

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS
Years ended December 31, 2013 and 2012**

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

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**CORNING MUNICIPAL UTILITIES
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OFFICIALS

<u>NAME OF OFFICIAL</u>	<u>OFFICIAL TITLE</u>	<u>TERM EXPIRES</u>
Scott Akin	Trustee	December 31, 2015
Don Kenworthy	Trustee	December 31, 2017
Steve Stueckradt	Trustee	December 31, 2013
Tim Larsen	General Manager	Indefinite
Diane Badgett	Office Manager	Indefinite



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Corning Municipal Utilities
Corning, Iowa

Report on the Financial Statements

We have audited the accompanying balance sheets of Corning Municipal Utilities, a component unit of the City of Corning, Iowa, as of December 31, 2013 and 2012, and the related statements of operations, fund equity, cash flows and indebtedness for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Corning Municipal Utilities as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows, where applicable, for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. U.S. Generally Accepted Accounting Principles require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 4 through 8 and 28 through 29 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 an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

Supplementary Information

The supplementary information on pages 31 through 37 is presented for purposes of additional analysis and is not a required part of the basic financial statements. We have applied certain limited procedures to the required and other supplementary information in accordance with U.S. Generally Accepted Accounting 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 required and other supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued a report dated April 28, 2014, on our consideration of Corning 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 and should be considered in assessing the results of our audit.

Kiesling Associates LLP

West Des Moines, Iowa
April 28, 2014

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Corning Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the year ended December 31, 2013. We encourage readers to consider this information in conjunction with the Utilities' financial statements which follow.

2013 Financial Highlights

- Revenues of the Utilities' enterprise activities increased 7.61%, or approximately \$264,000, from 2012 to 2013.
- Program expenses increased 3.63%, or approximately \$107,000, from 2012 to 2013. Water, electric and gas expenses increased (decreased) approximately \$(36,000), \$(70,000) and \$213,000, respectively.
- The Utilities' fund equity increased 10.07%, or approximately \$682,500, from December 31, 2012, to December 31, 2013. Of this amount, the net assets of water, electric, gas and agency funds increased by approximately \$129,000, \$504,400, \$45,300 and \$3,800, respectively.

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 statements.

The Financial Statements consist of a Balance Sheet, Statement of Operations, Statement of Fund Equity, Statement of Cash Flows and the Statement of Indebtedness. These provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

Notes to the 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 to the Utilities' budget for the year.

Supplementary Information provides detailed information about the separate funds. In addition, a schedule of plant for each fund provides details about the additions and retirements made during the year ended December 31, 2013.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Financial Statements

One of the most important questions asked about the Utilities' finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations 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 Balance Sheet presents all of the Utilities' assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in the Utilities' fund equity may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

The Statement of Operations presents information showing how the Utilities' fund equity changed during the most recent year. All changes in fund equity 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 Balance Sheet and the Statement of Operations report one kind of activity:

- Business type activities include the waterworks, electrical and gas departments. These activities are financed primarily by user charges.

Fund Financial Statements

The Utilities has two kinds of funds:

- (1) Proprietary funds account for the Utilities' Enterprise Funds. Proprietary funds account for most of the Utilities' basic services. These funds report services for which the Utilities charges customers for the service it provides. Proprietary funds are reported in the Balance Sheet and the Statement of Operations. The Enterprise Funds include the Water, Electric and Gas Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for their intended purpose and by those to whom the assets belong.

The financial statements required for proprietary funds include a balance sheet, statement of operations, changes in fund equity and a statement of cash flows.

- (2) Fiduciary funds account for the Utilities' Agency Funds. These are funds through which the Utilities accounts for billing and collection of the City of Corning's garbage and sewer fees.

The Utilities is responsible for ensuring assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Utilities excludes these activities from the financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary fund equity and a statement of changes in fiduciary fund equity.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

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

Fund Equity at Year-end		
	2013	2012
Current and other assets	\$ 6,881,330	\$ 7,112,642
Capital assets	<u>8,094,858</u>	<u>8,217,152</u>
Total assets	<u>14,976,188</u>	<u>15,329,794</u>
Long-term liabilities	6,006,623	7,123,404
Other liabilities	<u>1,511,822</u>	<u>1,431,100</u>
Total liabilities	<u>7,518,445</u>	<u>8,554,504</u>
Fund equity:		
Invested in capital assets, net of related debt	4,186,989	3,859,511
Restricted	34,107	30,297
Unrestricted	<u>3,236,647</u>	<u>2,885,482</u>
Total fund equity	<u>\$ 7,457,743</u>	<u>\$ 6,775,290</u>

Net assets of business type activities increased from 2012 by approximately \$682,000, or 10.0%. The largest portion of the Utilities' fund equity is invested in capital assets (e.g., land, buildings, infrastructure and equipment), less related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted fund equity represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted fund equity, the part of fund equity that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$3,236,647 at the end of the year. The excess is due to the new ethanol facility paying the loan payments related to the debt the Utilities' had to obtain in order to complete installation of new water mains and gas lines to provide service to the ethanol plant.

**CORNING MUNICIPAL UTILITIES
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MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL MAJOR FUND ANALYSIS

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended 2013 with a \$1,963,757 fund equity balance compared to the prior year ending fund equity balance of \$1,834,808.

The Electric Fund, which accounts for the operation and maintenance of the Utilities' electrical distribution and generation systems, ended 2013 with a \$4,421,731 fund equity balance compared to the prior year ending fund equity balance of \$3,917,324.

The Gas Fund, which accounts for the operation and maintenance of the Utilities' natural gas system, ended 2013 with a \$1,038,148 fund equity balance compared to the prior year ending fund equity balance of \$992,861. The following are the major reasons for the changes in fund balances in the major proprietary funds from the prior year.

- The Water Fund saw an increase in net income due to increased revenue and decreased operating expenses. The fund has minimal interest expense since the ethanol facility is providing the funds to make the principal and interest payments related to the financing obtained to complete construction to be able to provide service to the ethanol facility.
- The Gas Fund saw an increase in the cost of purchased energy, which also resulted in an increase in gas services provided, as a portion of the rate charged is variable in accordance with the market.
- The Electric Fund saw an increase in revenue as a result of a slight increase in kilowatts being billed and consumed.

