



Cedar Falls Utilities

**Financial Statements of the Municipal
Electric, Gas, Water, and Communications Utilities
of the City of Cedar Falls, Iowa**

Including Independent Auditors' Reports

**For The Years Ended
December 31, 2013 and 2012**



Cedar Falls Utilities

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

Including Independent Auditors' Reports

**For The Years Ended
December 31, 2013 and 2012**

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Municipal Electric Utility of the City of Cedar Falls, Iowa (Municipal Electric Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 over financial reporting relevant to the Municipal Electric Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Electric Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Electric Utility as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Municipal Electric Utility component unit and do not purport to, and do not, present fairly the financial position of the City of Cedar Falls, Iowa, as of December 31, 2013 and 2012 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in the Note 1, the Municipal Electric Utility adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated March 28, 2014 on our consideration of the Municipal Electric Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including those systems applicable to Municipal Electric Utility. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Electric Utility's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2013, 2012 and 2011
Unaudited

The following discussion and analysis of the Municipal Electric Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2013, 2012 and 2011. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

In 2013, weather returned to a more normal trend after the unusually warm winter and drought of 2012. Due to this and a stronger wholesale market, the Utility experienced a \$5.7 million or 11.6% increase in operating revenues. Operating expenses increased \$4.0 million or 9.4% due to increased purchased power costs also as a result of higher wholesale market prices. The Electric Utility did not increase rates in 2013.

The Utility's net position continues to grow due to strong operating income and non-operating revenues. The Utility continues recovery from the declared disasters of the June 2008 500-year flood event and the July 2009 wind storm and non-operating revenues reflect the grant funds received by the Utility as reimbursement for these recovery costs.

Overview of the Financial Statements

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

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

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

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

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

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Condensed Financial Information & Analysis

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

Condensed Statement of Net Position

	2013	2012	2011
Capital assets, net	\$142,466,988	\$133,559,906	\$121,845,880
Other noncurrent assets	13,804,392	3,858,308	4,724,510
Current assets	63,796,622	63,561,116	62,334,184
Deferred outflow of resources	295,968	325,565	354,982
Total assets and deferred outflow of resources	\$220,363,970	\$201,304,895	\$189,259,556
Long-term debt	\$ 46,224,434	\$ 48,361,300	\$ 52,052,835
Current liabilities	11,777,201	11,236,690	10,186,271
Noncurrent liabilities	15,911,603	5,426,494	2,966,494
Total liabilities	\$ 73,913,238	\$ 65,024,484	\$ 65,205,600
Net investment in capital assets	\$ 93,557,553	\$ 87,762,796	\$ 76,146,098
Restricted	6,623,104	6,803,487	6,690,882
Unrestricted	46,270,075	41,714,128	41,216,976
Total net position	\$146,450,732	\$136,280,411	\$124,053,956

2013 Compared to 2012

- ❖ Total Assets and Deferred Outflows of Resources increased \$19.1 million or 9.5% primarily due to:
 - Net capital assets increasing \$8.9 million or 6.7% due to wind storm recovery capital projects, overhead to underground distribution system conversion projects, the construction of the new flood wall, and other environmental and upgrade projects. Net capital assets represent 64.7% of total assets for the Utility in 2013.
 - Increase in other noncurrent assets of \$9.9 million or 257.8% due to:
 - Increase in tax increment financing (TIF) receivable of \$10.4 million or 382.6% mainly due to additional future TIF revenues as a result of the City of Cedar Falls adopting resolutions demonstrating TIF debt owed to the Electric Utility for certified expenditures.
 - Decrease in unamortized debt expense of \$224,000 or 100.0% due to the write off of all debt issuance costs per GASB 65.
 - Decrease in note receivable of \$185,000 or 33.4%.
 - Increase in current assets of \$236,000 or 0.4% primarily due to:
 - Increase in customer accounts receivable of \$2.6 million or 68.0% due to an increase in cost recoverable through fuel adjustment due to an increase in December fuel costs not passed through to customers and due to an energy cost adjustment for a contract customer which will be recoverable from other retail customers.
 - Increase in cash and investments of \$1.8 million or 4.2%.

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- Decrease in government grant receivable of \$3.7 million or 52.5% due to the reimbursement for grant projects.
 - Decrease in fuel inventory of oil, coal and allowances of \$385,000 or 6.4%.
 - Decrease in materials and supplies inventory of \$182,000 or 8.6%.
 - Decrease in deferred outflows of resources of \$30,000 or 9.1% due to the annual amortization of the loss on reacquired debt.
- ❖ Total Liabilities increased \$8.9 million or 13.7% primarily due to:
- Decrease of \$2.1 million or 4.4% in long-term debt less current installments.
 - Reduction in total long-term debt is due to principal payments of \$2,590,000 in 2013 plus amortization of debt discounts and premiums.
 - Increase in current liabilities of \$541,000 or 4.8% as a result of an increase in accounts payable due to an energy cost adjustment for a contract customer which will be recoverable from other retail customers and an increase in current installments of long term debt.
 - Increase in noncurrent liabilities of \$10.5 million or 205.4% mainly due to the \$10.4 million increase of the Tax Increment Financing (TIF) liability for future TIF revenues as a result of the City of Cedar Falls adopting resolutions demonstrating TIF debt owed to the Electric Utility for certified expenditures.

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

2012 Compared to 2011

- ❖ Total Assets and Deferred Outflows of Resources increased \$12.0 million or 6.4% primarily due to:
- Increase in net capital assets of \$11.7 million or 9.6% due to wind storm recovery capital projects, overhead to underground distribution system conversion projects, the construction of the new flood wall, and other environmental and upgrade projects. Net capital assets represent 66.3% of total assets for the Utility in 2012.
 - Decrease in other noncurrent assets of \$866,000 or 18.3% due to the reclassification of \$3.3 million in noncurrent investments of 2010 bond debt proceeds to current investments and the addition of \$2.7 million of tax increment financing (TIF) receivable for future TIF revenues as a result of the City of Cedar Falls adopting resolutions demonstrating TIF debt owed to the Electric Utility for certified expenditures.
 - Increase in current assets of \$1.2 million or 2.0% due to:
 - Increase in cash and investments of \$948,000 or 2.3%.
 - Increase in customer accounts receivable, less allowance for doubtful accounts of \$434,000 or 12.9%.
 - Decrease in fuel inventory of oil, coal and allowances of \$466,000 or 7.1 %.
 - Increase in materials and supplies of \$422,000 or 24.8%
 - Decrease in deferred outflows of resources of \$29,000 or 8.3% due to the annual amortization of the loss on reacquired debt.
- ❖ Total Liabilities decreased \$181,000 or 0.3% primarily due to:
- Decrease of \$3.7 million or 7.1% in long-term debt less current installments.
 - Reduction in total long-term debt is due to principal payments of \$3,300,000 in 2012, plus amortization of debt discounts and premiums and due to the refunding on June 11, 2012 of the remaining \$1,430,000 outstanding balance of the 2003 revenue bonds.

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- Increase in current liabilities of \$1.0 million or 10.3% as a result of an increase in accounts payable and an increase in current installments of long term debt.
- Increase in noncurrent liabilities of \$2.5 million or 82.9% mainly due to the recording of a Tax Increment Financing (TIF) liability for future TIF revenues as a result of the City of Cedar Falls adopting resolutions demonstrating TIF debt owed to the Electric Utility for certified expenditures.

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

Condensed Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Sales of electricity	\$ 52,473,648	\$ 47,097,125	\$ 49,799,768
Other	2,646,820	2,274,564	2,116,877
Total operating revenues	<u>55,120,468</u>	<u>49,371,689</u>	<u>51,916,645</u>
Fuel and purchased power	23,790,442	20,146,886	22,033,624
Other, Transmission and Distribution	10,225,877	9,832,051	9,220,238
Depreciation and amortization	3,530,577	4,225,356	3,957,361
Services and administrative	9,386,352	8,691,070	8,961,598
Total operating expenses	<u>46,933,248</u>	<u>42,895,363</u>	<u>44,172,821</u>
Operating Income	<u>8,187,220</u>	<u>6,476,326</u>	<u>7,743,824</u>
Interest income	122,424	208,467	276,495
Other, net	1,860,677	5,541,662	5,843,848
Total non-operating revenues (expenses)	<u>1,983,101</u>	<u>5,750,129</u>	<u>6,120,343</u>
Change in net position	10,170,321	12,226,455	13,864,167
Net position, beginning of year	<u>136,280,411</u>	<u>124,053,956</u>	<u>110,189,789</u>
Net position, end of year	<u>\$146,450,732</u>	<u>\$136,280,411</u>	<u>\$124,053,956</u>

2013 Compared to 2012

- ❖ Total Operating Revenues increased \$5.7 million or 11.6% due to:
 - Increase in electric sales revenues of \$5.4 million or 11.4% due to higher energy prices from an increase \$3.6 million or 18.1% in the energy costs adjustment (ECA) which are passed through to revenue and an increase in retail kWh usage of 7,153,849 or 1.5%.
 - Increase in wholesale revenues of \$1.7 million or 15.5% due to increased market prices despite a decrease of 34,784,865 kWh in wholesale sales.
 - Increase in other operating revenues of \$372,000 or 16.4% as a result of an increase of \$383,000 in transmission revenues.

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- ❖ Total Operating Expenses increased \$4.0 million or 9.4% due to:
 - Increase in fuel and purchased power costs of \$3.6 million or 18.1%.
 - Fuel costs increased \$370,000 or 6.2% due to Streeter Station operating more and higher fuel costs at the Western Units costs.
 - Increase of \$3.3 million or 23.1% in purchased power costs due to higher MISO market costs. The Electric Utility purchases all its power needs from MISO, except when conditions in the wholesale market are favorable to generating power at Streeter Station.
 - Increase of \$394,000 or 4.0% in other, transmission and distribution due to an increase in transmission costs partially offset by a decrease in other production and generation costs.
 - Decrease of \$695,000 or 16.4% in depreciation and amortization expense due to the full depreciation of software assets.
 - Increase in services and administrative expenses of \$695,000 or 8.0% due to:
 - Increase in administrative and general expenses of \$749,000 or 11.9% due to:
 - Increase in outside services of \$228,000 or 40.2% mostly due to an increase in legal fees related to arbitration costs of the bag house litigation.
 - Increase in employee insurance and benefits of \$345,000 or 17.7% due to an increase in medical claims and about a 51% increase in stop-loss premiums in the new medical plan year.

- ❖ Interest Income decreased \$86,000 or 41.3% due to full expenditure of the invested 2010 debt proceeds.

- ❖ Other, net decreased \$ 3.7 million or 65.5% primarily due to:
 - Decrease in miscellaneous net revenues of \$937,000 or 31.7% caused by a reduction in miscellaneous non-operating income and tax increment financing (TIF) revenues.
 - Decrease in intergovernmental grant funds revenue (FEMA reimbursements) of \$2.3 million or 50.5% due to the completion of repairs to damaged capital assets caused during the 2008 flood and the 2009 wind storm events.
 - Increase in interest expense on long term debt of \$630,000 or 28.8% due to the write off of \$728,000 in debt issuance costs per GASB 65.
 - Increase in the allowance for funds used during construction (AFUDC) of \$111,000 or 31.7%.

2012 Compared to 2011

- ❖ Total Operating Revenues decreased \$2.5 million or 4.9% due to:
 - Decrease in electric sales revenues of \$2.7 million or 5.4% due to lower energy prices from a decrease of \$1.9 million or 8.6% in the energy cost adjustment (ECA) which are passed through to revenues and a decrease in kWh usage of 778,000 kWh or 0.2% and a decrease in wholesale sales of \$1.1 million or 9.2%. These decreases in sales and energy prices were offset by a 4% Utility rate increase.
 - Increase in other operating revenues of \$158,000 or 7.4% primarily as a result of an increase in transmission revenues of \$349,000 or 27.5% partially offset by a decrease in intergovernmental grant funds revenue of \$137,000 or 72.2%.

- ❖ Total Operating Expenses decreased \$1.3 million or 2.9% due to:

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- Decrease in fuel and purchased power costs of \$1.9 million or 8.6% primarily related to lower MISO market costs. The Electric Utility purchases all its power needs from MISO, except when conditions in the wholesale market are favorable to generating power at Streeter Station.
 - Increase in other, transmission and distribution of \$612,000 or 6.6% in operation and maintenance due to increases in other production and generation costs, transmission costs and distribution costs due to the Utility's overhead to underground conversion projects.
 - Increase in depreciation and amortization expense of \$268,000 or 6.8% due to the completion of capital asset projects placed into service in 2011.
 - Decrease in services and administrative expenses of \$271,000 or 3.0% due to:
 - Decrease in customer accounts of \$37,000 or 5.7%.
 - Decrease in customer service and information expenses of \$76,000 or 8.7% due to lower energy efficiency incentives.
 - Decrease in administrative and general expenses of \$184,000 or 2.8% due to employee insurance and benefits and property insurance and liability expenses.
 - Increase in sales expense of \$27,000 or 99.9%.
- ❖ Interest Income decreased \$68,000 or 24.6% due to expenditure of the invested 2010 debt proceeds.
- ❖ Other, net decreased \$ 302,000 or 5.2% primarily due to:
- Net decrease in miscellaneous revenues of \$638,000 or 17.7% caused by a reduction in contributions in aid of construction and miscellaneous non-operating income partially offset by an increase in tax increment financing (TIF) revenues.
 - Increase in intergovernmental grant funds revenue (FEMA reimbursements) of \$117,000 or 2.7% due to repairs to capital assets caused by the 2008 flood and the 2009 wind storm events.
 - Increase in the allowance for funds used during construction (AFUDC) of \$188,000 or 116.0%.

