the annual deductible and the Utilities pays the remaining \$1,500. For family coverage, the employee pays the first \$1,000 of the annual deductible and the Utilities pays the remaining \$3,000.

(continued)

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Notes to Financial Statements (Continued)
June 30, 2013**

Note 10 – Risk Management (Continued)

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

| | | |
|---|----|----------|
| Unpaid claims and IBNR, beginning of year | \$ | - |
| Current year costs including IBNR | | 13,147 |
| Claims paid | | (13,144) |
| Unpaid claims and IBNR, end of year | \$ | <u>3</u> |

Note 11 – Notes Payable

The Utilities issued electric revenue bonds in an aggregate principal amount of \$3,600,000 dated May 20, 2009 for the purpose of paying costs of the refunding of the outstanding electric revenue bonds dated May 1, 2001. The bonds bear interest of 3.45%, require annual principal payments, and semiannual interest payments. The resolution providing for the issuance includes the following provisions:

1. Gross revenues shall be deposited into an electric revenue account to be used in maintaining and operating the utility.
2. Monthly transfers equal to 1/12th of the next principal payment and 1/6th of the next interest payment into an electric sinking account.
3. Monthly transfers equal to 100 percent of the amount required to be deposited in the electric sinking account; provided, however, that when the amount on deposit in the reserve account shall be not less than the reserve fund requirement, no further deposits shall be made into the reserve account except to maintain such level, and when the amount on deposit in the reserve account is greater than the balance required above, such additional amounts shall be withdrawn and paid into the electric revenue account. The reserve fund requirement is the lesser of the maximum annual amount of principal and interest coming due on the note, 10% of the stated principal of the note or 125% of the average annual principal and interest coming due on the note.

The Utilities issued water revenue bonds in an aggregate amount of \$2,950,000 dated April 2, 2012 for the purpose of paying costs of the refunding of the outstanding water revenue capital loan notes, series 1999. The bonds bear interest of 1.60% and require semiannual principal and interest payments. The resolution providing for the issuance includes the following provisions:

1. Gross revenues shall be deposited into a water revenue account to be used in maintaining and operating the utility.
2. Monthly transfers equal to 1/6th of the next principal payment and 1/6th of the next interest payment into a water sinking account.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2013

Note 11 – Notes Payable (Continued)

During the year ended June 30, 2013, the Utilities was in compliance with the revenue note provisions.

Annual debt service requirements to maturity for revenue notes per the resolutions are as follows:

| Year Ending June 30, | <u>Electric Revenue Notes</u> | | | <u>Water Revenue Notes</u> | | |
|----------------------------|-------------------------------|-----------------|------------------|----------------------------|-----------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2014 | \$ 490,000 | 62,273 | 552,273 | 366,000 | 39,424 | 405,424 |
| 2015 | 505,000 | 45,367 | 550,367 | 373,000 | 33,552 | 406,552 |
| 2016 | 500,000 | 27,945 | 527,945 | 380,000 | 27,584 | 407,584 |
| 2017 | 310,000 | 10,695 | 320,695 | 385,000 | 21,464 | 406,464 |
| 2018 | - | - | - | 390,000 | 15,264 | 405,264 |
| 2019 | - | - | - | 400,000 | 8,944 | 408,944 |
| 2020 | - | - | - | <u>259,000</u> | <u>2,072</u> | <u>261,072</u> |
| | \$ <u>1,805,000</u> | <u>146,280</u> | <u>1,951,280</u> | <u>2,553,000</u> | <u>148,304</u> | <u>2,701,304</u> |

Note 12 – Capital Lease

The Utilities leases certain equipment under a capital lease. The economic substance of the lease is that the Utilities is financing the acquisition of the equipment through the lease, and accordingly it has been recorded in the Utilities' assets and liabilities. Amortization of equipment held under the capital lease is included with depreciation expense. The gross value of the leased equipment is \$157,487 and at June 30, 2013 accumulated depreciation on the equipment was \$9,843.