Agency Fund Highlights

The Sewer Fund, which accounts for the billing and collection of the City of Corning's sewer system, ended 2013 with a \$17,321 fund equity balance compared to the prior year ending fund equity balance of \$15,971.

The Garbage Fund, which accounts for the billing and collection of the City of Corning's garbage collection system, ended 2013 with a \$16,786 fund equity balance compared to the prior year ending fund equity balance of \$14,326.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities did not amend its budget.

The Utilities' receipts were \$6,190 less than budgeted receipts, a variance of 0.16%.

Total cash disbursements were \$567,377 less than budgeted. This was primarily due to the cost of operations and maintenance expense being less than anticipated.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utilities' capital assets include land, buildings and improvements, equipment, water distribution systems, electrical distribution systems, gas distribution systems and other infrastructure. Capital assets for business type activities totaled \$8,094,858 (net of accumulated depreciation) at December 31, 2013 and \$8,217,152 (net of accumulated depreciation) as of December 31, 2012. See the accompanying notes to the financial statements for more information about the Utilities' capital assets.

The major capital outlays for business type activities during the year included additions to transportation equipment and distribution plant.

Long-Term Debt

At December 31, 2013 and 2012, the Utilities had \$6,048,929 and \$6,986,136, respectively, in total long-term debt outstanding for business type activities. Other obligations include compensated absences and unearned revenue. Additional information about the Utilities' long-term debt is presented in Note 5 to the financial statements.

ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE

Several economic factors affected decisions made by the Utilities in setting its 2014 budget. Some of these factors included the plans for increased capacity needs for customers and rate increases that were put into effect.

CONTACTING THE UTILITIES' MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Utilities' finances and operating activities. If you have any questions or require additional information please contact the General Manager, Corning Municipal Utilities, 501 Benton Avenue, Corning, Iowa 50841.

FINANCIAL STATEMENTS

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit A

**BALANCE SHEETS
December 31, 2013 and 2012**

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
ELECTRIC PLANT IN SERVICE	\$ 5,216,315	\$ 5,211,797
Less accumulated depreciation	<u>2,622,905</u>	<u>2,476,709</u>
	<u>2,593,410</u>	<u>2,735,088</u>
 WATER PLANT IN SERVICE	 7,533,493	 7,439,546
Less accumulated depreciation	<u>2,267,919</u>	<u>2,083,595</u>
	5,265,574	5,355,951
Water plant under construction	<u>87,739</u>	<u>-</u>
	<u>5,353,313</u>	<u>5,355,951</u>
 GAS PLANT IN SERVICE	 864,801	 829,006
Less accumulated depreciation	<u>716,666</u>	<u>702,893</u>
	<u>148,135</u>	<u>126,113</u>
 RESTRICTED ASSETS		
Cash-security deposits	48,545	61,165
Sinking fund requirements	<u>415,464</u>	<u>412,510</u>
	<u>464,009</u>	<u>473,675</u>
 NONCURRENT ASSETS		
Note receivable, less current portion	2,267,882	2,923,449
Unamortized debt issuance costs	92,589	109,659
Intangibles	<u>45,000</u>	<u>45,000</u>
	<u>2,405,471</u>	<u>3,078,108</u>
 CURRENT ASSETS		
Cash and cash equivalents	2,145,460	1,890,656
Temporary investments	477,821	476,067
Customers accounts receivable	212,063	158,701
Unbilled revenues	334,947	272,184
Other accounts receivable	24,937	23,405
Notes receivable	643,132	592,206
Plant materials and operating supplies	148,101	122,251
Prepaid insurance	<u>25,389</u>	<u>25,389</u>
	<u>4,011,850</u>	<u>3,560,859</u>
 TOTAL ASSETS	 <u>\$ 14,976,188</u>	 <u>\$ 15,329,794</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit A

**BALANCE SHEETS
December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<u>LIABILITIES AND FUND EQUITY</u>		
FUND EQUITY		
Invested in capital assets, net of related debt	\$ 4,186,989	\$ 3,859,511
Fund balance-agency funds (restricted)	34,107	30,297
Unrestricted	<u>3,236,647</u>	<u>2,885,482</u>
	<u>7,457,743</u>	<u>6,775,290</u>
LONG-TERM LIABILITIES		
Compensated absences	17,140	22,952
Unearned revenue	934,686	1,051,522
Long-term debt	<u>5,054,797</u>	<u>6,048,930</u>
	<u>6,006,623</u>	<u>7,123,404</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	<u>48,545</u>	<u>61,165</u>
CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS		
Accounts payable	352,309	315,893
Advanced payments	116,836	116,836
Current portion of long-term debt	<u>994,132</u>	<u>937,206</u>
	<u>1,463,277</u>	<u>1,369,935</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 14,976,188</u>	<u>\$ 15,329,794</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit B

**STATEMENTS OF OPERATIONS
Years ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Electric service	\$ 1,966,920	\$ 1,918,247
Water service	832,655	800,378
Gas service	813,793	631,008
SIRWA revenue	<u>116,836</u>	<u>116,836</u>
	<u>3,730,204</u>	<u>3,466,469</u>
 OPERATING EXPENSES		
Purchased energy	1,507,245	1,288,017
Salaries and benefits	568,764	560,982
Operations and maintenance	452,283	551,810
Depreciation	344,293	358,901
Administrative and general	<u>189,189</u>	<u>194,850</u>
	<u>3,061,774</u>	<u>2,954,560</u>
 OPERATING INCOME	 <u>668,430</u>	 <u>511,909</u>
 OTHER INCOME (EXPENSE)		
Income from merchandising and custom work, net	24,279	20,083
Interest income	269,693	320,655
Other income charges	<u>61,856</u>	<u>(22,194)</u>
	<u>355,828</u>	<u>318,544</u>
 INCOME BEFORE FIXED CHARGES	 <u>1,024,258</u>	 <u>830,453</u>
 FIXED CHARGES		
Interest	<u>345,615</u>	<u>416,404</u>
 NET INCOME	 <u>\$ 678,643</u>	 <u>\$ 414,049</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit C