Condensed Statement of Cash Flows

	2013	2012	2011
Cash Flows from Operating Activities	\$10,385,413	\$11,242,551	\$15,504,775
Cash Flows from Noncapital Financing Activities	(602)	(4,527)	(3,643)
Cash Flows from Capital and Related Financing Activities	(8,880,970)	(13,916,648)	(16,251,871)
Cash Flows from Investing Activities	5,354,539	4,027,401	(4,129,173)
Net Change in Cash and Cash Equivalents	6,858,380	1,348,777	(4,879,912)
Cash and Cash Equivalents-Beginning of Year	<u>28,556,485</u>	<u>27,207,708</u>	<u>32,087,620</u>
Cash and Cash Equivalents-End of Year	<u>\$35,414,865</u>	<u>\$28,556,485</u>	<u>\$27,207,708</u>

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2013 Compared to 2012

- ❖ Cash flows from operations decreased by \$857,000 or 7.6% primarily due to:
 - Decrease in cash paid to suppliers of \$6.1 million or 18.7%.
 - Increase in retail sales and wholesale sales revenues of \$5.0 million or 10.2%.

- ❖ Cash flows from Capital and related financing activities increased by \$5.0 million or 36.2% and include:
 - Decrease in bond principal and interest payments of \$4.6 million in 2013 and \$5.4 million in 2012.
 - Decrease in capital expenditures of \$3.6 million and totaling \$12.1 million in 2013 and \$15.7 million in 2012.
 - Decrease in reimbursement of utility construction costs of \$1.1 million and totaling \$1.8 million in 2013 and \$2.9 million in 2012.
 - Increase in receipts from Intergovernmental grants of \$1.6 million and totaling \$6.0 million in 2013 and \$4.4 million in 2012.

- ❖ Cash flows from investing activities increased \$1.3 million or 33.0% due to the lower reinvestment (purchase) of investment securities.

2012 Compared to 2011

- ❖ Cash flows from operations decreased by \$4.3 million or 27.5% due to:
 - Decrease in retail sales and whole sales revenues of \$3.8 million or 7.2%.
 - Increase in payment in lieu of taxes to the City of Cedar Falls of \$700,000 or 88.0%.

- ❖ Cash flows from Capital and related financing activities increased by \$2.3 million or 14.4% and include:
 - Increase in bond principal and interest payments of \$1.2 million and totaling \$5.4 million in 2012 and \$4.3 million in 2011.
 - Increase in capital expenditures of \$1.0 million and totaling \$15.7 million in 2012 and \$14.7 million in 2011.
 - Increase in intergovernmental grants of \$4.3 million in 2012.

- ❖ Cash flows from investing activities increased by \$8.2 million due to the higher reinvestment (purchase) of investment securities.

FINANCIAL STATEMENTS

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

Statements of Net Position
December 31, 2013 and 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 213,548,933	\$ 193,118,239
Less accumulated depreciation	78,136,608	78,980,669
Capital assets, net	<u>135,412,325</u>	<u>114,137,570</u>
Construction work in progress	7,054,663	19,422,336
Total capital assets, net	<u>142,466,988</u>	<u>133,559,906</u>
Noncurrent assets:		
Note receivable (note 9)	368,090	553,090
Loans receivable	164,660	244,602
Other (note 9)	13,162,185	2,727,151
Unamortized debt expense	-	224,008
Prepayments and other	109,457	109,457
Total noncurrent assets	<u>13,804,392</u>	<u>3,858,308</u>
Current assets:		
Cash and cash equivalents (note 3)	33,320,510	25,140,464
Cash - restricted (note 2 and 3)	2,094,355	3,416,021
Investments - unrestricted (note 3)	3,690,000	4,863,620
Investments - restricted (note 2 and 3)	5,580,000	9,463,000
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$38,767 in 2013 and \$45,044 in 2012	6,407,004	3,812,630
Loans receivable	57,665	68,211
Interest (note 9)	16,547	50,292
Current installment of note receivable (note 9)	185,000	185,000
Government grants (note 12 and 13)	3,366,622	7,088,038
Trade	1,211,757	1,083,213
Inventories:		
Fuel	5,662,584	6,047,260
Material and supplies	1,936,235	2,118,704
Prepayments and other	268,343	224,663
Total current assets	<u>63,796,622</u>	<u>63,561,116</u>
Total assets	<u>220,068,002</u>	<u>200,979,330</u>
Deferred Outflows of Resources:		
Unamortized loss on reacquired debt	295,968	325,565
Total deferred outflows of resources	<u>295,968</u>	<u>325,565</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 220,363,970</u>	<u>\$ 201,304,895</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Net Position

December 31, 2013 and 2012

<u>Liabilities</u>	<u>2013</u>	<u>2012</u>
Long-term debt, less current installments (note 5)	\$ 46,224,434	\$ 48,361,300
Current liabilities:		
Accounts payable	6,336,179	5,973,191
Reserve for surplus declaration (note 9)	1,500,000	1,430,000
Accrued wages and vacations	795,393	776,865
Accrued interest	183,883	189,710
Other accrued expenses	276,746	276,924
Current installments of long-term debt (note 5)	2,685,000	2,590,000
Total current liabilities	<u>11,777,201</u>	<u>11,236,690</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	224,244	289,044
Other liabilities (note 5, 9 and 11)	15,687,359	5,137,450
Total noncurrent liabilities	<u>15,911,603</u>	<u>5,426,494</u>
 Total liabilities	 <u>73,913,238</u>	 <u>65,024,484</u>
<u>Net Position</u>		
Net investment in capital assets	93,557,553	87,762,796
Restricted	6,623,104	6,803,487
Unrestricted	46,270,075	41,714,128
Total net position	<u>146,450,732</u>	<u>136,280,411</u>
Total liabilities and net position	<u>\$ 220,363,970</u>	<u>\$ 201,304,895</u>

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MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2013, and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Sales of electricity:		
Residential	\$ 16,356,928	\$ 14,866,934
Large industrial & commercial	2,903,550	2,646,048
Small industrial & commercial	16,341,025	14,734,335
Governmental (note 9)	4,011,879	3,677,025
Sales for resale	12,634,159	10,938,459
Interdepartmental	226,107	234,324
Total sales of electricity	<u>52,473,648</u>	<u>47,097,125</u>
Other operating revenues (note 12 and 13)	2,646,820	2,274,564
Total operating revenues	<u>55,120,468</u>	<u>49,371,689</u>
Operating expenses:		
Production and generation:		
Fuel	6,356,327	5,986,499
Purchased power	17,434,115	14,160,387
Other	4,637,971	4,885,739
Transmission	2,685,517	2,048,824
Distribution	2,902,389	2,897,488
Depreciation and amortization	3,530,577	4,225,356
Customer accounts	619,182	606,219
Customer service and information expenses	753,503	800,525
Sales	56,657	53,975
Administrative and general (note 9)	7,068,168	6,318,887
Taxes other than income taxes	888,842	911,464
Total operating expenses	<u>46,933,248</u>	<u>42,895,363</u>
Operating income	<u>8,187,220</u>	<u>6,476,326</u>
Non-operating revenues (expenses):		
Interest income (note 9)	122,424	208,467
Net increase (decrease) in the fair value of investments	(43,250)	(100,741)
Miscellaneous revenue (expense), net (note 9)	2,022,872	2,959,964
Intergovernmental grant funds (note 12 and 13)	2,242,043	4,528,905
Interest expense on long-term debt	(2,818,786)	(2,189,221)
AFUDC (note 1)	460,522	349,691
Interest income (expense) on security deposits	(2,724)	(6,936)
Total nonoperating revenues (expenses)	<u>1,983,101</u>	<u>5,750,129</u>
Change in net position	<u>10,170,321</u>	<u>12,226,455</u>
Net position, beginning of year	<u>136,280,411</u>	<u>124,053,956</u>
Net position, end of year	<u>\$ 146,450,732</u>	<u>\$ 136,280,411</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 54,212,678	\$ 49,193,067
Intergovernmental grants	97,073	40,178
Cash paid to suppliers	(38,443,197)	(32,377,649)
Cash paid to employees	(3,578,708)	(3,715,385)
Payment in lieu of taxes to the City of Cedar Falls	(1,430,000)	(1,410,000)
Property tax paid	(472,433)	(487,660)
	10,385,413	11,242,551
Cash flows from noncapital financing activities:		
Interest paid on customer deposits	(602)	(4,527)
	(602)	(4,527)
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(2,590,000)	(3,300,000)
Interest paid	(2,024,996)	(2,120,706)
Proceeds from customer advances for construction	48,800	161,500
Refunds of customer advances for construction	(113,600)	(347,997)
Acquisition, construction and removal cost of capital assets	(12,147,481)	(15,718,814)
Proceeds from sale of capital assets	170,344	129,123
Reimbursement of utility construction costs	1,812,504	2,906,966
Intergovernmental grants	5,963,459	4,373,280
	(8,880,970)	(13,916,648)
Cash flows from investing activities:		
Proceeds from repayment of loan by associated utility	185,000	185,000
Proceeds from maturities of investment securities	14,783,370	14,695,430
Purchase of investment securities	(9,770,000)	(11,093,370)
Interest received	156,169	240,341
	5,354,539	4,027,401
Net increase (decrease) in cash and cash equivalents	6,858,380	1,348,777
Cash and cash equivalents, beginning of year	28,556,485	27,207,708
Cash and cash equivalents, end of year (note 1)	\$ 35,414,865	\$ 28,556,485

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

Statements of Cash Flows, Continued
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 8,187,220	\$ 6,476,326
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of capital assets	3,530,577	4,225,356
Other Income (expense), net	210,368	52,998
(Increase) decrease in accounts receivable	(2,722,918)	(435,431)
(Increase) decrease in loans receivable	90,488	105,782
(Increase) decrease in inventories	567,145	43,858
(Increase) decrease in prepayments and other	(43,680)	(43,593)
Increase (decrease) in accounts payable	362,988	596,703
Increase (decrease) in reserve for surplus declaration	70,000	20,000
Increase (decrease) in accrued wages and vacation	18,528	14,527
Increase (decrease) in other accrued expenses	(178)	1,890
Increase (decrease) in other liabilities	114,875	184,135
Net cash provided by operating activities	<u>\$ 10,385,413</u>	<u>\$ 11,242,551</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	460,522	349,691
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 33,320,510	\$ 25,140,464
Cash - restricted	<u>2,094,355</u>	<u>3,416,021</u>
Cash and cash equivalents	<u>\$ 35,414,865</u>	<u>\$ 28,556,485</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(1) **Summary of Significant Accounting Policies**

Organization and Basis of Accounting

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

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

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

Accounting Changes

In December 2010, Governmental Accounting Standards Board (GASB) issued Statement No. 62, ***"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"*** (Statement 62). GASB No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 included in: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that do not conflict with or contradict GASB pronouncements. This statement also supersedes SGAS No. 20 ***"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting"*** which eliminates the election for business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict or contradict GASB pronouncements. This statement is effective for the Utility for 2012. The Utility has assessed the financial statement impact of adopting this statement and its impact is not material.

In June 2011, the GASB issued Statement No. 63, ***"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"***. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. This statement is effective for the Utility for 2012. The Utility has assessed the financial statement impact of adopting this statement and its impact is not material.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

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

Accounting Changes, Continued

The GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities”* (“GASB 65”) was issued in March 2012 effective for periods beginning after December 15, 2012. The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Additionally, GASB 65 requires that debt issuance costs should be recognized as expense in the period incurred. The adoption of GASB 65 resulted in reclassification of items that were previously reported as assets and liabilities and the write-off of amounts previously reported as unamortized debt costs. Total net position decreased by \$775,708 which represents the expensing of prior years’ unamortized debt issuance costs.

The GASB has approved GASB Statement No. 66, *“Technical Corrections – 2012”* which is an amendment of GASB Statements No.10 and No. 62; Statement no. 67, *“Financial Reporting for Pension Plans”* which is an amendment of GASB Statement No. 25; and Statement No. 68, *“Accounting and Financial Reporting for Pensions”* which is an amendment of GASB Statement No. 27. Application of these standards may restate portions of these financial statements.

Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 3.29% in 2013 and 3.21% 2012. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: land improvements 45 years; infrastructure 25 to 55 years; buildings and improvements 20 to 70 years; and equipment 10 to 60 years. The depreciation provisions were equivalent to an overall composite rate of 1.9% and 2.4% of depreciable assets for 2013 and 2012, respectively.

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

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

Cash and Investments

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

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Cash and Investments, Continued

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December 31, 2013 and 2012 were \$2,750,000 and \$2,750,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories

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

Bond Premiums and Discounts

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

Net Position

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

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

Operating Revenues and Expenses

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

Revenues from the sale of electricity are based on billing rates, which are applied to customers' consumption of electricity. The Utility records estimated unbilled revenue, including amounts to be billed under a fuel adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2013 and 2012, were \$1,953,798, and \$1,850,632 respectively, and are recorded in customer accounts receivable. The Utility uses a fuel adjustment clause whereby increases or decreases in fuel costs and purchase power costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

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

Estimates

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

Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2013 and 2012, there were no budget amendments.

Grants

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

Employee Benefits

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

The Electric Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay only applies to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date are not entitled to the benefit. As of December 31, 2013 and 2012 the accrued liability was \$768,366 and \$738,286, respectively.

Customer Advances

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

Reclassifications

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

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(2) Restricted Assets

The composition of restricted assets as of December 31, 2013 and 2012 was as follows:

Current Assets – Restricted	Cash	2013 Investments	Total
Bond Reserve	\$ 589,061	\$ 4,080,000	\$ 4,669,061
Bond and Interest	384,501	-	384,501
Streeter Landfill	682,500	-	682,500
Self-Insured Medical and Dental	438,293	500,000	938,293
Improvement and Extension	-	1,000,000	1,000,000
Total Current Assets – Restricted	2,094,355	5,580,000	7,674,355
 Total restricted assets	 \$ 2,094,355	 \$ 5,580,000	 \$ 7,674,355

Current Assets – Restricted	Cash	2012 Investments	Total
Bond Reserve	\$ 362	\$ 4,729,750	\$ 4,730,112
Bond and Interest	384,532	-	384,532
Streeter Landfill	629,000	-	629,000
Self-Insured Medical and Dental	481,186	500,000	981,186
Construction	1,920,941	3,233,250	5,154,191
Improvement and Extension	-	1,000,000	1,000,000
Total Current Assets – Restricted	3,416,021	9,463,000	12,879,021
 Total restricted assets	 \$ 3,416,021	 \$ 9,463,000	 \$ 12,879,021

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

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2013 and 2012 was \$345.