Annual capital lease payments to maturity are as follows:

| Year Ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|-------------------|-----------------|----------------|
| 2014 | \$ 38,011 | 3,525 | 41,536 |
| 2015 | 39,151 | 2,385 | 41,536 |
| 2016 | <u>40,325</u> | <u>1,211</u> | <u>41,536</u> |
| | \$ <u>117,487</u> | <u>7,121</u> | <u>124,608</u> |

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Notes to Financial Statements (Continued)
June 30, 2013**

Note 13 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

| | <u>Electric Revenue Notes</u> | <u>Water Revenue Notes</u> | <u>Capital Lease</u> | <u>Total</u> |
|---------------------------|-----------------------------------|--------------------------------|--------------------------|------------------|
| Balance beginning of year | \$ 2,280,000 | 2,912,000 | - | 5,192,000 |
| Increases | - | - | 157,487 | 157,487 |
| Decreases | <u>475,000</u> | <u>359,000</u> | <u>40,000</u> | <u>874,000</u> |
| Balance end of year | \$ <u>1,805,000</u> | <u>2,553,000</u> | <u>117,487</u> | <u>4,475,487</u> |
| Due within one year | \$ <u>490,000</u> | <u>366,000</u> | <u>38,011</u> | <u>894,011</u> |

Note 14 – Related Party Transactions

The Utilities had business transactions between the Utilities and employees and relatives of Utility employees, totaling \$6,721 during the year ended June 30, 2013.

Note 15 – Transfer of Funds to City

Beginning in 2003, the Utilities was required to transfer funds to the general fund of the City of Mt. Pleasant. The amount transferred for the year ended June 30, 2013 was \$100,000.

Note 16 – Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2013 is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|-------------------|
| Electric | Water | \$ <u>109,849</u> |

This balance results from cash being transferred from the electric fund to the water fund to cover amounts billed for water services prior to the billed amounts being received.

Required Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended June 30, 2013

| | Actual | Budgeted Amounts | | Final to Actual Variance |
|------------------------------|---------------|------------------|------------|--------------------------------|
| | | Original | Final | |
| Receipts | \$ 10,666,583 | 10,416,600 | 10,577,500 | 89,083 |
| Disbursements | 9,741,482 | 10,403,678 | 10,224,932 | 483,450 |
| Net | 925,101 | 12,922 | 352,568 | 572,533 |
| Other financing sources, net | (100,000) | (100,000) | (100,000) | - |
| Beginning balances | 2,208,432 | 2,208,432 | 2,208,432 | - |
| Ending balances | \$ 3,033,533 | 2,121,354 | 2,461,000 | 572,533 |

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budget to GAAP Reconciliation
Required Supplementary Information
Year Ended June 30, 2013

| | Proprietary Funds | | |
|------------------------------|-------------------|------------------------|---------------|
| | Cash Basis | Accrual Adjustments | Accrual Basis |
| Revenues | \$ 10,666,583 | (51,745) | 10,614,838 |
| Expenditures / expenses | 9,741,482 | (504,674) | 9,236,808 |
| Net | 925,101 | 452,929 | 1,378,030 |
| Other financing sources, net | (100,000) | - | (100,000) |
| Beginning net position | 2,208,432 | 14,199,597 | 16,408,029 |
| Ending net position | \$ 3,033,533 | 14,652,526 | 17,686,059 |

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2013

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. One of the nine functions includes the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments decreased budgeted disbursements by \$178,746. These budget amendments are reflected in the final budgeted amounts.

Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Unaudited Comparative Operating Statistics