**STATEMENTS OF FUND EQUITY
Years ended December 31, 2013 and 2012**

	Invested in Capital Assets, Net of Related Debt	Fund Balance Agency Funds	Unrestricted	Total
Balance at December 31, 2011	\$ 3,737,008	\$ 29,706	\$ 2,593,936	\$ 6,360,650
Add:				
Net income from enterprise funds	-	-	414,049	414,049
Expenditures for capital assets	84,818	-	(84,818)	-
Depreciation provision	(358,901)	-	358,901	-
Cost of removal, net of salvage	(8,180)	-	8,180	-
Restricted cash expended	2,917	-	(2,917)	-
Amortization of debt issuance costs	(9,088)	-	9,088	-
Repayment of long-term debt	850,863	-	(850,863)	-
Collections of note receivable	(556,762)	-	556,762	-
Recognition of unearned revenue	116,836	-	(116,836)	-
Net change in agency funds	-	591	-	591
Balance at December 31, 2012	3,859,511	30,297	2,885,482	6,775,290
Add:				
Net income from enterprise funds	-	-	678,643	678,643
Expenditures for capital assets	221,999	-	(221,999)	-
Depreciation provision	(344,293)	-	344,293	-
Restricted cash expended	17,440	-	(17,440)	-
Amortization of debt issuance costs	(17,070)	-	17,070	-
Repayment of long-term debt	937,207	-	(937,207)	-
Collections of note receivable	(604,641)	-	604,641	-
Recognition of unearned revenue	116,836	-	(116,836)	-
Expenditures for capital assets	-	3,810	-	3,810
Balance at December 31, 2013	\$ 4,186,989	\$ 34,107	\$ 3,236,647	\$ 7,457,743

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit D

**STATEMENTS OF CASH FLOWS
Years ended December 31, 2013 and 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 678,643	\$ 414,049
Adjustments to reconcile net income to net cash provided by operating activities:		
Sewer and garbage billings less amount remitted to City	3,810	591
Depreciation	344,293	358,901
Unearned revenues	(116,836)	(116,836)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables/unbilled	(117,657)	8,052
Prepayments	-	(311)
Materials and supplies	(25,850)	4,368
Unamortized debt issuance costs	17,070	9,088
Increase (Decrease) in:		
Accounts payable, advance payments and deposits	23,796	(34,819)
Compensated absences	(5,812)	(4,909)
Net cash provided by operating activities	801,457	638,174
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Change in restricted assets	9,666	4,118
Net cash provided by (expended for) non-capital financing activities	9,666	4,118
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(221,999)	(84,818)
Cost of removal, net of salvage	-	8,180
Repayment of long-term debt	(937,207)	(850,863)
Net cash used in capital and related financing activities	(1,159,206)	(927,501)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of notes receivable	604,641	556,762
Purchase of temporary investments	(1,754)	(3,076)
Net cash provided by investing activities	602,887	553,686
Net Increase in Cash and Cash Equivalents	254,804	268,477
Cash and Cash Equivalents at Beginning of Year	1,890,656	1,622,179
Cash and Cash Equivalents at End of Year	\$ 2,145,460	\$ 1,890,656

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit E

**STATEMENT OF INDEBTEDNESS
Year ended December 31, 2013**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
Revenue Bonds									
Water	4/16/2002	1.75%	<u>\$ 4,005,080</u>	<u>\$ 2,298,000</u>	<u>\$ -</u>	<u>\$ (200,000)</u>	<u>\$ 2,098,000</u>	<u>\$ 52,828</u>	<u>\$ 3,018</u>
Water	8/31/2006	8.25%	<u>\$ 1,505,000</u>	<u>\$ 717,505</u>	<u>\$ -</u>	<u>\$ (184,731)</u>	<u>\$ 532,774</u>	<u>\$ 55,461</u>	<u>\$ 10,958</u>
Gas	8/31/2006	8.50%	<u>\$ 4,450,000</u>	<u>\$ 2,725,631</u>	<u>\$ -</u>	<u>\$ (407,476)</u>	<u>\$ 2,318,155</u>	<u>\$ 223,200</u>	<u>\$ 49,126</u>
Electric	3/17/2011	1.05-3.35%	<u>\$ 1,385,000</u>	<u>\$ 1,245,000</u>	<u>\$ -</u>	<u>\$ (145,000)</u>	<u>\$ 1,100,000</u>	<u>\$ 29,484</u>	<u>\$ 2,079</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corning Municipal Utilities is a component unit of the City of Corning whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Corning is a political subdivision of the State of Iowa located in Adams County. It was first incorporated in 1854 and operates under the Home Rule provisions of the Constitution of Iowa. The Utilities' board of trustees operates the City Utilities by the authority of Chapters 384 and 388 of the Code of Iowa. Corning Municipal Utilities provides water, electric and gas services on a user charge basis to the general public and other governmental units within Adams County, Iowa.

Basis of Presentation

The accounting policies of Corning Municipal Utilities conform to accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. Management has evaluated subsequent events through April 28, 2014, the date the financial statements were available for issue.

Government-wide Financial Statements - The Balance Sheet and the Statement of Operations report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Balance Sheet presents the Utilities' nonfiduciary assets and liabilities, with the difference reported as fund equity. Fund equity is reported in three categories.

Invested in capital assets, net of related debt 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 fund equity results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted fund equity consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The Statements of Operations demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Reporting Entity

The financial statements include enterprise and agency funds of Corning Municipal Utilities (herein referred to as "the Utilities"), a component unit of the City of Corning, Iowa.

Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balances, revenues and expenditures or expenses. The various funds and their designated purposes are as follows:

Proprietary Funds

Enterprise Funds - Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges. The Enterprise Funds include electric, water and gas operations.

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the Utilities as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and other funds. Agency Funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations. The Agency Funds include sewer and garbage service monies collected and held by the Utilities as an agent for the City of Corning, Iowa, which operates these facilities.

Measurement Focus and Basis of Accounting

Proprietary Funds 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.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

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 Enterprise Funds 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.

The assets and liabilities of the Agency Funds are accounted for using the modified accrual basis of accounting.

Restricted Assets

Funds set aside for payment of Enterprise Funds 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.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Customer Accounts and Unbilled Usage

Accounts receivable are recorded in the Enterprise Funds 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.

Temporary Investments

Investments with a maturity of less than one year are considered temporary investments and are carried at cost.