Deposits

At December 31, 2013, the Utility's carrying amount of deposits, including \$9,270,000 of certificates of deposits and \$16,637,509 of money market accounts, was \$41,934,520. At December 31, 2012, the Utility's carrying amount of deposits, including \$11,583,370 of certificates of deposits and \$16,625,089 of money market accounts, was \$37,389,510.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

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

Investments

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

As of December 31, 2013, the Utility had no Federal Agency Obligations investments and maturities.

As of December 31, 2012 the Utility had \$2,743,250 in Federal Agency Obligation investments which matured on various dates between January 9, 2013 and October 15, 2013. These investments had a Standard & Poor’s credit rating of AA+ and a Moody’s Investor Services credit rating of Aaa. (The Utility assumes callable bonds will not be called):

2012 Investment Type	Investment Maturities (in years)		Total
	Less than 1	1 to 3	
Federal Agency Obligations	\$2,743,250	\$-	\$2,743,250

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,750,000 and \$2,750,000 at December 31, 2013 and 2012, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

The Utility’s investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2013 or 2012. The Utility’s investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of Credit Risk

The Utility’s investment policy does not allow for a prime bankers’ acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2013 or 2012.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

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

Custodial Credit Risk – Deposits

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

Custodial Credit Risk – Investments

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

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

	2013	2012
Cash on hand	\$ 345	\$ 345
Carrying amount of deposits	41,934,520	37,389,510
Carrying amount of federal agency obligations	-	2,743,250
Carrying amount of Iowa Agency Investment Trust	2,750,000	2,750,000
Total	<u>\$ 44,684,865</u>	<u>\$ 42,883,105</u>
Current Assets		
Cash and cash equivalents	\$ 33,320,510	\$ 25,140,464
Investments	3,690,000	4,863,620
Restricted cash	2,094,355	3,416,021
Restricted investments	5,580,000	9,463,000
Total	<u>\$ 44,684,865</u>	<u>\$ 42,883,105</u>

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

	2013	2012
Unrestricted Cash and Investments		
Board Designated		
Generation	\$ 4,887,158	\$ 4,872,093
Western Units Landfill	398,594	322,003
Security Deposits	245,487	239,164
Operating	31,479,271	24,570,824
Total Cash and Investments Unrestricted	<u>\$ 37,010,510</u>	<u>\$ 30,004,084</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2013 and 2012 follows:

2013	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,326,855	\$ 46,722	\$ -	\$ 1,373,577
Construction, work-in-progress	19,422,336	12,820,316	25,187,989	7,054,663
Total capital assets, not being depreciated	20,749,191	12,867,038	25,187,989	8,428,240
Capital assets, being depreciated:				
Infrastructure	145,179,355	16,702,657	1,152,479	160,729,533
Buildings and improvements	25,749,878	5,668,500	44,587	31,373,791
Equipment	20,862,151	2,770,110	3,560,229	20,072,032
Total capital assets, being depreciated	191,791,384	25,141,267	4,757,295	212,175,356
Less accumulated depreciation	78,980,669	4,273,594	5,117,655	78,136,608
Total capital assets, being depreciated, net	112,810,715	20,867,673	(360,360)	134,038,748
Capital assets, net	<u>\$ 133,559,906</u>	<u>\$ 33,734,711</u>	<u>\$ 24,827,629</u>	<u>\$ 142,466,988</u>
2012	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,326,855	\$ -	\$ -	\$ 1,326,855
Construction, work-in-progress	9,787,180	16,439,850	6,804,694	19,422,336
Total capital assets, not being depreciated	11,114,035	16,439,850	6,804,694	20,749,191
Capital assets, being depreciated:				
Infrastructure	140,750,269	4,918,137	489,051	145,179,355
Buildings and improvements	25,367,797	501,742	119,661	25,749,878
Equipment	21,031,550	1,384,816	1,554,215	20,862,151
Total capital assets, being depreciated	187,149,616	6,804,695	2,162,927	191,791,384
Less accumulated depreciation	76,417,771	4,884,610	2,321,712	78,980,669
Total capital assets, being depreciated, net	110,731,845	1,920,085	(158,785)	112,810,715
Capital assets, net	<u>\$ 121,845,880</u>	<u>\$ 18,359,935</u>	<u>\$ 6,645,909</u>	<u>\$ 133,559,906</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2013 and 2012 was as follows:

2013	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds:					
Series 2005	\$ 20,550,000	\$ -	\$ 1,370,000	\$ 19,180,000	\$ 1,420,000
Series 2007	14,875,000	-	765,000	14,110,000	805,000
Capital Loan Notes:					
Series 2010A	9,195,000	-	405,000	8,790,000	410,000
Series 2010B	6,770,000	-	50,000	6,720,000	50,000
Unamortized premium	360,512	-	18,793	341,719	-
Unamortized discount	(799,212)	-	(566,927)	(232,285)	-
	50,951,300	-	2,041,866	48,909,434	2,685,000
Current installments of long-term debt	(2,590,000)	(95,000)	-	(2,685,000)	
Long-term debt, less current installments	48,361,300	(95,000)	2,041,866	46,224,434	
Customer advances for construction	289,044	48,800	113,600	224,244	
Other liabilities:					
Landfill closure	950,487	152,385	21,778	1,081,094	
Other	2,727,151	12,079,072	1,644,038	13,162,185	
Accrued severance and OPEB	1,459,812	341,492	357,224	1,444,080	
Noncurrent liabilities	5,426,494	12,621,749	2,136,640	15,911,603	
Total noncurrent liabilities	\$ 53,787,794	\$ 12,526,749	\$ 4,178,506	\$ 62,136,037	

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(5) Noncurrent Liabilities, Continued

2012	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds:					
Series 2003	\$ 1,430,000	\$ -	\$ 1,430,000	\$ -	\$ -
Series 2005	21,240,000	-	690,000	20,550,000	1,370,000
Series 2007	15,610,000	-	735,000	14,875,000	765,000
Capital Loan Notes:					
Series 2010A	9,590,000	-	395,000	9,195,000	405,000
Series 2010B	6,820,000	-	50,000	6,770,000	50,000
Unamortized premium	374,586	-	14,074	360,512	-
Unamortized discount	(846,751)	-	(47,539)	(799,212)	-
	<u>54,217,835</u>	-	<u>3,266,535</u>	<u>50,951,300</u>	<u>2,590,000</u>
Current installments of long-term debt	(2,165,000)	(425,000)	-	(2,590,000)	
Long-term debt, less current installments	<u>52,052,835</u>	<u>(425,000)</u>	<u>3,266,535</u>	<u>48,361,300</u>	
Customer advances for construction	475,541	161,500	347,997	289,044	
Other liabilities:					
Landfill closure	922,046	38,700	10,259	950,487	
Other	264,789	9,551,733	7,089,371	2,727,151	
Accrued severance and OPEB	<u>1,304,118</u>	<u>363,644</u>	<u>207,950</u>	<u>1,459,812</u>	
Noncurrent liabilities	<u>2,966,494</u>	<u>10,115,577</u>	<u>7,655,577</u>	<u>5,426,494</u>	
Total noncurrent liabilities	<u>\$ 55,019,329</u>	<u>\$ 9,690,577</u>	<u>\$10,922,112</u>	<u>\$ 53,787,794</u>	

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

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

During 2007, the Utility issued \$17,825,000 of Series 2007 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility and environmental upgrades of generation

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(5) Noncurrent Liabilities, Continued

facilities owned or co-owned by the Utility. The bonds mature in 2026 and interest rates throughout the term of the bonds range between 4.000% and 4.375%. Interest rates over the remaining term of the bonds also range between 4.000% and 4.375%.

During 2005, the Utility issued \$24,975,000 of Series 2005 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility, including the construction of generation and related transmission facilities to serve the Utility. The bonds mature in 2024 and interest rates throughout the term of the bonds are in a range between 2.70% and 4.25%. Interest rates over the remaining term of the bonds range between 4.00% and 4.25%.

During 2003, the Utility issued \$10,000,000 of Series 2003 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility, including the construction of generation and related transmission facilities to serve the Utility. On June 10, 2012, the remaining \$1,430,000 of Series 2003 revenue bonds were paid off.

The Series 2005 and 2007 revenue bonds and 2010A and 2010B revenue capital loan notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 2.50% and 4.75%. The bonds and capital loan notes are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

Year	Series 2005 Electric Revenue Bonds		Series 2007 Electric Revenue Bonds	
	December 1	4.00% - 4.25%	December 1	4.00% - 4.375%
	Principal Amount	Interest Amount	Principal Amount	Interest Amount
2014	\$ 1,420,000	\$ 786,975	\$ 805,000	\$ 592,369
2015	1,480,000	730,175	840,000	560,168
2016	1,535,000	670,975	885,000	526,569
2017	1,600,000	609,575	925,000	491,169
2018	1,665,000	545,575	970,000	454,169
2019 – 2023	9,395,000	1,657,144	5,575,000	1,627,844
2024 – 2026	2,085,000	88,613	4,110,000	365,750
	<u>\$ 19,180,000</u>	<u>\$ 5,089,032</u>	<u>\$ 14,110,000</u>	<u>\$ 4,618,038</u>

Year	Series 2010A Electric Revenue Capital Loan Notes		Series 2010B Electric Revenue Refunding Capital Loan Notes	
	December 1	3.00% - 4.75%	December 1	2.50% - 3.80%
	Principal Amount	Interest Amount	Principal Amount	Interest Amount
2014	\$ 410,000	\$ 343,687	\$ 50,000	\$ 205,980
2015	420,000	331,388	650,000	204,730
2016	430,000	318,787	670,000	188,480
2017	435,000	305,888	685,000	171,730
2018	445,000	292,837	710,000	154,605
2019 – 2023	2,405,000	1,232,763	3,955,000	431,480
2024 – 2028	2,910,000	714,088	-	-
2029 – 2030	1,335,000	95,712	-	-
	<u>\$ 8,790,000</u>	<u>\$ 3,635,150</u>	<u>\$ 6,720,000</u>	<u>\$ 1,357,005</u>

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(5) Noncurrent Liabilities, Continued

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

All Utility revenues net of specified operating expenses are pledged as security of the above bonds until the bonds are defeased. Principal and interest paid for 2013 and 2012 were \$4,614,996 and \$5,420,706, respectively. Total sales of electricity gross revenues as defined for the same periods were \$52,473,648 and \$47,097,125. Annual principal and interest payments are expected to require 7.12% of gross revenues on average.

Iowa Administrative Code requires the Utility to place a final cover on its ash landfill site for its Streeter Station Generating Facility when it is closed and thereupon to have in place surveying monuments and an approved groundwater monitoring system. Iowa Administrative Code also requires the Utility to maintain the final cover, monitor ground water, and file reports with the Iowa Department of Natural Resources for ten years following closure of the site. Although closure and post closure costs are paid only near or after the date that the landfill is closed, the Utility reports a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. Landfill closure and post closure care costs at December 31, 2013 are estimated to be \$682,500. This represents the cumulative estimated amount to date, based on the use of 100% of the estimated capacity of the landfill, to perform all closure and post closure care in 2014. Currently, the Utility has \$682,500 in restricted funds to cover the cost of the closure (see note 2). The Utility expects to close the landfill by August 11, 2020. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. In 2008 the Utility created a Landfill Closure liability for its ownership share of Walter Scott Energy Center - Unit 3, and George Neal Generating Station – Unit 4 generating units. The Walter Scott Energy Center – Unit 3 dry ash landfill is expected to be closed December 1, 2020 and its wet ash landfill is expected to be closed December 1, 2044. The Neal – Unit 4 land fill is expected to be closed December 1, 2021. A liability has been established and funds designated to pay the closing costs in the amount of \$398,594 (see note 3).

(6) Pension and Retirement Benefits

The Utility 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 IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 5.78% of their annual covered salary and the Utility is required to contribute 8.67% of annual covered payroll through June 30, 2013. Beginning July 1, 2013 plan members are required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2013, 2012, and 2011 were \$611,560; \$579,454; and \$512,851; respectively, equal to the required contributions for each year.

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(6) Pension and Retirement Benefits, Continued

In accordance with the Code of Iowa, Chapter 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits.

(7) Income Tax Status

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

(8) Jointly-Owned Capital Assets

The Utility's share of jointly owned electric facilities at December 31, 2013 and 2012 is reflected in the following table. These facilities provide approximately 33% of the Utility's total generating capacity. The Utility is required to provide financing for its share of the facilities. The Utility's share of expenses associated with these facilities is included with the appropriate operating expenses in the statements of revenues, expenses and changes in net assets.

Facility	Percentage Ownership	Capacity MW	Capital Assets, Net	
			2013	2012
Walter Scott Energy Center Unit 3	3.10%	21.0	\$ 12,331,465	\$ 12,362,033
Walter Scott Energy Center Unit 4	2.14%	16.9	28,605,628	28,692,386
George Neal Generating Station Unit 4	2.50%	15.0	10,084,521	2,414,202
Iowa Distributed Wind Generation Project	65.80%	1.5	249,908	299,890

(9) Related Party Transactions

The Utility provides electric service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$1,026,261 and \$893,172 in 2013 and 2012, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2013 and 2012 to reimburse the Electric Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$13,162,185 and \$2,727,151 as of December 31, 2013 and 2012, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting other liability at December 31, 2013 and 2012 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$1,644,038 and \$2,773,348 in 2013 and 2012, respectively and is recorded as miscellaneous non-operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2013 and 2012 were \$1,500,000 and \$1,430,000, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2013, the Utility's Board of Trustees approved a payment of \$1,500,000 related to payments in lieu of taxes for 2013.