| | Year Ended June 30, | | | | | | |
|--|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Number of customers served: | | | | | | | |
| Electricity: | | | | | | | |
| Residential | 3,232 | 3,226 | 3,224 | 3,192 | 3,166 | 3,193 | 3,107 |
| Commercial | 785 | 789 | 794 | 817 | 823 | 789 | 746 |
| Electric heat | 54 | 64 | 70 | 74 | 76 | 85 | 187 |
| Security lights | 117 | 116 | 113 | 116 | 120 | 125 | 122 |
| Special commercial demand | 34 | 34 | 30 | 30 | 30 | 30 | 32 |
| Steam | - | - | - | 1 | 1 | 1 | 1 |
| Water | 3,702 | 3,677 | 3,677 | 3,667 | 3,666 | 3,653 | 3,584 |
| Kilowatt hours: | | | | | | | |
| Number of kilowatt hours purchased | 79,482,402 | 78,321,147 | 78,364,471 | 77,027,608 | 79,467,625 | 82,403,813 | 79,037,450 |
| Number of kilowatt hours produced | 1,066,472 | 1,014,317 | 982,739 | 379,933 | 2,977,414 | 9,697,764 | 4,567,281 |
| | <u>80,548,874</u> | <u>79,335,464</u> | <u>79,347,210</u> | <u>77,407,541</u> | <u>82,445,039</u> | <u>92,101,577</u> | <u>83,604,731</u> |
| Number of kilowatt hours sold | 71,589,039 | 69,432,802 | 70,533,023 | 67,546,011 | 70,015,683 | 73,696,416 | 71,165,343 |
| % of kilowatt hours sold to total produced and purchased | 88.88% | 87.52% | 88.89% | 87.26% | 84.92% | 80.02% | 85.12% |
| Number of kilowatt hours for export | 531,865 | 561,717 | 305,603 | 161,778 | 70,643 | 4,324,914 | 2,047,516 |
| Number of kilowatt hours for internal use | 4,291,653 | 4,230,644 | 4,724,157 | 4,280,387 | 4,244,158 | 4,183,565 | 4,410,334 |
| Number of kilowatt hours donated to city | 2,331,454 | 2,319,775 | 2,841,483 | 2,955,426 | 3,006,871 | 2,949,411 | 2,995,590 |
| | <u>7,154,972</u> | <u>7,112,136</u> | <u>7,871,243</u> | <u>7,397,591</u> | <u>7,321,672</u> | <u>11,457,890</u> | <u>9,453,440</u> |
| Gallons: | | | | | | | |
| Number of gallons pumped | 635,711,000 | 613,883,000 | 585,919,000 | 598,517,000 | 571,562,000 | 564,416,000 | 582,580,100 |
| Number of gallons billed | 436,112,864 | 427,489,140 | 410,598,689 | 403,845,395 | 405,198,141 | 432,257,918 | 437,794,600 |
| % of gallons billed to total pumped | 68.60% | 69.64% | 70.08% | 67.47% | 70.89% | 76.58% | 75.15% |
| Number of gallons for internal use | 147,945 | 130,500 | 1,765,900 | 2,640,675 | 1,796,175 | 1,918,675 | 1,923,224 |
| Number of gallons donated to city | 2,175,046 | 2,928,561 | 2,055,455 | 2,376,125 | 2,751,678 | 2,792,643 | 3,598,129 |
| | <u>2,322,991</u> | <u>3,059,061</u> | <u>3,821,355</u> | <u>5,016,800</u> | <u>4,547,853</u> | <u>4,711,318</u> | <u>5,521,353</u> |

The foregoing operating statistics are presented on the basis of unaudited records maintained in the Utilities' offices. The amounts and the accuracy of the operating statistics were not tested by the auditor.

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Position Detail
June 30, 2013

| | <u>Electric</u> | <u>Water</u> | <u>Total</u> |
|--|-----------------------|-------------------|--------------------|
| Accounts payable and accrued expenses, payable from current assets: | | | |
| Trade accounts payable | \$ 611,907 | 22,506 | 634,413 |
| Salaries and wages | 92,158 | 47,217 | 139,375 |
| Payroll and withholding taxes | 86,065 | - | 86,065 |
| Sales tax payable | 17,870 | - | 17,870 |
| Sewer and trash payable | <u>109,158</u> | <u>-</u> | <u>109,158</u> |
| Total | <u>\$ 917,158</u> | <u>69,723</u> | <u>986,881</u> |

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Position Detail (Continued)
June 30, 2013