Plant Materials and Operating Supplies

Plant materials and operating supplies are valued at the lower of cost or market with cost determined by the average cost method.

Capital Assets

Capital assets are reported in the applicable fund and are recorded at historical cost if purchased or constructed. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Lived Assets

The Utilities would provide for impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Revenue Recognition

The Utilities recognizes revenues related to the Enterprise Funds when earned regardless of the period in which they are billed.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2013, disbursements did not exceed the budgeted amount.

Fair Value Measurements

The Company determines the fair value of its financial assets and liabilities based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities that the Utilities has the ability to access at the measurement date.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTE 2. DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2013, were entirely covered by federal depository insurance or by the Iowa State Sinking Fund for banks and savings associations 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.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

The Utilities are 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.

The Utilities' deposits and investments at December 31, 2013, are shown below:

Change and petty cash fund	\$ 300
Checking accounts	2,609,169
Certificates of deposit	<u>477,821</u>
Total cash, cash equivalents and temporary investments	<u>\$ 3,087,290</u>

NOTE 3. CAPITAL ASSETS

The provisions for depreciation for 2013 and 2012 are \$344,293 and \$358,901, respectively. The depreciation provision was charged to expense against the following operations:

	2013	2012
Electric	\$ 146,196	\$ 153,316
Water	184,324	184,422
Gas	<u>13,773</u>	<u>21,163</u>
	<u>\$ 344,293</u>	<u>\$ 358,901</u>

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 3. CAPITAL ASSETS (Continued)

At December 31, 2013 and 2012, utility plant in service included the following major classifications:

	2013	2012
Electric Plant in Service:		
Production Plant	\$ 2,932,635	\$ 2,932,635
Transmission Plant	712,422	712,422
Distribution Plant	1,346,666	1,346,666
General Plant	224,592	220,074
Subtotal	5,216,315	5,211,797
Water Plant in Service:		
Source of Supply and Pumping Plant	5,639,517	5,639,517
Distribution Plant	1,680,149	1,586,202
General Plant	213,827	213,827
Subtotal	7,533,493	7,439,546
Gas Plant in Service:		
Transmission and Distribution Plant	694,057	683,924
General Plant	170,744	145,082
Subtotal	864,801	829,006
Total utility plant in service	\$ 13,614,609	\$ 13,480,349

The individual rates applied to the average cost of the several classifications of depreciable utility plant produced the following composite depreciation rates for the years ended December 31, 2013 and 2012:

	2013	2012
Electric	2.84 %	2.98 %
Water	2.46 %	2.48 %
Gas	1.63 %	2.56 %

NOTE 4. INTANGIBLES

During 2003, the Utilities entered into an agreement with MidAmerican Energy to purchase six customers at a cost of \$45,000.

The Utilities annually assesses its recorded balances of goodwill and indefinite lived intangible assets for impairment. As a result, the Utilities determined no impairment needed to be recorded for the years ended December 31, 2013 and 2012.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 5. BONDS PAYABLE

Annual debt service requirements to maturity for Water, Electric and Gas Revenue Bonds are as follows:

Year Ending December 31	Revenue Bonds Water Issued April 16, 2002		Revenue Bonds Electric Issued March 17, 2011		Revenue Bonds Water Issued August 31, 2006		Revenue Bonds Gas Issued August 31, 2006	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2014	\$ 206,000	\$ 34,913	\$ 145,000	\$ 28,578	\$ 200,286	\$ 39,906	\$ 442,846
2015	213,000	31,246	150,000	26,185	217,149	23,042	481,288	149,387
2016	219,000	27,466	150,000	23,185	115,339	4,758	523,067	107,608
2017	226,000	23,573	155,000	19,735	-	-	568,472	62,202
2018	232,000	19,565	160,000	15,783	-	-	302,482	12,855
2019	239,000	15,444	165,000	11,142	-	-	-	-
2020	247,000	11,191	175,000	5,862	-	-	-	-
2021	254,000	6,808	-	-	-	-	-	-
2022	262,000	2,293	-	-	-	-	-	-
	<u>\$ 2,098,000</u>	<u>\$ 172,499</u>	<u>\$ 1,100,000</u>	<u>\$ 130,470</u>	<u>\$ 532,774</u>	<u>\$ 67,706</u>	<u>\$ 2,318,155</u>	<u>\$ 519,881</u>

The Water Revenue Bonds issued on April 16, 2002, were issued for the purpose of defraying the cost of constructing a new water plant facility. The bonds are payable solely from the income and proceeds of the Water Fund in accordance with the bond agreement. The proceeds of the Water Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities; however, the debt is subject to the constitutional debt limitations of the Utilities.

The resolutions providing for the debt issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Water Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of constructing a new water treatment facility as approved in the project plan.

The Utilities is not required to establish a sinking or reserve account by the Water Revenue Bond resolution.

The Water Revenue Bond requirements state that net revenues should be at least 110% of the amount of principal and interest falling due in the same year. The Utilities is not in compliance with this requirement.

Of the funds received for the Water Revenue Bonds, all funds were advanced as of December 31, 2013.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 5. BONDS PAYABLE (Continued)

The Electric Revenue Bonds issued on May 15, 2005, were issued for the purpose of defraying the cost of constructing new generators. These bonds were called and reissued on March 17, 2011. The bonds are payable solely from the income and proceeds of the Electric Fund in accordance with the bond agreement. The proceeds of the Electric Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities; however, the debt is subject to the constitutional debt limitations of the Utilities.

The resolutions providing for the debt issuance of the electric revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Electric Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of constructing new generators as approved in the project plan.

The Utilities is required to establish a sinking or reserve account by the Electric Revenue Bond resolution and has done so in accordance with the agreement.

Of the funds received for the Electric Revenue Bonds, all funds were advanced as of December 31, 2013.

The Water Revenue Bonds issued on August 31, 2006, were issued for the purpose of defraying the cost of installing new water mains to the ethanol plant. The bonds are payable solely from the income and proceeds of the Water Fund in accordance with the bond agreement. The proceeds of the Water Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities; however, the debt is subject to the constitutional debt limitations of the Utilities.

The resolutions providing for the debt issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Water Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of installing new water mains to the industrial park as approved in the project plan.