The Electric Utility has extended a loan to the Municipal Communications Utility of the City of Cedar Falls, Iowa (Communications Utility), with an outstanding balance of \$553,090 and \$738,090 as of December 31, 2013 and 2012, respectively. Interest accrues on the loan at 2.0% and is paid semi-annually during December and June. Annual principal payments continue through 2016. Accrued

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(9) Related Party Transactions, Continued

interest receivable was \$919 and \$8,968 at December 31, 2013 and 2012, respectively. Interest income for the years ended December 31, 2013 and 2012 was \$14,427 and \$18,148 respectively. In January 2013 the Board of Trustees of the Municipal Electric Utility adopted resolution No.5259 approving the continuation of the annual interest rate of 2.0%.

(10) Risk Management

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2013 plan year for aggregate medical claims exceeding \$2.6 million.

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

	2013	2012
Unpaid claims and IBNR, beginning of year	\$ 194,000	\$ 351,000
Current year costs including IBNR	3,328,303	2,912,606
Claims paid	(3,197,303)	(3,069,606)
Unpaid claims and IBNR, end of year	\$ 325,000	\$ 194,000

The Electric Utility has recorded \$208,000 and \$124,160 in accounts payable for its share of these unpaid claims at December 31, 2013 and 2012, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 505 governmental entities participate in the Association as of June 30, 2013. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

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(10) Risk Management, Continued

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2013 and 2012:

	2013	2012
Cash and cash equivalents and investments	\$ 69,938,392	\$ 62,785,294
Receivables	1,045,398	1,593,981
Other assets	853,067	691,581
Total assets	<u>\$ 71,836,857</u>	<u>\$ 65,070,856</u>
Total liabilities	\$ 27,709,153	\$ 25,755,687
Total equity	44,127,704	39,315,169
Total liabilities and equity	<u>\$ 71,836,857</u>	<u>\$ 65,070,856</u>
Total revenue	\$ 9,069,064	\$ 11,433,229
Total expenses	4,256,529	3,824,547
Distribution to members	-	-
Net increase in equity	<u>\$ 4,812,535</u>	<u>\$ 7,608,682</u>

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

(11) Other Post-Employment Benefits (OPEB)

Plan Description

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

Funding Policy

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2013 and 2012, the Utilities contributed \$333,282 and \$180,589, respectively and retirees receiving benefits contributed \$121,230 and \$115,319, respectively, through their required contributions.

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

Annual OPEB and Net OPEB Obligations

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

	2013	2012
Annual required contribution	\$ 73,136	\$ 73,136
Interest on net OPEB obligation	53,435	53,435
Adjustment to annual required contribution	(41,179)	(41,179)
Annual OPEB expense	85,392	85,392
Contributions and payments made	212,052	65,270
Increase (Decrease) in net OPEB obligation	\$ (126,660)	\$ 20,122
Net OPEB obligation, December 31, 2012	1,088,804	1,068,682
Net OPEB obligation, December 31, 2013	\$ 962,144	\$ 1,088,804

The Electric Utility's share of the December 31, 2013 and 2012 Net OPEB obligation is \$675,714 and \$721,526, respectively.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the years ended December 31, 2013, 2012 and 2011:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 85,392	248.33%	\$ 962,144
December 31, 2012	\$ 85,392	76.44%	\$ 1,088,804
December 31, 2011	\$ 302,004	23.76%	\$ 1,068,682

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$908,961. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$13,400,936 in 2013 and the ratio using the January 1, 2012 actuarial valuation UAAL to the covered payroll was 6.8%.

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

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

Funded Status and Funding Progress, Continued

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

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2012
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	9.5% declining 0.5% annually to 5%
Projected Salary Increases	4.0%

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

(12) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, building furnishings and equipment, meters, switches, relays, tools and rendered the Streeter Station power plant units 6 and 7 and coal handling systems inoperable and in need of major repair. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2009, damaged Utility administrative facilities were operational. Damaged generation units and power plant office facilities were operational in early 2010. In 2013 and 2012, the Electric Utility spent \$237,470 and \$2,848,958, respectively, for flood recovery. In 2013 and 2012, the Utility has recognized \$214,289 and \$2,344,307, respectively, in revenues for FEMA flood recovery reimbursement. As of December 31, 2013 and 2012, the Utility recognized a receivable of \$1,007,076 and \$1,293,736, respectively, for FEMA flood disaster reimbursement.

(13) Wind Storm Event

On July 10, 2009, the City of Cedar Falls experienced a storm with extreme winds of approximately 106 MPH. The extreme winds uprooted and sheared trees, blew over poles and lines, and slammed trees

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(13) Wind Storm Event, Continued

and branches into Electric Utility distribution facilities doing millions of dollars worth of damage. The Utility began immediate clean up and also began working with the Federal Emergency Management Agency (FEMA) for reconstruction and repair of severely damaged Utility distribution assets. As of December 31, 2009, the damaged assets had been temporarily repaired. The damaged assets are being permanently repaired, restored, or replaced with completion expected in 2014. In 2013 and 2012, the Electric Utility spent \$1,338,908 and \$2,679,047, respectively, for wind storm disaster recovery. As of December 31, 2013 and 2012, the Utility has recognized in \$198,455 and \$1,715,804, respectively, in revenues for FEMA windstorm recovery reimbursement. As of December 31, 2013 and 2012, the Utility recognized a receivable of \$1,239,802 and \$5,255,812, respectively, for FEMA wind storm disaster reimbursement.

(14) Commitments and Contingencies

The Utility has joint ownership interest in Walter Scott Energy Center Units 3 and 4, and the George Neal Generating Station Unit 4 (see note 8). Coal procurements are made by the agent for the joint owners on a system portfolio basis, which are a mix of 1, 2, and 3-year purchases to minimize risk. The Utility is obligated to purchase at least the annual amount of coal to operate the Utility's share at minimum load. The Utility's share of coal purchases for the years 2013 and 2012 were \$5,074,274 and \$5,065,957, respectively.

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

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

Since the baghouse has not performed as designed and therefore has not achieved substantial completion, the Utility has withheld progress payments to Miron. Miron disputed this position and initiated arbitration to collect the remaining progress payment and retainage totaling \$470,873. The parties executed an agreement to toll statutes of limitations and allow remediation studies by Miron. Remediation efforts were not successful and the arbitration hearings were held in January, April and August of 2013. The arbitration panel ruled in favor of CFU and entered an award against Miron and CNA in the amount of \$3,306,317. The following is a breakdown of the award:

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(14) Commitments and Contingencies, Continued

Liquidated Damages	\$ 274,053
Ash Conveying System Automation	33,440
Cost to Correct Baghouse	3,419,697
Less Prime Contract Balance	<u>(420,873)</u>
Total	<u>\$3,306,317</u>

The arbitrator's decision was published on November 8, 2013. CFU attorneys filed a motion to confirm the award in Black Hawk County District Court. Miron and CNA have had the case remanded to a Federal court in Cedar Rapids, Iowa, and have asked to have the arbitration ruling vacated. The Federal court was expected to issue a summary judgment sometime during the first quarter of 2014.

As of December 31, 2013, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$14,086,000 and an estimated time frame to complete through 2015.

(15) Subsequent Events

Subsequent events for the Utility have been evaluated through March 31, 2014, which is the date that the financial statements were available to be issued.

Effective January 1, 2014, the Board of Trustees approved a 0.5% electric rate increase and a general electric rate restructuring. The kWh usage charges were reduced and equal amounts added to the customer charge. The average net impact of these changes for customers is rate neutral and revenue neutral for the Utility.

In January 2014 the Board of Trustees adopted resolution No.5419 approving the continuation of the annual interest rate on the notes between the Communications Utility and the Electric Utility at 2.0% as reflective of the investment and borrowing markets.

On February 26, 2014, the Federal court judge in Cedar Rapids, Iowa to which the bag house case was remanded confirmed the arbitration award, found no reasons to vacate it and awarded CFU a judgment against Miron and CNA in the amount of approximately \$3,306,000. Attorneys have begun the process of execution on this judgment. Miron and CNA may appeal, but this will not be known until the time period for appeal lapses which will be the end of March 2014. There is also an insurance coverage dispute involving Dustex pending in the Federal District Court in Cedar Rapids, and it is possible that Miron and CNA will appeal the confirmation of the award in order to delay payment until the insurance dispute is resolved. The confirmation of the award against Dustex is still pending and is also to be decided by the Federal court in Cedar Rapids, Iowa. The award against Dustex is in the amount of \$110,000 plus fees. CFU expects the confirmation of the award against Dustex in the near future. As part of the above confirmation processes, CFU has made application for attorney's fees incurred since the arbitration award and necessitated by Miron, Dustex and CNA's refusal to honor the award and which required CFU to go through this confirmation process in Federal court. CFU expects

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(15) Subsequent Events, Continued

to be awarded these fees by the Federal District Court. On March 27, 2014 the Electric Utility was notified that Miron and CNA filed an appeal of the Federal court judge's February 26, 2014 decision with the Court of Appeals for the Eighth Circuit.

**Municipal Electric, Gas, Water and Communications Utilities
Of the City of Cedar Falls, Iowa
Required Supplemental Information
December 31, 2013, 2012 and 2011**

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

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

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*

Independent Auditors' Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Electric Utility of the City of Cedar Falls, Iowa (Municipal Electric Utility) as of and for the year ended December 31, 2013, and have issued our report thereon dated March 28, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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 and responses, we identified a deficiency in internal control that we consider to be a material weakness. This material weakness is item 2013-001

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness.

To the Board of Trustees
Cedar Falls Utilities – Municipal electric Utility

COMPLIANCE AND OTHER MATTERS

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

MUNICIPAL ELECTRIC UTILITY'S RESPONSE TO FINDINGS

The Municipal Electric Utility's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Municipal Electric Utility's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 28, 2014

**THE MUNICIPAL ELECTRIC UTILITY
OF THE CITY OF CEDAR FALLS, IOWA**

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013

Findings and Responses

There were no questioned costs noted as part of the audit.

The audit identified the following material weakness:

Finding 2013-001: Internal Control Over Financial Reporting

Criteria: According to Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, sufficient internal controls should be in place that provide for the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles.

Condition: The Municipal Electric Utility's financial records contained a material misstatement.

Cause: The Municipal Electric Utility's controls over the review of journal entries did not identify and correct all misstatements in the financial records.

Effect: There is a greater risk that the Municipal Electric Utility's financial records contain material misstatements.

Recommendation: We recommend that management continue to carefully review journal entries that could have a material effect on the financial statements.

Management Response: Management is aware of the incorrect journal entry completed annually and made improvements to the journal entry review process and the account reconciliation work paper process immediately upon the error being found.



Cedar Falls Utilities

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

Including Independent Auditors' Reports

**For The Years Ended
December 31, 2013 and 2012**

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Cedar Falls Utilities – Municipal Gas Utility

Report on the Financial Statements

We have audited the accompanying financial statements of Municipal Gas Utility of the City of Cedar Falls, Iowa (Municipal Gas Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 over financial reporting relevant to the Municipal Gas Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Gas Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Trustees
Cedar Falls Utilities – Municipal Gas Utility

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Gas Utility as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Municipal Gas Utility component unit and do not purport to, and do not, present fairly the financial position of The City of Cedar Falls, Iowa, as of December 31, 2013 and 2012 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in the Note 1, the Municipal Gas Utility adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated March 28, 2014 on our consideration of the Municipal Gas Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including those systems applicable to Municipal Gas Utility. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Gas Utility's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2013, 2012 and 2011
Unaudited

The following discussion and analysis of the Municipal Gas Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2013, 2012 and 2011. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

In 2013, weather returned to a more normal trend after the unusually warm winter and drought of 2012. In 2013, usage increased 358,076 MCF or 22.0% and the Utility experienced a \$3.5 million or 33.6% increase in operating revenues. Operating expenses increased \$2.8 million or 27.7% primarily due to increased natural gas purchases and higher gas costs. Net operating income increased \$708,000 or 187.6% in 2013. There were no rate adjustments in 2013.

The Utility's net position continues to grow due to strong operating and non-operating revenues. The Utility has recovered from the declared disaster of the June 2008 500-year flood event and non-operating revenues reflect grant funds received by the Utility as reimbursement for these recovery costs.

Overview of the Financial Statements

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

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

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

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

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

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2013, 2012 and 2011
Unaudited

Condensed Financial Information & Analysis

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

Condensed Statement of Net Position

	2013	2012	2011
Capital assets, net	\$14,160,355	\$12,432,463	\$11,873,675
Other noncurrent assets	2,251,718	3,034,043	148,130
Current assets	11,393,078	10,484,305	11,838,630
Total assets	\$27,805,151	\$25,950,811	\$23,860,435
Current liabilities	2,268,526	1,716,412	1,646,369
Noncurrent liabilities	782,824	969,529	430,643
Total liabilities	\$ 3,051,350	\$ 2,685,941	\$ 2,077,012
Net investment in capital assets	\$14,160,355	\$12,432,463	\$11,873,675
Restricted	88,829	137,986	96,808
Unrestricted	10,504,617	10,694,421	9,812,940
Total net position	\$24,753,801	\$23,264,870	\$21,783,423

2013 Compared to 2012

- ❖ Total Assets increased \$1.9 million or 7.1% primarily due to:
 - Net capital assets increasing \$1.7 million or 13.9% due to gas main extensions, gas meter purchases, new town border station, and the construction of the new flood wall. Net capital assets represent 50.9% of total assets for the Utility in 2013.
 - Decrease in other noncurrent assets of \$782,000 or 25.8% due to:
 - Decrease of \$148,000 or 27.6% in tax increment financing (TIF) receivable as a result of the payment by the City of Cedar Falls for TIF debt owed to the Gas Utility for certified expenditures.
 - Decrease of \$600,000 in noncurrent investments in associated companies due to the current installment for the 2012 loan of \$3.0 million to the Communications Utility.
 - Increase in current assets of \$909,000 or 8.7% primarily due to:
 - Decrease in cash and cash equivalents of \$419,000 or 5.4% mostly due to the investment in capital assets which includes the new town border station.
 - Increase of \$1.3 million or 63.6% in receivables mainly due to an increase in customer accounts receivable due to the increase in gas usage and costs in 2013.