| | Assets | | | | Accumulated Depreciation/Amortization | | | | Depreciated Cost June 30, 2013 | |
|-------------------------------|-----------------------------|--------------------------------|--------------------------------|-----------------------------|---------------------------------------|-----------------------------|--------------------------------|--------------------------------|---|-----------------------------|
| | Balance June 30, 2012 | Acquisitions (Eliminations) | Trades and (Adjustments) | Balance June 30, 2013 | Estimated Life In Years | Balance June 30, 2012 | Acquisitions (Eliminations) | Trades and (Adjustments) | | Balance June 30, 2013 |
| Property and equipment: | | | | | | | | | | |
| Electric Fund: | | | | | | | | | | |
| Land improvement | \$ 41,003 | - | - | 41,003 | 15 | \$ 27,702 | 1,157 | - | 28,859 | 12,144 |
| Buildings | 1,011,328 | 17,744 | - | 1,029,072 | 30 | 831,169 | 12,181 | - | 843,350 | 185,722 |
| Generating equipment | 12,037,966 | 5,534 | - | 12,043,500 | 10-30 | 6,006,848 | 336,231 | - | 6,343,079 | 5,700,421 |
| Distribution equipment | 8,264,273 | 62,564 | 26,296 | 8,353,133 | 30 | 6,010,945 | 226,655 | - | 6,237,600 | 2,115,533 |
| Construction in progress | 26,296 | 46,614 | (26,296) | 46,614 | | - | - | - | - | 46,614 |
| Machinery and equipment | 808,296 | 216,428 | (14,500) | 1,010,224 | 8-10 | 723,755 | 38,687 | (14,500) | 747,942 | 262,282 |
| Transportation equipment | 150,727 | - | - | 150,727 | 5 | 150,727 | - | - | 150,727 | - |
| Office furniture and fixtures | 182,503 | 22,138 | - | 204,641 | 5-10 | 176,902 | 4,114 | - | 181,016 | 23,625 |
| Consultant services | 1,128,158 | - | - | 1,128,158 | 5 | 1,127,874 | 284 | - | 1,128,158 | - |
| Steam supply line | 42,667 | - | - | 42,667 | 10-30 | 42,667 | - | - | 42,667 | - |
| Computer | 333,603 | 1,890 | - | 335,493 | 3-8 | 298,244 | 12,508 | - | 310,752 | 24,741 |
| Leasehold improvements | 22,703 | - | - | 22,703 | 5 | 22,703 | - | - | 22,703 | - |
| Total | \$ 24,049,523 | 372,912 | (14,500) | 24,407,935 | | \$ 15,419,536 | 631,817 | (14,500) | 16,036,853 | 8,371,082 |

* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Position Detail (Continued)
June 30, 2013

| | Assets | | | | | Accumulated Depreciation/Amortization | | | | Depreciated Cost June 30, 2013 |
|------------------------------------|-----------------------------|--------------------------------|--------------------------------|-----------------------------|-------------------------------|---------------------------------------|--------------------------------|--------------------------------|-----------------------------|---|
| | Balance June 30, 2012 | Acquisitions (Eliminations) | Trades and (Adjustments) | Balance June 30, 2013 | Estimated Life In Years | Balance June 30, 2012 | Acquisitions (Eliminations) | Trades and (Adjustments) | Balance June 30, 2013 | |
| Property and equipment: | | | | | | | | | | |
| Water Fund: | | | | | | | | | | |
| Buildings | \$ 1,433,026 | - | - | 1,433,026 | 10-30 | \$ 1,009,314 | 29,247 | - | 1,038,561 | 394,465 |
| Edr treatment plant | 6,149,810 | 235,307 | - | 6,385,117 | 40 | 2,017,414 | 161,590 | - | 2,179,004 | 4,206,113 |
| Pumping and filtering equipment | 1,354,301 | 31,377 | - | 1,385,678 | 25-40 | 745,139 | 30,461 | - | 775,600 | 610,078 |
| Distribution system | 5,056,574 | 15,780 | 650,589 | 5,722,943 | 40 | 2,584,305 | 135,432 | - | 2,719,737 | 3,003,206 |
| Construction in progress | 650,589 | 51,725 | (650,589) | 51,725 | | - | - | - | - | 51,725 |
| Water tower | 1,582,798 | 10,000 | - | 1,592,798 | 21-40 | 751,482 | 39,723 | - | 791,205 | 801,593 |
| Machinery and equipment | 795,384 | 16,252 | (19,751) | 791,885 | 5-10 | 652,169 | 42,748 | (19,751) | 675,166 | 116,719 |
| Land | 131,975 | - | - | 131,975 | | - | - | - | - | 131,975 |
| Consultant services | 882,415 | - | - | 882,415 | 5 | 865,717 | 5,340 | - | 871,057 | 11,358 |
| Furniture and fixtures | 91,315 | 6,582 | - | 97,897 | 10 | 67,416 | 4,935 | - | 72,351 | 25,546 |
| Total | \$ 18,128,187 | 367,023 | (19,751) | 18,475,459 | | \$ 8,692,956 | 449,476 | (19,751) | 9,122,681 | 9,352,778 |

* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail
June 30, 2013

| | Actual | Operating Budget |
|--|--------------|---------------------|
| Operating expenses: | | |
| Electric Fund: | | |
| Power, pumping and treatment plant: | | |
| Supervision salaries | \$ 40,888 | 43,600 |
| Power plant: | | |
| Fuel, coal and oil | 230,656 | 181,579 |
| Purchased power | 4,425,671 | 4,909,212 |
| Production: | | |
| Labor | 242,523 | 241,699 |
| Chemicals | 4,877 | 7,000 |
| Maintenance: | | |
| Labor | 53,357 | 21,273 |
| Supplies | 15,294 | 13,000 |
| Other: | | |
| Meal allowance | 20 | 25 |
| Heat and light expense | 27,062 | - |
| Miscellaneous | 2,508 | 1,165 |
| Depreciation | 345,926 | 350,000 |
| Freight | - | 50 |
| Miscellaneous contracted service | 112,014 | 113,000 |
| Permits | 20 | 500 |
| Repairs | 17,122 | 5,000 |
| Insurance | 50,711 | 50,660 |
| Bond issuance cost | - | 14,250 |
| Education and training | - | 200 |
| | | |
| Total power, pumping and treatment plant | \$ 5,568,649 | 5,952,213 |

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2013

| | Actual | Operating Budget |
|-------------------------------------|------------|---------------------|
| Operating expenses: | | |
| Electric Fund (continued): | | |
| Transmission and distribution: | | |
| Supervision salaries | \$ 44,496 | 43,600 |
| Maintenance of line: | | |
| Labor | 212,603 | 242,239 |
| Supplies | 14,959 | 26,000 |
| Maintenance of park and street: | | |
| Lighting: | | |
| Labor | 18,895 | 7,929 |
| Supplies | 2,530 | 5,000 |
| Maintenance of meters: | | |
| Labor | 8,247 | 23,560 |
| Supplies | 6,408 | 22,000 |
| Removing and resetting meters | 45,858 | 39,266 |
| Other: | | |
| Depreciation | 273,383 | 260,000 |
| Vehicle supplies | 750 | 1,600 |
| Vehicle repair | 2,471 | 8,000 |
| Mileage | - | 150 |
| Lodging | 1,064 | 500 |
| Meals allowance | 61 | 150 |
| Freight | - | 50 |
| Miscellaneous contracted services | 19,360 | 37,000 |
| Repairs | 475 | 1,500 |
| Insurance | 49,972 | 50,660 |
| Chemicals | - | - |
| Miscellaneous | 1,089 | 1,269 |
| Books and instructional materials | 449 | 500 |
| Education and training | 2,294 | 1,000 |
| | \$ 705,364 | 771,973 |
| Total transmission and distribution | | |

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2013

| | Actual | Operating Budget |
|---------------------------------------|------------|---------------------|
| Operating expenses: | | |
| Water Fund: | | |
| Pumping and treatment plant: | | |
| Supervision salaries | \$ 46,461 | 36,034 |
| Maintenance of pumping equipment: | | |
| Labor | 280,149 | 295,400 |
| Supplies | 80,737 | 100,000 |
| Outside analytical services | 2,406 | 1,500 |
| Pumping station expense | 5,698 | 5,000 |
| Insurance | 46,665 | 45,600 |
| Chemicals | 100,630 | 120,000 |
| Depreciation | 234,787 | 234,000 |
| Other pumping and treatment expenses: | | |
| Permits | 2,205 | 1,000 |
| Education and training | 939 | 1,200 |
| Freight | - | 250 |
| Miscellaneous | (7,867) | 1,621 |
| Mileage | - | 800 |
| Lodging | 977 | 500 |
| Meal allowance | 159 | 200 |
| Miscellaneous contracted services | 7,163 | 15,000 |
| Repairs | 7,099 | 1,500 |
| Vehicle repairs and supplies | 683 | 1,500 |
| | | |
| Total pumping and treatment plant | \$ 808,891 | 861,105 |