The Utilities is required to establish a sinking or reserve account by the Water Revenue Bond resolution. The Utilities is billing the ethanol plant, which is now in operation, monthly for the principal and interest payments that will be due. During 2008, new Iowa Public Agency Investment Trust (IPAIT) accounts were set up to document this better and directly set the funds aside.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 5. BONDS PAYABLE (Continued)

Of the funds received for the Water Revenue Bonds, all funds were advanced as of December 31, 2013.

The Gas Revenue Bonds issued on August 31, 2006, were issued for the purpose of defraying the cost of installing new gas lines to the ethanol plant from the main connection point. The bonds are payable solely from the income and proceeds of the Gas Fund in accordance with the bond agreement. The proceeds of the Gas Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities; however, the debt is subject to the constitutional debt limitations of the Utilities.

The resolutions providing for the debt issuance of the gas revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Gas Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of installing new gas mains to the industrial park as approved in the project plan.

The Utilities is required to establish a sinking or reserve account by the Gas Revenue Bond resolution. The Utilities is billing the ethanol plant, which is now in operation, monthly for the principal and interest payments that will be due. During 2008, new IPAIT accounts were set up to document this better and directly set the funds aside.

Of the funds received for the Gas Revenue Bonds, all funds were advanced as of December 31, 2013.

NOTE 6. COMPENSATED ABSENCES

The Utilities' employees accumulate vacation hours for subsequent use or for payment upon retirement. Upon retirement, the Utilities pay up to 200 hours of accumulated vacation. Any vacation accumulated is allowed to be taken while in the employment of the Utilities.

As of December 31, 2013 and 2012, respectively, the liability for accrued vacation is \$17,140 and \$22,952.

NOTE 7. UNEARNED REVENUE

In conjunction with the construction of the new water treatment facility, the Utilities received \$2,336,716 from Southwestern Iowa Rural Water Association (SIRWA) related to future usage of the new water plant facility. As of December 31, 2013 and 2012, the amount unearned is \$934,686 and \$1,051,522, respectively. SIRWA does not possess any ownership rights in the water plant facility. Therefore, the payment received from them is being recognized as revenue over the period of repayment of the bonds used to purchase the new facility (20 years).

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 7. UNEARNED REVENUE (Continued)

The unearned revenue will be recognized as follows:

2014	\$	116,836
2015		116,836
2016		116,836
2017		116,836
2018		116,836
2019-2022		350,506

NOTE 8. PENSION AND RETIREMENT BENEFITS

Corning Municipal 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, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% (previously 5.38% through June 2012) of their annual covered salary and the Utilities is required to contribute 8.67% (previously 8.07% through June 2012) of annual covered salary. Certain employees in special risk occupations and the Utilities contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the three years ended December 31, 2013, 2012, and 2011, were \$33,141, \$31,563 and \$28,556, respectively, equal to the required contributions for each year.

NOTE 9. DEFERRED COMPENSATION PLAN

The Utilities offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows the Utilities' employees to defer a portion of their current salary until future years. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are, until made available to the participant or other beneficiary, solely the property and rights of the Utilities, without being restricted to the provision of benefits under the plan, subject only to the claims of the Utilities' general creditors.

The Utilities is responsible for due care in managing the investments and the participant or beneficiary assumes the risk of loss from decreases in the value of plan assets.

As of December 31, 2013, there were no participants in the deferred compensation plan.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 10. RISK MANAGEMENT

Corning Municipal 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. The Utilities assume liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11. CONCENTRATION OF CREDIT RISK

The Utilities grants credit to its customers, all of whom are located in the municipal service area.

NOTE 12. RELATED PARTY TRANSACTIONS

The Utilities had business transactions totaling \$1,186 and \$1,233 between the Utilities and a trustee during the years ended December 31, 2013 and 2012, respectively.

NOTE 13. COMMITMENTS AND CONTINGENCIES

In 2008, the Utilities entered into a purchase commitment to purchase all gas requirements from Interstate Municipal Gas Agency. This contract expires July 31, 2027.

NOTE 14. NOTE RECEIVABLE

The Utilities entered into a note receivable agreement with Poet Biorefining in 2007. The notes receivable was originally recorded for \$5,955,000. The note calls for monthly payments to be received equal to the debt service requirements of the 2006 water and gas revenue bonds disclosed in Note 5. The outstanding balance at December 31, 2013 and 2012 on this note receivable is \$2,911,014 and \$3,515,655, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)
Year ended December 31, 2013**

	GAAP Basis Financial Statements	Adjustments	Adjusted to Cash Basis	Cash Basis Budget	Variance
Receipts					
Charges for services	\$ 3,730,204	\$ (227,461)	\$ 3,502,743	\$ 3,745,000	\$ (242,257)
Use of money and property	269,693	295	269,988	8,100	261,888
Miscellaneous	24,279	-	24,279	50,100	(25,821)
	<u>4,024,176</u>	<u>(227,166)</u>	<u>3,797,010</u>	<u>3,803,200</u>	<u>(6,190)</u>
Disbursements					
Cash	3,001,240	(3,449)	2,997,791	3,565,168	567,377
Noncash	344,293	(344,293)	-	N/A	-
	<u>3,345,533</u>	<u>(347,742)</u>	<u>2,997,791</u>	<u>3,565,168</u>	<u>567,377</u>
Excess of receipts over disbursements	678,643	120,576	799,219	238,032	561,187
Add (Reduce):					
Operating activities cash flow	119,004	(119,004)	-	N/A	
Capital expenditures	(221,999)	-	(221,999)	N/A	
Note receivable collection	604,641	-	604,641	N/A	
Debt financing activities	(937,207)	-	(937,207)	N/A	
Net payment of agency funds	3,810	(1,572)	2,238	N/A	
Net funds increase (decrease)	<u>246,892</u>	<u>-</u>	<u>246,892</u>	<u>238,032</u>	
Beginning funds January 1, 2013	<u>2,840,398</u>	<u>-</u>	<u>2,840,398</u>	<u>2,791,872</u>	
Ending funds December 31, 2013	<u>\$ 3,087,290</u>	<u>\$ -</u>	<u>\$ 3,087,290</u>	<u>\$ 3,029,904</u>	

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING
Year ended December 31, 2013**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and 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, there were no budget amendments.