- ❖ Total Liabilities increased \$365,000 or 13.6% primarily due to:
 - Increase in current liabilities of \$552,000 or 32.2% as a result of an increase in accounts payable, mainly due to increased gas usage and costs.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2013, 2012 and 2011
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- Decrease in noncurrent liabilities of \$187,000 or 19.3% primarily due to a decrease of \$148,000 or 27.6% in tax increment financing (TIF) liability as a result of the payment by the City of Cedar Falls for TIF debt owed to the Gas Utility for certified expenditures.

Additional detail on the change in capital assets Note 4. The utility has no long-term debt in 2013 or 2012.

2012 Compared to 2011

- ❖ Total Assets increased \$2.1 million or 8.8% primarily due to:
 - Net capital assets increasing \$559,000 or 4.7% due to gas main extensions and gas meter purchases and the construction of the new flood wall. Net capital assets represent 47.9% of total assets for the Utility in 2012.
 - Increase in other noncurrent assets of \$2.9 million or 1948.2% due to:
 - Increase of \$536,000 due to the addition of tax increment financing (TIF) receivable for possible future TIF revenues as a result of the City of Cedar Falls preparing resolutions demonstrating TIF debt owed to the Gas Utility for certified expenditures.
 - Increase of \$2.4 million in noncurrent investments in associated companies due to the 2012 loan of \$3.0 million to the Communications Utility.
 - Decrease in current assets of \$1.4 million or 11.4% primarily due to:
 - Decrease in cash and cash equivalents of \$1.6 million or 17.5% mostly due to the \$3.0 million loan to the Communications Utility.
 - Increase in current installments of the note receivable of \$600,000 for the \$3.0 million loan to the Communications Utility.
 - Decrease of \$342,000 or 70.3% in Government grants receivable for FEMA assistance.
- ❖ Total Liabilities increased \$609,000 or 29.3% primarily due to:
 - Increase in current liabilities of \$70,000 or 4.3% primarily as a result of an increase in accounts payable.
 - Increase in noncurrent liabilities of \$539,000 or 125.1% due to the addition of \$536,000 of a Tax Increment Financing (TIF) liability for possible future TIF revenues as a result of the City of Cedar Falls preparing resolutions demonstrating TIF debt owed to the Gas Utility for certified expenditures.

Additional detail on the change in capital assets Note 4. The utility has no long-term debt in 2012 or 2011.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2013, 2012 and 2011
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Condensed Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Sales of gas	\$13,747,698	\$10,256,726	\$ 14,308,161
Other	33,923	61,800	98,359
Total operating revenues	13,781,621	10,318,526	14,406,520
Natural gas purchased for resale	8,480,439	5,851,220	9,217,259
Operation and maintenance	1,160,547	1,094,317	1,112,475
Depreciation and amortization	781,206	760,235	738,390
Services and administrative	2,274,760	2,235,615	2,409,795
Total operating expenses	12,696,952	9,941,387	13,477,919
Operating income (loss)	1,084,669	377,139	928,601
Interest income	59,508	14,060	1,318
Other, net	344,754	1,090,248	325,527
Total non-operating revenues (expenses)	404,262	1,104,308	326,845
Change in net position	1,488,931	1,481,447	1,255,446
Net position, beginning of year	23,264,870	21,783,423	20,527,977
Net position, end of year	\$24,753,801	\$23,264,870	\$21,783,423

2013 Compared to 2012

- ❖ Total Operating Revenues increased \$3.5 million or 33.6% due to:
 - Increase in gas sales revenues of \$3.5 million or 34.0% due to more normal weather conditions than the warmer than normal weather of in 2012 resulting in an increase of 358,076 MCF or 22.0%.
 - Decrease in other operating revenues of \$28,000 or 45.1% primarily due to a decrease of \$21,000 or 92.6% in grant revenues.

- ❖ Total Operating Expenses increased \$2.8 million or 27.7% primarily due to:
 - Increase in natural gas purchased for resale of \$2.6 million or 44.9%.
 - Increase in average gas purchase price of \$0.68 per MCF from \$3.59 in 2012 to \$4.27 in 2012.
 - Increase in operation and maintenance expense of \$66,000 or 6.1% due to an overall increase in supervisory and engineering labor costs.
 - Increase in depreciation and amortization expense of \$21,000 or 2.8% due to the completion of capital asset projects placed into service in 2013.

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

- Increase in services and administrative expenses of \$39,000 or 1.8% primarily due to:
 - Increase in customer accounts expense of \$25,000 or 8.5% mainly due to the increase in uncollectible accounts of \$20,000 or 154.8%.
 - Decrease in customer service and information expenses of \$82,000 or 23.4% due a reduction in energy efficiency rebates and incentives.
 - Increase of \$95,000 or 6.6% in administrative and general expenses due to an increase in employee insurance and benefits expense due to nearly 51% increase in premiums since mid-2012.

- ❖ Interest Income increased \$45,000 or 323.2% due to interest earned on the \$3.0 million note receivable with the Municipal Communications Utility.

- ❖ Other, net decreased by \$745,000 or 68.4% primarily due to:
 - Decrease of \$229,000 or 44.2% in miscellaneous revenues mainly due to a reduction in miscellaneous non-operating income of \$304,000 or 94.5% due to a gas contract unwind which produced higher revenues in 2012.
 - Decrease of \$519,000 or 90.8% in intergovernmental grant funds revenue due to completion of grant funded projects.

2012 Compared to 2011

- ❖ Total Operating Revenues decreased \$4.1 million or 28.4% primarily due to:
 - Decrease in gas sales revenues of \$4.1 million or 28.3% due to warmer than normal weather in 2012 resulting in a decrease of 413,000 MCF or 20.2%.
 - Decrease in other operating revenues of \$37,000 or 37.2% as a result of a decrease of \$33,000 or 59.5% in grant revenues.

- ❖ Total Operating Expenses decreased \$3.5 million or 26.2% due to:
 - Decrease in natural gas purchased for resale of \$3.4 million or 36.5%.
 - Decrease in average gas purchase price of \$0.92 per MCF from \$4.51 in 2011 to \$3.59 in 2012.
 - Decrease in operation and maintenance expense decreased of \$18,000 or 1.6% due to an overall decrease in distribution load dispatching, operation distribution lines, main maintenance costs, and meter and regulator maintenance costs. .
 - Increase in depreciation and amortization expense of \$22,000 or 3.0% due to the completion of capital asset projects placed into service in 2011.
 - Decrease in services and administrative expenses of \$174,000 or 7.2% primarily due to:
 - Decrease in customer service and information expenses of \$66,000 or 15.8% due a reduction in energy efficiency rebates and incentives.
 - Decrease of \$91,000 or 5.9% in administrative and general expenses due to a decrease in employee insurance and benefits expense.

- ❖ Increase in interest Income of \$13,000 or 966.8% due to interest earned on the \$3.0 million note receivable with the Municipal Communications Utility.

- ❖ Increase in other, net of \$1.1 million or 234.9% primarily due to:

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
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- Increase of \$464,000 or 867.6% in miscellaneous revenues primarily due to the payout for a gas contract unwind and contributions in aid of construction from TIF (Tax Increment Financing) funds received from the City of Cedar Falls.
- Increase of \$300,000 or 111.1% in intergovernmental grant funds revenue.

Condensed Statement of Cash Flows

	2013	2012	2011
Cash Flows from Operating Activities	\$ 1,092,742	\$ 1,555,507	\$ 1,039,548
Cash Flows from Capital and Related Financing Activities	(2,203,910)	(199,926)	(946,875)
Cash Flows from Investing Activities	660,505	(2,990,913)	1,383
Net Change in Cash and Cash Equivalents	(450,663)	(1,635,332)	94,056
Cash and Cash Equivalents-Beginning of Year	<u>7,945,439</u>	<u>9,580,771</u>	<u>9,486,715</u>
Cash and Cash Equivalents-End of Year	<u>\$ 7,494,776</u>	<u>\$ 7,945,439</u>	<u>\$ 9,580,771</u>

2013 Compared to 2012

- ❖ Cash flows from operations decreased by \$463,000 or 29.8% due to:
 - Increase in cash received from customers of \$1.9 million or 17.7%.
 - Increase in cash paid to suppliers of \$2.3 million or 29.2% in payments made to suppliers.
- ❖ Cash flows from Capital and related financing activities decreased by \$2.0 million or 1002.0% and include:
 - Capital expenditures of \$2.5 million in 2013 and \$1.3 million in 2012.
 - Receipts of intergovernmental grants of \$104,000 in 2013 and \$913,000 in 2012.
- ❖ Cash flows from investing activities increased \$3.7 million or 122.1% and include:
 - Investment maturities and interest earned of \$60,000 in 2013 and \$9,000 in 2012.
 - Annual principal repayment of \$600,000 by the Communications Utility for the \$3.0 million loan from the Gas Utility in 2012 (advance to affiliated company).

2012 Compared to 2011

- ❖ Cash flows from operations increased by \$516,000 or 49.6% due to:
 - Decrease in operating revenues of \$4.4 million or 29.4%.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2013, 2012 and 2011
Unaudited

- Decrease of \$4.3 million or 35.2% in cash paid to suppliers.
- Decrease of \$600,000 in the payment in lieu of taxes to the City of Cedar Falls.

- ❖ Cash flows from Capital and related financing activities increased by \$747,000 or 78.9% and include:
 - Capital expenditures of \$1.3 million in 2012 and \$984,000 in 2011.
 - Reimbursement of utility construction costs of \$197,000 in 2012 and \$61,000 in 2011.
 - Receipt of intergovernmental grants of \$913,000 in 2012 and \$0 in 2011.

- ❖ Cash flows from investing activities decreased \$3.0 million and include:
 - Investment maturities and interest earned of \$9,000 and \$1,000 in 2012.
 - Increase in the loan to the Communications Utility of \$3.0 million in 2012 (advance to affiliated company).

FINANCIAL STATEMENTS

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

Statements of Net Position
December 31, 2013 and 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 22,706,907	\$ 21,110,725
Less accumulated depreciation	10,283,025	9,824,603
Capital assets, net	<u>12,423,882</u>	<u>11,286,122</u>
Construction work in progress	1,736,473	1,146,341
Total capital assets, net	<u>14,160,355</u>	<u>12,432,463</u>
Noncurrent assets:		
Loans receivable	63,828	98,187
Note receivable (note 8)	1,800,000	2,400,000
Other (note 8)	387,890	535,856
Total noncurrent assets	<u>2,251,718</u>	<u>3,034,043</u>
Current assets:		
Cash and cash equivalents (note 3)	7,363,697	7,782,233
Cash - restricted (note 2 and 3)	131,079	163,206
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$5,120 in 2013 and \$6,465 in 2012	2,919,794	1,426,102
Loans receivable	28,513	37,912
Interest	4,009	5,006
Current installment of note receivable (note 8)	600,000	600,000
Trade	4,313	75,536
Government grants (note 11)	92,986	144,501
Other	29,030	77,053
Inventories:		
Material and supplies	166,774	136,449
Prepayments and other	52,883	36,307
Total current assets	<u>11,393,078</u>	<u>10,484,305</u>
Total assets	<u>\$ 27,805,151</u>	<u>\$ 25,950,811</u>

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

Statements of Net Position
December 31, 2013 and 2012

<u>Liabilities</u>	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable	\$ 1,813,914	\$ 1,267,263
Reserve for surplus declaration (note 8)	200,000	200,000
Accrued wages and vacations	229,843	212,385
Other accrued expenses	24,769	36,764
Total current liabilities	2,268,526	1,716,412
Noncurrent liabilities: (note 5)		
Customer advances for construction	98,380	118,305
Other liabilities (note 5, 8 and 10)	684,444	851,224
Total noncurrent liabilities	782,824	969,529
Total liabilities	3,051,350	2,685,941
 <u>Net Position</u> 		
Net investment in capital assets	14,160,355	12,432,463
Restricted	88,829	137,986
Unrestricted	10,504,617	10,694,421
Total net position	24,753,801	23,264,870
Total liabilities and net position	\$ 27,805,151	\$ 25,950,811

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MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Revenues, Expenses and Changes in Net Position
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Sales of gas:		
Residential	\$ 7,333,340	\$ 5,494,866
Industrial	1,389,496	1,107,731
Commercial	3,303,262	2,168,939
Governmental (note 8)	1,047,708	657,447
Interdepartmental	673,892	827,743
Total sales of gas	13,747,698	10,256,726
Other operating revenues	33,923	61,800
Total operating revenues	13,781,621	10,318,526
Operating expenses:		
Production:		
Natural gas purchased for resale	8,480,439	5,851,220
Other	-	11,824
Distribution	1,160,547	1,082,493
Depreciation	781,206	760,235
Customer accounts	321,627	296,567
Customer service and information expenses	269,611	352,062
Sales	16,188	18,754
Administrative and general (note 8)	1,540,709	1,445,883
Taxes other than income taxes	126,625	122,349
Total operating expenses	12,696,952	9,941,387
Operating income	1,084,669	377,139
Non-operating revenues (expenses):		
Interest income	59,508	14,060
Miscellaneous revenue (expense), net	288,660	517,741
Intergovernmental grant funds (note 11)	52,229	570,795
AFUDC (note 1)	3,865	1,712
Total non-operating revenues (expenses)	404,262	1,104,308
Change in net position	1,488,931	1,481,447
Net position, beginning of year	23,264,870	21,783,423
Net position, end of year	\$ 24,753,801	\$ 23,264,870