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2013

| | Actual | Operating Budget |
|--------------------------------------|------------|---------------------|
| Operating expenses: | | |
| Water Fund (continued): | | |
| Transmission and distribution: | | |
| Supervision salaries | \$ 23,223 | 36,035 |
| Maintenance of mains: | | |
| Labor | 192,812 | 202,000 |
| Supplies | 50,698 | 30,000 |
| Maintenance of meters: | | |
| Labor | 10,418 | 6,650 |
| Supplies | 10,954 | 14,000 |
| Removing and resetting meters | 78,430 | 69,955 |
| Maintenance of hydrants: | | |
| Labor | 5,747 | 13,000 |
| Supplies | 5,438 | 2,500 |
| Other transmission and distribution: | | |
| Vehicle expense | 6,595 | 3,000 |
| Depreciation | 214,689 | 219,600 |
| Permits | 100 | 1,000 |
| Education and training | 1,098 | 1,500 |
| Miscellaneous | 12,923 | 4,637 |
| Mileage | - | 800 |
| Lodging | 948 | 800 |
| Meal allowance | 449 | 500 |
| Freight | - | 100 |
| Miscellaneous contracted services | 1,927 | 3,500 |
| Repairs | 1,522 | 2,500 |
| Vehicle repairs | 4,213 | 5,000 |
| Analytical service | (110) | 500 |
| Insurance | 46,645 | 45,600 |
| | \$ 668,719 | 663,177 |
| Total transmission and distribution | \$ 668,719 | 663,177 |

(continued)

See accompanying independent auditors' report.

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Expense Detail (Continued)
June 30, 2013**

| | Actual | Operating Budget |
|-------------------------------------|---------|---------------------|
| Operating expenses: | | |
| Electric and Water Funds: | | |
| General and administrative: | | |
| Education and training | \$ 833 | 500 |
| Advertising | 3,987 | 3,000 |
| Repairs | - | 1,000 |
| Business meals | 199 | 600 |
| Administrative salaries | 183,466 | 182,954 |
| Administrative supplies | 7,757 | 7,500 |
| Trustee salaries | 7,200 | 7,200 |
| Accounting and collecting labor | 199,934 | 189,617 |
| Computer maintenance and supplies | 24,922 | 24,600 |
| Maintenance agreements | 12,727 | 11,500 |
| Bank charges | 8,061 | 6,800 |
| Courtesy | 1,810 | 2,400 |
| Insurance | 21,602 | 20,750 |
| Dues, assessments and subscriptions | 27,941 | 31,000 |
| Meter reading wages | 60,668 | 67,076 |
| Meter reading supplies | 92 | 300 |
| Provision for doubtful accounts | 38,239 | 45,000 |
| Printing | 4,428 | 5,000 |
| First aid supplies | 169 | - |
| Postage | 22,393 | 25,000 |
| Telephone | 15,093 | 14,000 |
| Contractual services | 9,196 | 11,000 |
| Professional fees | 61,093 | 39,625 |
| Payroll tax expense | 129,276 | 138,297 |
| Pension expense (IPERS) | 150,071 | 153,336 |
| Group insurance | 272,678 | 370,970 |
| Mileage | 1,356 | 3,500 |
| Transportation and vehicle expense | 38,061 | 40,200 |
| Options 2000 | 18,177 | 25,000 |

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2013

| | Actual | Operating Budget |
|---|--------------|---------------------|
| Operating expenses: | | |
| Electric and Water Funds (continued): | | |
| General and administrative (continued): | | |
| Use tax expense | 12,794 | 10,000 |
| Safety program | 2,342 | 3,300 |
| Miscellaneous | 3,934 | 3,675 |
| Lodging | 329 | 1,500 |
| Drug testing | 846 | 1,000 |
| Economic development | 10,000 | 10,000 |
| Depreciation | 12,508 | 20,000 |
| Total general and administrative | \$ 1,364,182 | 1,477,200 |
| Allocated as follows: | | |
| Electric Fund | \$ 1,120,334 | |
| Water Fund | 243,848 | |
| Total as above | \$ 1,364,182 | |

* See Note 1 of the Notes to Financial Statements regarding the allocation method.

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Note Maturities
June 30, 2013

| Year Ending June 30, | Electric Revenue Note Issued May 20, 2009 | | Water Revenue Note Issued April 2, 2012 | |
|----------------------------|--|---------------------|--|---------------------|
| | Interest Rate | Amount | Interest Rate | Amount |
| 2014 | 3.45 % | \$ 490,000 | 1.60 % | \$ 366,000 |
| 2015 | 3.45 | 505,000 | 1.60 | 373,000 |
| 2016 | 3.45 | 500,000 | 1.60 | 380,000 |
| 2017 | 3.45 | 310,000 | 1.60 | 385,000 |
| 2018 | - | - | 1.60 | 390,000 |
| 2019 | - | - | 1.60 | 400,000 |
| 2020 | - | - | 1.60 | 259,000 |
| Total | | \$ <u>1,805,000</u> | | \$ <u>2,553,000</u> |

See accompanying independent auditors' report.