SUPPLEMENTARY INFORMATION

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 1

**BALANCE SHEET BY DEPARTMENT
December 31, 2013**

ASSETS						
	Electric	Water	Gas	Sewer	Garbage	Total
ELECTRIC PLANT IN SERVICE	\$ 5,216,315					\$ 5,216,315
Less accumulated depreciation	<u>2,622,905</u>					<u>2,622,905</u>
	2,593,410					2,593,410
WATER PLANT IN SERVICE		\$ 7,533,493				7,533,493
Less accumulated depreciation		<u>2,267,919</u>				<u>2,267,919</u>
		5,265,574				5,265,574
Water plant under construction		<u>87,739</u>				<u>87,739</u>
		5,353,313				5,353,313
GAS PLANT IN SERVICE			\$ 864,801			864,801
Less accumulated depreciation			<u>716,666</u>			<u>716,666</u>
			148,135			148,135
RESTRICTED ASSETS						
Cash-security deposits	47,670	405	470			48,545
Sinking fund requirements	<u>110,000</u>	<u>143,978</u>	<u>161,486</u>			<u>415,464</u>
	157,670	144,383	161,956			464,009
OTHER NONCURRENT ASSETS						
Note receivable, less current portion	-	343,447	1,924,435			2,267,882
Unamortized debt issuance costs	21,269	40,647	30,673			92,589
Intangibles	<u>45,000</u>	<u>-</u>	<u>-</u>			<u>45,000</u>
	66,269	384,094	1,955,108			2,405,471
CURRENT ASSETS						
Cash and cash equivalents	1,131,896	363,275	599,732	\$ 31,307	\$ 19,250	2,145,460
Temporary investments	397,999	-	79,822	-	-	477,821
Customers accounts receivable	80,830	28,222	57,741	31,850	13,420	212,063
Unbilled revenues	151,082	44,815	139,050	-	-	334,947
Interfund receivable (payable)	1,015,790	(918,454)	(97,336)	-	-	-
Other accounts receivable	36	18,211	6,690	-	-	24,937
Notes receivable	-	200,286	442,846	-	-	643,132
Plant materials and operating supplies	62,901	56,920	28,280	-	-	148,101
Prepaid insurance	<u>13,529</u>	<u>7,268</u>	<u>4,592</u>	<u>-</u>	<u>-</u>	<u>25,389</u>
	2,854,063	(199,457)	1,261,417	63,157	32,670	4,011,850
TOTAL ASSETS	<u>\$ 5,671,412</u>	<u>\$ 5,682,333</u>	<u>\$ 3,526,616</u>	<u>\$ 63,157</u>	<u>\$ 32,670</u>	<u>\$ 14,976,188</u>

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 1

**BALANCE SHEET BY DEPARTMENT
December 31, 2013**

LIABILITIES AND FUND EQUITY

	<u>Electric</u>	<u>Water</u>	<u>Gas</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
FUND EQUITY						
Invested in capital assets, net of related debt	\$ 1,559,679	\$ 2,399,376	\$ 227,934	\$ -	\$ -	\$ 4,186,989
Fund balance-agency funds (restricted)	-	-	-	17,321	16,786	34,107
Unrestricted	2,862,052	(435,619)	810,214	-	-	3,236,647
	<u>4,421,731</u>	<u>1,963,757</u>	<u>1,038,148</u>	<u>17,321</u>	<u>16,786</u>	<u>7,457,743</u>
LONG-TERM LIABILITIES						
Compensated absences	8,920	3,935	4,285			17,140
Unearned revenue	-	934,686	-			934,686
Long-term debt	955,000	2,224,488	1,875,309			5,054,797
	<u>963,920</u>	<u>3,163,109</u>	<u>1,879,594</u>			<u>6,006,623</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS						
Customer deposits	<u>47,670</u>	<u>405</u>	<u>470</u>			<u>48,545</u>
CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS						
Accounts payable	93,091	31,940	165,558	45,836	15,884	352,309
Advanced payments	-	116,836	-	-	-	116,836
Current portion of long-term debt	145,000	406,286	442,846	-	-	994,132
	<u>238,091</u>	<u>555,062</u>	<u>608,404</u>	<u>45,836</u>	<u>15,884</u>	<u>1,463,277</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 5,671,412</u>	<u>\$ 5,682,333</u>	<u>\$ 3,526,616</u>	<u>\$ 63,157</u>	<u>\$ 32,670</u>	<u>\$ 14,976,188</u>

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 2

**SCHEDULE OF INCOME AND FUND EQUITY BY DEPARTMENT
Year ended December 31, 2013**

	Electric	Water	Gas	Total (Memorandum Only)
OPERATING REVENUES				
Residential sales	\$ 812,645	\$ 474,702	\$ 404,099	\$ 1,691,446
Commercial sales	486,145	306,665	239,952	1,032,762
Public authority sales	660,927	48,293	168,279	877,499
SIRWA revenue	-	116,836	-	116,836
Other miscellaneous	7,203	2,995	1,463	11,661
	<u>1,966,920</u>	<u>949,491</u>	<u>813,793</u>	<u>3,730,204</u>
OPERATING EXPENSES				
Purchased energy	972,880	-	534,365	1,507,245
Operations and maintenance	74,902	354,539	22,842	452,283
Depreciation	146,196	184,324	13,773	344,293
Customer records and collections	3,450	-	8,550	12,000
Total customer accounts expense	<u>1,197,428</u>	<u>538,863</u>	<u>579,530</u>	<u>2,315,821</u>
Administrative and general salaries	213,272	201,182	154,310	568,764
Office supplies and expense	6,937	7,122	6,966	21,025
Outside services employed	8,185	12,778	14,050	35,013
General insurance	28,897	14,682	14,682	58,261
General administration	22,660	15,950	23,122	61,732
Total administrative and general expense	<u>279,951</u>	<u>251,714</u>	<u>213,130</u>	<u>744,795</u>
Use tax	598	-	560	1,158
Total general taxes	<u>598</u>	<u>-</u>	<u>560</u>	<u>1,158</u>
Total operating expenses	<u>1,477,977</u>	<u>790,577</u>	<u>793,220</u>	<u>3,061,774</u>
OPERATING INCOME	<u>488,943</u>	<u>158,914</u>	<u>20,573</u>	<u>668,430</u>
OTHER INCOME (EXPENSE)				
Income from merchandising and custom work, net	21,881	2,073	325	24,279
Interest income	2,377	52,039	215,277	269,693
Other	20,416	17,763	23,677	61,856
	<u>44,674</u>	<u>71,875</u>	<u>239,279</u>	<u>355,828</u>
INCOME BEFORE FIXED CHARGES	533,617	230,789	259,852	1,024,258
FIXED CHARGES				
Interest	29,210	101,840	214,565	345,615
NET INCOME	504,407	128,949	45,287	678,643
FUND EQUITY, JANUARY 1, 2013	<u>3,917,324</u>	<u>1,834,808</u>	<u>992,861</u>	<u>6,744,993</u>
FUND EQUITY, DECEMBER 31, 2013	<u>\$ 4,421,731</u>	<u>\$ 1,963,757</u>	<u>\$ 1,038,148</u>	<u>\$ 7,423,636</u>