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

Statements of Cash Flows
Years ended December 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 12,524,354	\$ 10,638,580
Intergovernmental grants	1,634	22,197
Cash paid to suppliers	(10,187,870)	(7,882,946)
Cash paid to employees	(1,045,376)	(1,022,324)
Payment in lieu of taxes to the City of Cedar Falls	(200,000)	(200,000)
	1,092,742	1,555,507
Cash flows from capital and related financing activities:		
Proceeds from customer advances for construction	11,448	30,585
Refunds of customer advances for construction	(21,273)	(22,980)
Acquisition, construction and removal cost of capital assets	(2,517,681)	(1,318,486)
Proceeds from sale of capital assets	12,448	1,175
Reimbursement of utility construction costs	207,404	196,759
Intergovernmental grants	103,744	913,021
	(2,203,910)	(199,926)
Cash flows from investing activities:		
Advance to affiliated company	600,000	(3,000,000)
Interest received	60,505	9,087
	660,505	(2,990,913)
Net increase (decrease) in cash and cash equivalents	(450,663)	(1,635,332)
Cash and cash equivalents, beginning of year	7,945,439	9,580,771
Cash and cash equivalents, end of year (note 1)	\$ 7,494,776	\$ 7,945,439

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows, Continued

Years ended December 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ 1,084,669	\$ 377,139
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	781,206	760,235
Other Income (expense), net	71,156	320,817
(Increase) decrease in accounts receivable	(1,422,469)	100
(Increase) decrease in loans receivable	43,758	64,845
(Increase) decrease in inventory	(30,325)	18,651
(Increase) decrease in prepayments and other	31,447	(51,913)
Increase (decrease) in accounts payable	546,651	105,597
Increase (decrease) in accrued wages and vacation	17,458	(5,615)
Increase (decrease) in other accrued expenses	(11,995)	(29,939)
Increase (decrease) in other liabilities	<u>(18,814)</u>	<u>(4,410)</u>
Net cash provided by operating activities	<u>\$ 1,092,742</u>	<u>\$ 1,555,507</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	3,865	1,712
Expiration of customer advances for construction	10,100	165
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 7,363,697	\$ 7,782,233
Cash - Restricted	<u>131,079</u>	<u>163,206</u>
Cash and cash equivalents	<u>\$ 7,494,776</u>	<u>\$ 7,945,439</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(1) **Summary of Significant Accounting Policies**

Organization and Basis of Accounting

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

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

Accounting Changes

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, ***“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”*** (Statement 62). GASB No. 62 incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 included in: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that do no conflict with or contradict GASB pronouncements. This statement also supersedes SGAS No. 20 ***“Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting”*** which eliminates the election for business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict or contradict GASB pronouncements. This statement is effective for the Utility for 2012. The Utility has assessed the financial statement impact of adopting this statement and its impact is not material.

In June 2011, the GASB issued Statement No. 63, ***“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”***. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. This statement is effective for the Utility for 2012. The Utility has assessed the financial statement impact of adopting this statement and its impact is not material.

The GASB Statement No. 65, ***“Items Previously Reported as Assets and Liabilities”*** (“GASB 65”) was issued in March 2012 effective for periods beginning after December 15, 2012. The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of GASB 65 did not result in any reclassification of items that were previously reported as assets and liabilities.

The GASB has approved GASB Statement No. 66, ***“Technical Corrections – 2012”*** which is an amendment of GASB Statements No.10 and No. 62; Statement no. 67, ***“Financial Reporting for Pension Plans”*** which is an amendment of GASB Statement No. 25; and Statement No. 68, ***“Accounting and Financial Reporting for Pensions”*** which is an amendment of GASB Statement No. 27. Application of these standards may restate portions of these financial statements.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 2.95% in 2013 and 2.89% 2012. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated services and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure – 15 to 65 years, buildings and improvements – 30 to 45 years, and equipment – 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 3.5% of depreciable assets for 2013 and 3.6% for 2012.

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

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

Cash and Investments

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

The Utility considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2013 and 2012 were \$2,300,000 and \$2,300,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories

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

Net Position

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

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

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

Net Position, Continued

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

Natural Gas Commodity Purchases

The Utility has entered into agreements with natural gas suppliers to purchase gas for resale to our customers. Purchases under these contracts are considered "normal purchases and sales" under Statements of Financial Accounting Standards (SFAS) No. 133 and are not marked-to-market.

Operating Revenues and Expenses

Operating revenues include revenues resulting from the sale of gas and service revenues. Operating expenses include expenses for natural gas purchases, distribution, depreciation, customer accounts, customer service and information, sales, and administrative and general. Nonoperating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities and investing activities.

Revenues from the sale of gas are based on billing rates, which are applied to customers' consumption of gas. The Utility records estimated unbilled revenue, including amounts to be billed under a purchased gas adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2013 and 2012 were \$1,286,258 and \$1,019,787, respectively, and are recorded in customer accounts receivable. The Utility uses a purchased gas adjustment clause whereby increases and decreases in fuel costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

Estimates

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

Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2013 and 2012, there were no budget amendments.

Grants

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

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Employee Benefits

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

The Gas Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay shall apply only to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date shall not be entitled to the benefit. As of December 31, 2013 and 2012 the accrued liability was \$156,074 and \$149,964, respectively.

Customer Advances

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

Reclassifications

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

(2) Restricted Assets

The composition of restricted assets as of December 31, 2013 and 2012 was as follows:

Current Assets - Restricted	Cash	2013 Investments	Total
Self-Insured Medical and Dental	\$131,079	\$ -	\$131,079
Total Current Assets – Restricted	\$131,079	\$ -	\$131,079
Total restricted assets	\$131,079	\$ -	\$131,079

Current Assets - Restricted	Cash	2012 Investments	Total
Self-Insured Medical and Dental	\$163,206	\$ -	\$163,206
Total Current Assets – Restricted	\$163,206	\$ -	\$163,206
Total restricted assets	\$163,206	\$ -	\$163,206

Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2013 and 2012 was \$100.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

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

Deposits

At December 31, 2013, the Utility's carrying amount of deposits, including \$2,750,000 of money market accounts, was \$5,194,676. At December 31, 2012, the Utility's carrying amount of deposits, including \$2,750,000 of money market accounts, was \$5,645,339.

Investments

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

As of December 31, 2013 and 2012, the Utility had no Federal Agency Obligation investments or maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,300,000 and \$2,300,000 at December 31, 2013 and 2012, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2013 or 2012. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of Credit Risk

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2013 or 2012.

Custodial Credit Risk – Deposits

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

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

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

Custodial Credit Risk – Investments

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

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

	2013	2012
Cash on hand	\$ 100	\$ 100
Carrying amount of deposits	5,194,676	5,645,339
Carrying amount of Iowa Public Agency Investment Trust	2,300,000	2,300,000
Total	\$ 7,494,776	\$ 7,945,439
Current Assets		
Cash and cash equivalents	\$ 7,363,697	\$ 7,782,233
Investments	-	-
Restricted cash	131,079	163,206
Total	\$ 7,494,776	\$ 7,945,439

Of the unrestricted cash and investments listed above, the Board of Trustees of the Municipal Gas Utility has made no reserve fund designations.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2013 and 2012 follows:

2013	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 39,835	\$ -	\$ 10,121	\$ 29,714
Construction, work-in-progress	1,146,341	2,509,898	1,919,766	1,736,473
Total capital assets, not being depreciated	1,186,176	2,509,898	1,929,887	1,766,187
Capital assets, being depreciated:				
Infrastructure	18,388,514	814,615	275,172	18,927,957
Buildings and improvements	2,029,561	1,075,203	5,259	3,099,505
Equipment	652,815	29,948	33,032	649,731
Total capital assets, being depreciated	21,070,890	1,919,766	313,463	22,677,193
Less accumulated depreciation	9,824,603	793,653	335,231	10,283,025
Total capital assets, being depreciated, net	11,246,287	1,126,113	(21,768)	12,394,168
Capital assets, net	\$ 12,432,463	\$ 3,636,011	\$ 1,908,119	\$ 14,160,355

2012	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 39,835	\$ -	\$ -	\$ 39,835
Construction, work-in-progress	397,197	1,313,761	564,617	1,146,341
Total capital assets, not being depreciated	437,032	1,313,761	564,617	1,186,176
Capital assets, being depreciated:				
Infrastructure	18,034,690	495,168	141,344	18,388,514
Buildings and improvements	1,968,345	61,216	-	2,029,561
Equipment	733,725	8,234	89,144	652,815
Total capital assets, being depreciated	20,736,760	564,618	230,488	21,070,890
Less accumulated depreciation	9,300,117	761,849	237,363	9,824,603
Total capital assets, being depreciated, net	11,436,643	(197,231)	(6,875)	11,246,287
Capital assets, net	\$ 11,873,675	\$ 1,116,530	\$ 557,742	\$ 12,432,463

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2013 and 2012 was as follows:

2013	Beginning Balance	Additions	Reductions	Ending Balance
Customer advances for construction	\$ 118,305	\$ 11,448	\$ 31,373	\$ 98,380
Other liabilities	535,857	43,686	191,653	387,890
Accrued severance and OPEB	315,367	59,978	78,791	296,554
Total non-current liabilities	<u>\$ 969,529</u>	<u>\$ 115,112</u>	<u>\$ 301,817</u>	<u>\$ 782,824</u>

2012	Beginning Balance	Additions	Reductions	Ending Balance
Customer advances for construction	\$ 110,865	\$ 30,585	\$ 23,145	\$ 118,305
Other liabilities	-	535,857	-	535,857
Accrued severance and OPEB	319,778	58,492	62,903	315,367
Total non-current liabilities	<u>\$ 430,643</u>	<u>\$ 624,934</u>	<u>\$ 86,048</u>	<u>\$ 969,529</u>

(6) Pension and Retirement Benefits

The Utility 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 IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 5.78% of their annual covered salary and the Utility is required to contribute 8.67% of annual covered payroll through June 30, 2013. Beginning July 1, 2013 plan members are required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2013, 2012, and 2011 were \$166,363; \$149,413; and \$135,767; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa, Chapter 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits

(7) Income Tax Status

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

(8) Related Party Transactions

The Utility provides gas service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$145,073 and \$87,476 in 2013 and 2012, respectively.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(8) Related Party Transactions, Continued

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2013 to reimburse the Gas Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$387,890 and \$535,856 as of December 31, 2013 and 2012, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting other liability at December 31, 2013 and 2012 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$191,653 and \$183,423 in 2013 and 2012, respectively, and is recorded as miscellaneous non-operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2013 and 2012 were \$200,000 and \$200,000 respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2013, the Utility's Board of Trustees approved a payment of \$200,000 related to payments in lieu of taxes for 2013.

The Gas Utility has extended a loan to the Municipal Communications Utility of the City of Cedar Falls, Iowa (Communications Utility), with an outstanding balance of \$2,400,000 and \$3,000,000 as of December 31, 2013 and 2012, respectively. Interest accrues on the loan at 2.0% and is paid semi-annually during December and June. Annual principal payments continue through 2017. Accrued interest receivable was \$3,989 and \$4,986 at December 31, 2013 and 2012, respectively. Interest income for the years ended December 31, 2013 and 2012 was \$59,003 and \$13,315, respectively.

(9) Risk Management

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2013 plan year for aggregate medical claims exceeding \$2.6 million.

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

	2013	2012
Unpaid claims and IBNR, beginning of year	\$ 194,000	\$ 351,000
Current year costs including IBNR	3,328,303	2,912,606
Claims paid	(3,197,303)	(3,069,606)
Unpaid claims and IBNR, end of year	\$ 325,000	\$ 194,000

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(9) Risk Management, Continued

The Gas Utility has recorded \$42,250 and \$25,220 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2013 and 2012, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 505 governmental entities participate in the Association as of June 30, 2013. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2013 and 2012:

	2013	2012
Cash and cash equivalents and investments	\$ 69,938,392	\$ 62,785,294
Receivables	1,045,398	1,593,981
Other assets	853,067	691,581
Total assets	<u>\$ 71,836,857</u>	<u>\$ 65,070,856</u>
Total liabilities	\$ 27,709,153	\$ 25,755,687
Total equity	44,127,704	39,315,169
Total liabilities and equity	<u>\$ 71,836,857</u>	<u>\$ 65,070,856</u>
Total revenue	\$ 9,069,064	\$ 11,433,229
Total expenses	4,256,529	3,824,547
Distribution to members	-	-
Net increase in equity	<u>\$ 4,812,535</u>	<u>\$ 7,608,682</u>

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

(10) Other Post-Employment Benefits (OPEB)

Plan Description

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

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(10) Other Post-Employment Benefits (OPEB), Continued

Funding Policy

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2013 and 2012, the Utilities contributed \$333,282 and \$180,589, respectively and retirees receiving benefits contributed \$121,230 and \$115,319, respectively, through their required contributions.

Annual OPEB and Net OPEB Obligations

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

	2013	2012
Annual required contribution	\$ 73,136	\$ 73,136
Interest on net OPEB obligation	53,435	53,435
Adjustment to annual required contribution	(41,179)	(41,179)
Annual OPEB expense	85,392	85,392
Contributions and payments made	212,052	65,270
Increase (Decrease) in net OPEB obligation	\$ (126,660)	\$ 20,122
Net OPEB obligation, December 31, 2012	1,088,804	1,068,682
Net OPEB obligation, December 31, 2013	\$ 962,144	\$ 1,088,804

The Gas Utility's share of the December 31, 2013 and 2012 Net OPEB obligation is \$140,479 and \$165,403, respectively.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and net OPEB obligation for the year ended December 31, 2013, 2012 and 2011:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 85,392	248.33%	\$ 962,144
December 31, 2012	\$ 85,392	76.44%	\$ 1,088,804
December 31, 2011	\$ 302,004	23.76%	\$ 1,068,682

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$908,961. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(10) Other Post-Employment Benefits (OPEB), Continued

Funded Status and Funding Progress, Continued

the plan and was \$13,400,936 in 2013 and the ratio using the January 1, 2012 actuarial valuation UAAL to the covered payroll was 6.8%.