Offices located in:
Burlington
(319) 753-9877
Cedar Rapids
(319) 393-2374
Centerville
(641) 437-4296
Fairfield
(641) 472-6171
Mt. Pleasant
(319) 385-3026



Offices located in:
Muscatine
(563) 264-2727
Oskaloosa
(641) 672-2523
Ottumwa
(641) 683-1823
Pella
(641) 628-9411
Sigourney
(641) 622-1013

TD&T Financial Group, P.C.

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
Mt. Pleasant Municipal Utilities
Mt. Pleasant, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities of Mt. Pleasant Municipal Utilities, a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Mt. Pleasant Municipal Utilities' basic financial statements, and have issued our report thereon dated September 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mt. Pleasant Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mt. Pleasant Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Mt. Pleasant 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. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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 Mt. Pleasant Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-13 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 described in Part II of the accompanying Schedule of Findings as item II-B-13 to be a significant deficiency.

Compliance and Other Matters

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

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.

Mt. Pleasant Municipal Utilities' Response to Findings

Mt. Pleasant Municipal Utilities' responses to findings identified in our audit are described in the accompanying schedule of findings. Mt. Pleasant 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mt. Pleasant Municipal Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

T&T Financial Group, P.C.

Mt. Pleasant, Iowa
September 10, 2013

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings
Year Ended June 30, 2013

Part I: Summary of the Independent Auditors' Results:

1. A qualified opinion was issued on the financial statements because Mt. Pleasant Municipal Utilities does not have an accurate listing of property and equipment.
2. A significant deficiency and material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
3. The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

II-A-13 Accounting Records – Accounts receivable general ledger control accounts do not match the subsidiary ledger on a month to month basis.

Recommendation – The accounts receivable subsidiary ledger and accounts receivable general ledger control accounts should be reviewed to determine the actual accounts receivable balance.

Response – We will review accounts receivable.

Conclusion – The balancing of a subsidiary ledger to a control account is a basic accounting procedure. Every effort should be made to correct the computer program for this weakness.

II-B-13 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

(continued)

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA**

**Schedule of Findings (Continued)
Year Ended June 30, 2013**

Part II: Findings Related to the Financial Statements (Continued):

Instances of Non-Compliance:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-13 Certified Budget – Municipal Utilities' budget is filed as part of the City of Mt. Pleasant's budget. Disbursements during the year ended June 30, 2013 were within the budgeted amount.

III-B-13 Questionable Disbursements – We noted no disbursements that were questionable costs.

III-C-13 Travel Expense – We noted no expenditures of Municipal Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees.

III-D-13 Business Transactions – Business transactions between the Utilities and employees and relatives of Utilities' employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|--|---------------|
| Codeworks Software Factory owner Matt Gingerich, stepson of employee | Computer programming and software maintenance | \$ 5,936 |
| Jake Syfert employee of the Utilities | Bales of straw | \$ 280 |
| Double D Pest Control. owner Darren Davisson, employee of the Utilities | Pest control supplies | \$ 273 |
| Washington Electric Service owners Eugene and Deidre Zehr, father and mother-in-law of employee | Electrical supplies | \$ 165 |
| Donna Stott wife of employee | Refreshments for school tours | \$ 67 |

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2013

Part III: Other Findings Related to Statutory Reporting (Continued):

III-D-13 Business Transactions (Continued)

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Jake Syfert, Double D Pest Control, Washington Electric Service, and Donna Stott do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year. The transactions with Codeworks Software Factory may represent a conflict of interest as defined in Chapter 362.5(3)(j) of the Code of Iowa.

Recommendation – The Municipal Utilities should consult legal counsel to determine the disposition of this matter.

Response – We will consider consulting legal counsel.

Conclusion – Response accepted.

III-E-13 Bond Coverage – Surety bond coverage of Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-13 Utility Board Minutes – We noted no transactions that we believe should have been approved in the Board minutes but were not.

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

III-H-13 Revenue Notes – We noted no instances of non-compliance with water or electric note provisions.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Staff

This audit was performed by:

Courtney De Ronde, CPA, Principal
Tom Holtkamp, CPA, Principal
Glen Swanson, CPA, Manager
Jaime Schrader, CPA, Manager
Megan Nelson, CPA, Senior Staff