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 3

**SCHEDULE OF AGENCY FUND NET ASSETS
December 31, 2013**

	Agency Funds 12/31/2012	Billed	Collected	Paid	Agency Funds 12/31/2013
<u>ASSETS</u>					
Non-pooled cash:					
Sewer rental	\$ 29,951	\$ -	\$ 59,875	\$ (58,519)	\$ 31,307
Garbage collection	18,368	-	20,903	(20,021)	19,250
Total cash	48,319	-	80,778	(78,540)	50,557
Receivables:					
Sewer rental	26,256	466,497	(460,903)	-	31,850
Garbage collection	11,687	184,656	(182,923)	-	13,420
Total receivables	37,943	651,153	(643,826)	-	45,270
Payables:					
Sewer rental	(40,236)	(483,049)	-	477,449	(45,836)
Garbage collection	(15,729)	(182,196)	-	182,041	(15,884)
Total payables	(55,965)	(665,245)	-	659,490	(61,720)
Net assets held in agency funds	\$ 30,297	\$ (14,092)	\$ (563,048)	\$ 580,950	\$ 34,107

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 4

**SCHEDULE OF ELECTRIC PLANT
Year ended December 31, 2013**

	Balance December 31, 2012	Additions	Retirements	Balance December 31, 2013
	<u>2012</u>	<u> </u>	<u> </u>	<u>2013</u>
Production Plant:				
Land	\$ 66,520	\$ -	\$ -	\$ 66,520
Structures and improvements	272,637	-	-	272,637
Fuel holders, producers and accessories	18,467	-	-	18,467
Generators	2,274,387	-	-	2,274,387
Accessory electric equipment	300,624	-	-	300,624
	<u>2,932,635</u>	<u> </u>	<u> </u>	<u>2,932,635</u>
Transmission Plant:				
Station equipment	388,603	-	-	388,603
Poles and fixtures	315,755	-	-	315,755
Overhead conductors and devices	8,064	-	-	8,064
	<u>712,422</u>	<u> </u>	<u> </u>	<u>712,422</u>
Distribution Plant:				
Poles, towers and fixtures	140,219	-	-	140,219
Overhead conductors and devices	344,193	-	-	344,193
Underground conduit	72,871	-	-	72,871
Underground conductors and devices	183,097	-	-	183,097
Line transformers	220,263	-	-	220,263
Services	184,655	-	-	184,655
Meters	153,225	-	-	153,225
Street lighting and signal system	48,143	-	-	48,143
	<u>1,346,666</u>	<u> </u>	<u> </u>	<u>1,346,666</u>
General Plant:				
Office furniture and equipment	27,113	-	-	27,113
Transportation equipment	143,868	-	-	143,868
Tools, shop and garage equipment	24,672	4,518	-	29,190
Laboratory equipment	724	-	-	724
Power operated equipment	17,668	-	-	17,668
Communication equipment	6,029	-	-	6,029
	<u>220,074</u>	<u>4,518</u>	<u> </u>	<u>224,592</u>
	<u>\$ 5,211,797</u>	<u>\$ 4,518</u>	<u>\$ -</u>	<u>\$ 5,216,315</u>

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 5

**SCHEDULE OF WATER PLANT
Year ended December 31, 2013**

	Balance December 31, 2012	<u>Additions</u>	<u>Retirements</u>	Balance December 31, 2013
Source of Supply and Pumping Plant:				
Land and land rights	\$ 142,538	\$ -	\$ -	\$ 142,538
Structures and improvements	3,986,949	-	-	3,986,949
Collection and impounding reservoir	76,493	-	-	76,493
Lakes, rivers and other intakes	100,108	-	-	100,108
Supply mains	303,128	-	-	303,128
Electronic pumping equipment	354,606	-	-	354,606
Pumping and treatment equipment	675,695	-	-	675,695
	<u>5,639,517</u>	<u>-</u>	<u>-</u>	<u>5,639,517</u>
Distribution Plant:				
Distribution system and standpipes	616,557	93,947	-	710,504
Transmission and distribution mains	778,240	-	-	778,240
Meters and customer premise equipment	152,157	-	-	152,157
Hydrants	39,248	-	-	39,248
	<u>1,586,202</u>	<u>93,947</u>	<u>-</u>	<u>1,680,149</u>
General Plant:				
Furniture and office equipment	58,368	-	-	58,368
Transportation equipment	41,519	-	-	41,519
Work equipment	6,690	-	-	6,690
Laboratory equipment	23,907	-	-	23,907
Power operated equipment	78,805	-	-	78,805
Communication equipment	4,538	-	-	4,538
	<u>213,827</u>	<u>-</u>	<u>-</u>	<u>213,827</u>
	<u>\$ 7,439,546</u>	<u>\$ 93,947</u>	<u>\$ -</u>	<u>\$ 7,533,493</u>

See Accompanying Independent Auditor's Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 6

**SCHEDULE OF GAS PLANT
Year ended December 31, 2013**

	<u>Balance December 31, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2013</u>
Transmission and Distribution Plant:				
Transmission mains	\$ 119,876	\$ -	\$ -	\$ 119,876
Structures and improvements	45,378	-	-	45,378
Distribution mains	319,152	-	-	319,152
Measure and regulating station equipment	40,524	-	-	40,524
Meters	<u>158,994</u>	<u>10,133</u>	<u>-</u>	<u>169,127</u>
	<u>683,924</u>	<u>10,133</u>	<u>-</u>	<u>694,057</u>
General Plant:				
Work equipment	92,809	-	-	92,809
Furniture and office equipment	38,425	-	-	38,425
Transportation equipment	<u>13,848</u>	<u>25,662</u>	<u>-</u>	<u>39,510</u>
	<u>145,082</u>	<u>25,662</u>	<u>-</u>	<u>170,744</u>
	<u>\$ 829,006</u>	<u>\$ 35,795</u>	<u>\$ -</u>	<u>\$ 864,801</u>

See Accompanying Independent Auditor's Report



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Corning Municipal Utilities
Corning, Iowa

We have audited the financial statements of Corning Municipal Utilities as of and for the year ended December 31, 2013, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated April 28, 2014. 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.