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

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

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2012
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	9.5% declining 0.5% annually to 5%
Projected Salary Increases	4.0%

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

(11) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, regulators, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation. As of December 31, 2009, damaged Utility facilities were operational. In 2013 and 2012, the Gas Utility spent \$45,194 and \$688,858, respectively, for flood recovery. In 2013 and 2012, the Utility has recognized \$53,863 and \$592,993, respectively, in revenues for FEMA flood recovery reimbursement. As of December 31, 2013 and 2012, the Utility recognized a receivable of \$92,986 and \$144,501, respectively, for FEMA flood disaster reimbursement.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(12) Commitments and Contingencies

The Utility has a natural gas transportation contract with a pipeline, which expires in 2022. Total payments include transportation charges and commodity charges. Minimum transportation payments for 2014 are expected to be approximately \$957,988 at current rates.

The Utility is a member of the Central Plains Energy Project. This organization was created in 2006 to accomplish the members' joint and cooperative action with respect to the acquisition, transportation, storage, management and related services and functions which are necessary to provide the members secure, reliable, and economic supplies of natural gas. This membership allows the Utility to purchase a fixed amount of gas for 30 years at a discount from market prices.

As of December 31, 2013, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$1,062,000 and an estimated time frame to complete through 2015.

(13) Subsequent Events

Subsequent events for the Utility have been evaluated through March 31, 2014, which is the date that the financial statements were available to be issued.

Effective January 1, 2014, the Board of Trustees approved a general gas rate restructuring. The Delivery Charges per MCF were reduced and equal amounts added to the customer charge. The average net impact of these changes for customers is rate neutral and revenue neutral for the Utility.

In January 2014 the Board of Trustees adopted resolution No. 5419 approving the continuation of the annual interest rate on the notes between the Communications Utility and Gas Utility at 2.0% as reflective of the investment and borrowing markets.

**Municipal Electric, Gas, Water and Communications Utilities
Of the City of Cedar Falls, Iowa
Required Supplemental Information
December 31, 2013, 2012 and 2011**

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

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



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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*

Independent Auditors' Report

To the Board of Trustees
Cedar Falls Utilities – Municipal Gas Utility

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Gas Utility of the City of Cedar Falls, Iowa (Municipal Gas Utility) as of and for the year ended December 31, 2013, and have issued our report thereon dated March 28, 2014.

Internal Control Over Financial Reporting

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

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

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

To the Board of Trustees
Cedar Falls Utilities – Municipal Gas Utility

Compliance and Other Matters

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 28, 2014



Cedar Falls Utilities

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

Including Independent Auditors' Reports

**For The Years Ended
December 31, 2013 and 2012**

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Cedar Falls Utilities – Municipal Water Utility

Report on the Financial Statements

We have audited the accompanying financial statements of Municipal Water Utility of the City of Cedar Falls, Iowa (Municipal Water Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 over financial reporting relevant to the Municipal Water Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Water Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Trustees
Cedar Falls Utilities – Municipal Water Utility

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Water Utility as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Municipal Water Utility component unit and do not purport to, and do not, present fairly the financial position of the City of Cedar Falls, Iowa, as of December 31, 2013 and 2012 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in the Note 1, the Municipal Water Utility adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, have issued our report dated March 28, 2014 on our consideration of the Municipal Water Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including those systems applicable to Municipal Water Utility. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Water Utility's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2013, 2012 and 2011
Unaudited

The following discussion and analysis of the Municipal Water Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2013, 2012 and 2011. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

In 2013, weather returned to a more normal trend after the unusually warm winter and drought of 2012. In 2013 CCF usage decreased by nearly 225,000 CCF, but due to a 7% rate increase and increased revenues from rental of water property, the Utility experienced a \$66,000 increase in operating revenues. Operating expenses increased \$319,000 due to increased distribution operations costs, increase administrative costs, higher pumping labor and maintenance costs, and increased depreciation costs. Net operating income decreased \$253,000 or 49.4% in 2013. There was a 7% rate adjustment in 2013. The Utility's net position continues to grow due to strong operations, non-operating revenues and noncash capital contributions.

Overview of the Financial Statements

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

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

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

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

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2013, 2012 and 2011
Unaudited

Condensed Financial Information & Analysis

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

Condensed Statement of Net Position

	2013	2012	2011
Capital assets, net	\$21,569,594	\$21,156,185	\$19,993,018
Other noncurrent assets	327,622	535,190	8,061
Current assets	4,940,085	4,416,619	3,784,282
Total assets	\$26,837,301	\$26,107,994	\$23,785,361
Current liabilities	\$ 367,499	\$ 299,518	\$ 311,213
Noncurrent liabilities	542,861	739,618	198,082
Total liabilities	\$ 910,360	\$ 1,039,136	\$ 509,295
Net investment in capital assets	\$21,569,594	\$21,156,185	\$19,993,018
Restricted	24,754	56,974	33,466
Unrestricted	4,332,593	3,855,699	3,249,582
Total net position	\$25,926,941	\$25,068,858	\$23,276,066

2013 Compared to 2012

- ❖ Total Assets increased \$729,000 or 2.8% primarily due to:
 - Net capital assets increasing \$413,000 or 2.0% due to water main replacements and the construction of the new flood wall. Net capital assets represent 80.4% of total assets for the Utility in 2013.
 - Decrease in other noncurrent assets of \$208,000 or 38.8% primarily due to the decrease of \$207,000 in tax increment financing (TIF) payments receivable as a result of the payment by the City of Cedar Falls for TIF debt owed to the Water Utility for certified expenditures.
 - Increase in current assets of \$523,000 or 11.9% primarily due to:
 - Increase in cash and cash equivalents of \$530,000 or 14.3%.
 - Decrease of \$26,000 or 35.9% in Government grants receivable for FEMA assistance.

- ❖ Total Liabilities decreased \$129,000 or 12.4% primarily due to:
 - Increase in current liabilities of \$68,000 or 22.7% as a result of increases in accounts payable and accrued wages and vacations.
 - Decrease in noncurrent liabilities of \$197,000 or 26.6% mainly due to:
 - Decrease of \$207,000 or 38.9% in the Tax Increment Financing (TIF) liability as a result of the payment by the City of Cedar Falls for TIF debt owed to the Water Utility for certified expenditures.

Additional detail on the change in capital assets Note 4. The utility has no long-term debt in 2013 or 2012.

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

2012 Compared to 2011

- ❖ Total Assets increased \$2.3 million or 9.8% primarily due to:
 - Net capital assets increasing \$1.2 million or 5.8% due to water main replacements and the construction of the new flood wall. Net capital assets represent 81.0% of total assets for the Utility in 2012.
 - Increase in other noncurrent assets of \$527,000 or 6539.3% due to the addition of \$532,000 of tax increment financing (TIF) receivable for possible future TIF revenues as a result of the City of Cedar Falls preparing resolutions demonstrating TIF debt owed to the Water Utility for certified expenditures.
 - Increase in current assets of \$632,000 or 16.7% due to:
 - Increase in cash and cash equivalents of \$772,000 or 26.3%.
 - Decrease of \$134,000 or 65.1% in Government grants receivable for FEMA assistance.

- ❖ Total Liabilities increased \$530,000 or 104.0% primarily due to:
 - Decrease in current liabilities of \$11,000 or 3.8% as a result of a decrease in accounts payable.
 - Increase in noncurrent liabilities of \$542,000 or 273.4% due to the addition of \$532,000 in the Tax Increment Financing (TIF) liability for possible future TIF revenues as a result of the City of Cedar Falls preparing resolutions demonstrating TIF debt owed to the Water Utility for certified expenditures.

Additional detail on the change in capital assets Note 4. The utility has no long-term debt in 2012 or 2011.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Condensed Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Sales of water	\$ 3,387,195	\$ 3,336,884	\$ 3,088,803
Other	197,096	181,501	161,346
Total operating revenues	<u>3,584,291</u>	<u>3,518,385</u>	<u>3,250,149</u>
Operation and maintenance	1,316,594	1,172,164	1,186,057
Depreciation and amortization	628,753	604,605	561,741
Services and administrative	1,379,834	1,229,387	1,172,196
Total operating expenses	<u>3,325,181</u>	<u>3,006,156</u>	<u>2,919,994</u>
Operating Income	<u>259,110</u>	<u>512,229</u>	<u>330,155</u>
Interest income	215	243	582
Other, net	446,962	695,003	367,079
Total non-operating revenues (expenses)	<u>447,177</u>	<u>695,246</u>	<u>367,661</u>
Income before capital contributions	706,287	1,207,475	697,816
Capital Contributions	<u>151,796</u>	<u>585,317</u>	<u>443,188</u>
Change in net position	858,083	1,792,792	1,141,004
Net position, beginning of year	<u>25,068,858</u>	<u>23,276,066</u>	<u>22,135,062</u>
Net position, end of year	<u>\$25,926,941</u>	<u>\$25,068,858</u>	<u>\$23,276,066</u>

2013 Compared to 2012

- ❖ Total Operating Revenues increased \$66,000 or 1.9% due to:
 - Increase in water sales revenues of \$50,000 or 1.5% due to 7% rate adjustment and a decrease in usage of nearly 225,000 CCF or 11.6%.
 - Increase in other operating revenues of \$16,000 or 8.6% as a result of an increase of \$23,000 or 16.5% in water property rents.

- ❖ Total Operating Expenses increased \$319,000 or 10.6% due to:
 - Increase in operation and maintenance of \$144,000 or 12.3%.
 - Increase of \$31,000 or 10.5% in pumping and water treatment expenses.
 - Decrease of \$4,000 or 2.4% in power purchased from an affiliated utility.
 - Increase of \$117,000 or 16.5% in distribution operations and maintenance expenses.
 - Depreciation and amortization expense increased by \$24,000 or 4.0% due to the completion of capital asset projects placed into service in 2012.
 - Increase in services and administrative expenses of \$150,000 or 12.2% primarily due to:

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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- Increase in administrative and general expenses of \$140,000 or 17.1% due to labor cost increases and increases in medical claim and insurance premium costs.
- ❖ Interest Income decreased \$28 or 11.5% due to low interest rates, and difficulty getting banks to bid on placement of investments. Funds remained deposited in money market accounts waiting a strengthening in the investment markets.
- ❖ Other, net decreased by \$248,000 or 35.7% primarily due to:
 - Decrease of \$268,000 or 91.6% in intergovernmental grant funds revenue due to the completion of grant projects.
- ❖ Noncash capital contributions decreased \$434,000 or 74.1% due to the decrease in distribution extensions during the year.

2012 Compared to 2011

- ❖ Total Operating Revenues increased \$268,000 or 8.3% due to:
 - Increase in water sales revenues of \$248,000 or 8.0% due to drought-like summer resulting in an increase in usage of 243,000 CCF or 14.4%.
 - Increase in other operating revenues of \$20,000 or 12.5% as a result of an increase of \$21,000 or 17.8% in water property rents.
- ❖ Total Operating Expenses increased \$86,000 or 3.0% due to:
 - Decrease in operation and maintenance of \$14,000 or 1.2%.
 - Decrease of \$44,000 or 12.9% in pumping and water treatment expenses.
 - Increase of \$15,000 or 10.4% in power purchased from an affiliated utility.
 - Increase of \$15,000 or 2.1% in distribution operations and maintenance expenses.
 - Depreciation and amortization expense increased by \$43,000 or 7.6% due to the completion of capital asset projects placed into service in 2011.
 - Increase in services and administrative expenses of \$57,000 or 4.9% due to:
 - Increase of \$66,000 or 25.8% in customer and sales expense mainly due to labor costs.
 - Decrease in administrative and general expenses of \$16,000 or 1.9% due to labor costs and a decrease in advertising costs.
- ❖ Interest Income decreased \$339 or 58.2% due to low interest rates, and difficulty getting banks to bid on placement of investments. Funds remained deposited in money market accounts waiting a strengthening in the investment markets.
- ❖ Other, net increased by \$328,000 or 89.1% primarily due to:
 - Increase of \$188,000 or 442.6% in contributions in aid of construction from TIF (Tax Increment Financing) funds received from the City of Cedar Falls.
 - Increase of \$142,000 or 94.6% in intergovernmental grant funds revenue.
- ❖ Noncash capital contributions increased \$142,000 or 32.1% due to increase in distribution extensions during the year.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2013, 2012 and 2011
Unaudited

Condensed Statement of Cash Flows

<i>In thousands \$</i>	2013	2012	2011
Cash Flows from Operating Activities	\$ 1,114,396	\$ 1,294,396	\$ 999,950
Cash Flows from Capital and Related Financing Activities	(606,112)	(511,583)	(861,560)
Cash Flows from Investing Activities	215	251	623
Net Change in Cash and Cash Equivalents	508,499	783,064	139,013
Cash and Cash Equivalents-Beginning of Year	3,776,504	2,993,440	2,854,427
Cash and Cash Equivalents-End of Year	\$ 4,285,003	\$ 3,776,504	\$ 2,993,440

2013 Compared to 2012

- ❖ Cash flows from operations decreased by \$180,000 or 13.9% primarily due to:
 - Increase in receipts from customers of \$69,000 or 1.9%.
 - Increase in cash paid to suppliers of \$220,000 or 13.3%.
 - Increase in cash paid to employees for payroll of \$28,000 or 3.6%.
- ❖ Cash flows from Capital and related financing activities decreased \$95,000 or 18.5% and include:
 - Capital expenditures of \$892,000 in 2013 and \$1.2 million in 2012.
 - Reimbursement of utility construction costs of \$207,000 in 2013 and \$241,000 in 2012.
 - Receipt of intergovernmental grants of \$50,000 in 2013 and \$426,000 in 2012.
- ❖ Cash flows from investing activities include:
 - Investment maturities and interest earned of \$215 in 2013 and \$251 in 2012.