Internal Control Over Financial Reporting

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

Our consideration of the 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 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 that a material misstatement of Corning Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-A-13 and II-B-13 to be material weaknesses.

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 deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-C-13 and II-D-13 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Corning 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, 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 December 31, 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.

Corning Municipal Utilities Response to Findings

The Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit the entity's responses, and accordingly, we express no opinion on them.

Purpose of this Report

This report, a public record by law, is intended solely for the information and use of the officials and employees and customers of Corning Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities, and it is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Corning 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.

Kiesling Associates LLP

West Des Moines, Iowa
April 28, 2014

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2013**

Part I: Summary of Independent Auditor's Results:

- (a) An unmodified opinion was issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2013**

Part II: Findings Related to the Financial Statements:

MATERIAL WEAKNESSES:

- II-A-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. This situation is not unusual for utilities your size.
- Potential Effects - Due to the lack of segregation of duties, there is a potential for an employee to perpetrate and conceal a theft of assets from the Company.
- Recommendation - In this situation, compensating controls may be available through strong trustee control over financial transactions and continuous monitoring of the Utilities' operations. We realize that with a limited number of office employees, segregation of duties is difficult. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances.
- Response - The Utilities believes this approach provides a cost effective solution in light of their limited resources.
- Conclusion - Response acknowledged.
- II-B-13 Antifraud Program - The Utilities has obtained an awareness of the implication of fraud in their business, but has yet to develop a formal antifraud program with stated control processes. This situation is not unusual for utilities your size.
- Potential Effects - Lack of a formal anti-fraud program and stated controls processes could result in management and employees being unaware of what is considered fraud. This lack of awareness and understanding can lead to fraud being committed and going unreported or unnoticed.
- Recommendation - In this situation, compensating controls may be available through strong trustee control over financial transactions and continuous monitoring of the Utilities' operations. The development of an antifraud program may not be a cost effective solution in light of your limited resources.
- Response - The Utilities believes this approach provides a cost effective solution in light of their limited resources.
- Conclusion - Response acknowledged.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2013**

SIGNIFICANT DEFICIENCIES:

II-C-13 Accounting Assistance - The Utilities has a limited number of personnel, as a result, it has utilized accounting assistance from another party to draft financial statements and assist with preparation of certain normal annual closing entries. While the Utilities reviews and approves the results of these activities, they recognize these activities meet the definition of a significant deficiency as defined above. This situation is not unusual for utilities your size.

Potential Effects - Lack of knowledge and experience in preparing financial statements and normal closing entries could result in incomplete disclosures and/or incorrect presentation of information which could have an adverse impact to investors relying on the financial statements.

Recommendation - In this situation, compensating controls may be available through strong trustee control over financial transactions and continuous monitoring of the Utilities' operations. This approach may be the best cost effective solution in light of your limited resources.

Response - The Utilities believes this approach provides a cost effective solution in light of their limited resources.

Conclusion - Response acknowledged.

II-D-13 Review Financial Results - Management and the board of trustees periodically review financial results of the Utilities.

Potential Effects - Due to the lack of a formal review process, the true financial position of the Utilities may not be evident to management and the board of trustees. This could result in missed opportunities or preventative actions regarding the ongoing operations of the Utilities.

Recommendation - Governance of this process would be enhanced through a management discussion and analysis of key changes in elements of the financial statements from prior periods and budget. Also, periodic educational sessions with the board on key financial and regulatory topics would enhance the board's ability to govern the Utilities.

Response - We will consider this.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2013**

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-13 Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2013.
- III-B-13 Certified Budget - Disbursements during the year ended December 31, 2013, were within the amounts budgeted in the Home and Community Environment Program. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."
- III-C-13 Questionable Disbursements - No expenditures that we believe may not meet the requirements of public purpose as defined in Attorney General's opinion dated April 29, 1979, were noted.
- III-D-13 Travel Expense - No expenditures of the Utilities' money for travel expenses of spouses of the Utilities' officials and/or employees were noted.
- III-E-13 Basis of Accounting - Corning Municipal Utilities uses a uniform accounting system and follows the accrual basis of accounting.
- III-F-13 Fixed Asset Record - A detailed record of fixed assets is currently being maintained.
- III-G-13 Bond Coverage - Surety bond coverage of the 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-H-13 Trustee Minutes - No transactions were found that we believe should have been approved in the minutes but were not. The minutes' records were examined and appeared to give a condensed, accurate account of business transacted by the Trustees and were published in accordance with the requirements of the Code of Iowa.
- III-I-13 Deposits and Investments - 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 were noted.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2013**

III-J-13 Business Transactions - The business transactions, which came to our attention during the course of our audit between the Utilities and the Utilities' officials and/or employees, are detailed as follows:

<u>Name, Title, and Business & Connection</u>	<u>Description</u>	<u>Total Transactions</u>
Scott Akin (Trustee), Owner, Akin Ltd.	Materials and supplies	\$ <u>1,186</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Scott Akin (Trustee) do not appear to represent conflicts of interest since his store is the only store in town that carries certain supplies and total transactions were less than \$1,500 during the fiscal year.

III-K-13 Revenue Notes - The only instance of non-compliance noted concerns the water revenue note. The bond requirements state that net revenues should be at least 110% of the amount of principal and interest falling due in the same year. The Utilities is not in compliance with this requirement.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

STAFF

This audit was performed by:

Paul M. Koster, CPA, Partner
Robert I. Umsted, CPA, Senior Manager
Anthony J. Rouse, Accountant