2012 Compared to 2011

- ❖ Cash flows from operations increased by \$294,000 or 29.4% due to:
 - Increase in receipts from customers \$380,000 or 11.4%.
 - Increase in cash paid to suppliers of \$34,000 or 2.1%.
 - Increase in cash paid to employees for payroll of \$53,000 or 7.4%.
- ❖ Cash flows from Capital and related financing activities increased \$350,000 or 40.6% and include:
 - Capital expenditures of \$1.2 million in 2012 and \$972,000 in 2011.
 - Reimbursement of utility construction costs of \$241,000 in 2012 and \$79,000 in 2011.
 - Receipt of intergovernmental grants of \$426,000 in 2012 and \$0 in 2011.
- ❖ Cash flows from investing activities include:
 - Investment maturities and interest earned of \$251 in 2012 and \$623 in 2011.

FINANCIAL STATEMENTS

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

Statements of Net Position
December 31, 2013 and 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 30,977,667	\$ 29,565,265
Less accumulated depreciation	9,534,234	8,981,686
Capital assets, net	<u>21,443,433</u>	<u>20,583,579</u>
Construction work in progress	126,161	572,606
Total capital assets, net	<u>21,569,594</u>	<u>21,156,185</u>
Noncurrent assets:		
Loans Receivable	2,473	3,068
Other (note 8)	325,149	532,122
Total noncurrent assets	<u>327,622</u>	<u>535,190</u>
Current assets:		
Cash and cash equivalents (note 3)	4,234,249	3,704,010
Cash - restricted (note 2 and 3)	50,754	72,494
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$1,822 in 2013 and \$2,408 in 2012	421,617	415,655
Loans receivable	624	624
Government grants (note 11)	46,144	72,035
Other	27,696	16,723
Interest	13	13
Material and supplies	124,254	110,378
Prepayments and other	34,734	24,687
Total current assets	<u>4,940,085</u>	<u>4,416,619</u>
 Total assets	 <u>\$ 26,837,301</u>	 <u>\$ 26,107,994</u>

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

Statements of Net Position
December 31, 2013 and 2012

<u>Liabilities</u>	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable	\$ 179,394	\$ 154,492
Accrued wages and vacations	184,307	134,867
Other accrued expenses	3,798	10,159
Total current liabilities	367,499	299,518
Noncurrent liabilities: (note 5)		
Customer advances for construction	21,529	-
Other liabilities (note 5, 8 and 10)	521,332	739,618
Total noncurrent liabilities	542,861	739,618
Total liabilities	910,360	1,039,136
<u>Net Position</u>		
Net investment in capital assets	21,569,594	21,156,185
Restricted	24,754	56,974
Unrestricted	4,332,593	3,855,699
Total net position	25,926,941	25,068,858
Total liabilities and net position	\$ 26,837,301	\$ 26,107,994

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MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Revenues, Expenses and Changes in Net Position
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Sales of water:		
Residential	\$ 2,463,420	\$ 2,400,958
Industrial	53,684	56,052
Commercial	652,123	668,283
Governmental (note 8)	196,751	195,747
Interdepartmental	21,217	15,844
Total sales of water	<u>3,387,195</u>	<u>3,336,884</u>
Other operating revenues	<u>197,096</u>	<u>181,501</u>
Total operating revenues	<u>3,584,291</u>	<u>3,518,385</u>
 Operating expenses		
Production:		
Purchased power from affiliated utility	160,614	164,486
Other	329,271	297,975
Distribution	826,709	709,703
Depreciation	628,753	604,605
Customer accounts	287,895	282,736
Customer service and information expenses	33,048	36,660
Sales	4,771	4,756
Administrative and general	957,881	817,756
Taxes other than income taxes	96,239	87,479
Total operating expenses	<u>3,325,181</u>	<u>3,006,156</u>
 Operating income	<u>259,110</u>	<u>512,229</u>
 Non-operating revenues (expenses):		
Interest income	215	243
Miscellaneous revenue (expense), net (note 8)	417,101	399,741
Intergovernmental grant funds (note 11)	24,540	292,196
AFUDC (note 1)	5,321	3,066
Total non-operating revenues (expenses)	<u>447,177</u>	<u>695,246</u>
 Income before contributions	<u>706,287</u>	<u>1,207,475</u>
 Noncash Capital contributions	<u>151,796</u>	<u>585,317</u>
 Change in net position	858,083	1,792,792
Net position, beginning of year	<u>25,068,858</u>	<u>23,276,066</u>
 Net position, end of year	<u>\$ 25,926,941</u>	<u>\$ 25,068,858</u>

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

Statements of Cash Flows
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,783,621	\$ 3,714,760
Intergovernmental grants	737	1,674
Cash paid to suppliers	(1,880,885)	(1,660,644)
Cash paid to employees	(789,077)	(761,394)
	1,114,396	1,294,396
Net cash provided by (used in) operating activities	1,114,396	1,294,396
Cash flows from capital and related financing activities:		
Proceeds from customer advances for construction	21,529	-
Acquisition, construction and removal cost of capital assets	(892,024)	(1,181,943)
Proceeds from sale of capital assets	6,979	2,554
Reimbursement of utility construction costs	206,973	241,413
Intergovernmental grants	50,431	426,393
	(606,112)	(511,583)
Net cash provided by (used in) capital and related financing activities	(606,112)	(511,583)
Cash flows from investing activities:		
Interest received	215	251
	215	251
Net cash provided by (used in) investing activities	215	251
Net increase (decrease) in cash and cash equivalents	508,499	783,064
Cash and cash equivalents, beginning of year	3,776,504	2,993,440
Cash and cash equivalents, end of year (note 1)	\$ 4,285,003	\$ 3,776,504

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Cash Flows, Continued
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 259,110	\$ 512,229
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation of capital assets	628,753	604,605
Other Income (expense), net	210,128	158,328
(Increase) decrease in accounts receivable	(5,962)	(19,795)
(Increase) decrease in loans receivable	595	5,753
(Increase) decrease in materials and supplies	(13,876)	(4,258)
(Increase) decrease in prepayments and other	(21,020)	39,815
Increase (decrease) in accounts payable	24,902	(18,388)
Increase (decrease) in accrued wages and vacation	49,440	11,637
Increase (decrease) in other accrued expenses	(6,361)	(4,944)
Increase (decrease) in other liabilities	<u>(11,313)</u>	<u>9,414</u>
Net cash provided by operating activities	<u>\$ 1,114,396</u>	<u>\$ 1,294,396</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	5,321	3,066
Contributions from contractors in aid of construction	151,796	585,317
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 4,234,249	\$ 3,704,010
Cash - restricted	<u>50,754</u>	<u>72,494</u>
Cash and cash equivalents	<u>\$ 4,285,003</u>	<u>\$ 3,776,504</u>

NOTES TO FINANCIAL STATEMENTS

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(1) **Summary of Significant Accounting Policies**

Organization and Basis of Accounting

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

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

Accounting Changes

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, ***“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”*** (Statement 62). GASB No. 62 incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 included in: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that do no conflict with or contradict GASB pronouncements. This statement also supersedes SGAS No. 20 ***“Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting”*** which eliminates the election for business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict or contradict GASB pronouncements. This statement is effective for the Utility for 2012. The Utility has assessed the financial statement impact of adopting this statement and its impact is not material.

In June 2011, the GASB issued Statement No. 63, ***“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”***. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. This statement is effective for the Utility for 2012. The Utility has assessed the financial statement impact of adopting this statement and its impact is not material.

The GASB Statement No. 65, ***“Items Previously Reported as Assets and Liabilities”*** (“GASB 65”) was issued in March 2012 effective for periods beginning after December 15, 2012. The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of GASB 65 did not result in any reclassification of items that were previously reported as assets and liabilities.

The GASB has approved GASB Statement No. 66, ***“Technical Corrections – 2012”*** which is an amendment of GASB Statements No.10 and No. 62; Statement no. 67, ***“Financial Reporting for Pension Plans”*** which is an amendment of GASB Statement No. 25; and Statement No. 68, ***“Accounting and Financial Reporting for Pensions”*** which is an amendment of GASB Statement No. 27. Application of these standards may restate portions of these financial statements.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 2.95% in 2013 and 2.89% 2012. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure – 20 to 75 years, buildings and improvements – 30 to 45 years, and equipment – 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 2.1% and 2.1% of depreciable assets for 2013 and 2012, respectively.

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

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

Cash and Investments

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

The Utility considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2013 and 2012 were \$1,470,000 and \$1,470,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories

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

Net Position

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

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

Net Position, Continued

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

Operating Revenues and Expenses

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

Revenues from the sale of water are based on billing rates, which are applied to customers' consumption of water. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed as of December 31, 2013 and 2012, were \$131,697 and \$130,234, respectively, and are recorded in customer accounts receivable.

Capital Contributions

Contributions in aid of construction represent the actual cost of property contributed to the Utility and nonrefundable payments from consumers, which are used to partially offset the cost of the construction of additional capital assets.

Estimates

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

Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2013 and 2012, there were no budget amendments.

Grants

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

Employee Benefits

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Employee Benefits, Continued

The Water Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay shall apply only to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date shall not be entitled to the benefit. As of December 31, 2013 and 2012 the accrued liability was \$96,046 and \$92,286, respectively.

Customer Advances

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

Reclassifications

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

(2) Restricted Assets

The composition of restricted assets as of December 31, 2013 and 2012 was as follows:

Current Assets - Restricted	Cash	2013 Investments	Total
Self-Insured Medical and Dental	\$ 50,754	\$ -	\$ 50,754
Total Current Assets – Restricted	\$ 50,754	\$ -	\$ 50,754
Total restricted assets	\$ 50,754	\$ -	\$ 50,754

Current Assets - Restricted	Cash	2012 Investments	Total
Self-Insured Medical and Dental	\$ 72,494	\$ -	\$ 72,494
Total Current Assets – Restricted	\$ 72,494	\$ -	\$ 72,494
Total restricted assets	\$ 72,494	\$ -	\$ 72,494

Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2013 and 2012 was \$45.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

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

Deposits

At December 31, 2013, the Utility's carrying amount of deposits, including \$700,000 of money market accounts, was \$2,814,958. At December 31, 2012, the Utility's carrying amount of deposits, including \$700,000 of money market accounts, was \$2,306,459.

Investments

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

As of December 31, 2013 and 2012, the Utility had no Federal Agency Obligation investments or maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,470,000 and \$1,470,000 at December 31, 2013 and 2012, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2013 or 2012. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of Credit Risk

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2013 or 2012.

Custodial Credit Risk – Deposits

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

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

Custodial Credit Risk – Investments

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

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

	2013		2012	
Cash on hand	\$	45	\$	45
Carrying amount of deposits		2,814,958		2,306,459
Carrying amount of Iowa Public Agency Investment Trust		1,470,000		1,470,000
Total	\$	4,285,003	\$	3,776,504
Current Assets				
Cash and cash equivalents	\$	4,234,249	\$	3,704,010
Investments		-		-
Restricted cash		50,754		72,494
Total	\$	4,285,003	\$	3,776,504

Of the unrestricted cash and investments listed above, the Board of Trustees of the Municipal Water Utility has made no reserve fund designations.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2013 and 2012 follows:

2013	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 63,466	\$ -	\$ -	\$ 63,466
Construction, work-in-progress	572,606	1,052,946	1,499,391	126,161
Total capital assets, not being depreciated	636,072	1,052,946	1,499,391	189,627
Capital assets, being depreciated:				
Infrastructure	26,867,486	946,032	77,639	27,735,879
Buildings and improvements	1,391,612	531,802	784	1,922,630
Equipment	1,242,701	21,556	8,565	1,255,692
Total capital assets, being depreciated	29,501,799	1,499,390	86,988	30,914,201
Less accumulated depreciation	8,981,686	640,049	87,501	9,534,234
Total capital assets, being depreciated, net	20,520,113	859,341	(513)	21,379,967
Capital assets, net	\$ 21,156,185	\$ 1,912,287	\$ 1,498,878	\$ 21,569,594

2012	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 63,466	\$ -	\$ -	\$ 63,466
Construction, work-in-progress	193,142	1,765,502	1,386,038	572,606
Total capital assets, not being depreciated	256,608	1,765,502	1,386,038	636,072
Capital assets, being depreciated:				
Infrastructure	25,605,232	1,335,638	73,384	26,867,486
Buildings and improvements	1,367,319	37,803	13,510	1,391,612
Equipment	1,308,267	12,597	78,163	1,242,701
Total capital assets, being depreciated	28,280,818	1,386,038	165,057	29,501,799
Less accumulated depreciation	8,544,408	610,827	173,549	8,981,686
Total capital assets, being depreciated, net	19,736,410	775,211	(8,492)	20,520,113
Capital assets, net	\$ 19,993,018	\$ 2,540,713	\$ 1,377,546	\$ 21,156,185

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2013 and 2012 was as follows:

2013	Beginning Balance	Additions	Reductions	Ending Balance
Customer advances for construction	\$ -	\$ 21,529	\$ -	\$ 21,529
Other liabilities	532,122	-	206,973	325,149
Accrued severance and OPEB	207,496	37,494	48,807	196,183
Total non-current liabilities	<u>\$ 739,618</u>	<u>\$ 59,023</u>	<u>\$ 255,780</u>	<u>\$ 542,861</u>

2012	Beginning Balance	Additions	Reductions	Ending Balance
Other liabilities	\$ -	\$ 532,122	\$ -	\$ 532,122
Accrued severance and OPEB	198,082	35,732	26,318	207,496
Total non-current liabilities	<u>\$ 198,082</u>	<u>\$ 567,854</u>	<u>\$ 26,318</u>	<u>\$ 739,618</u>

(6) Pension and Retirement Benefits

The Utility 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 IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 5.78% of their annual covered salary and the Utility is required to contribute 8.67% of annual covered payroll through June 30, 2013. Beginning July 1, 2013 plan members are required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2013, 2012 and 2011, were \$116,692; \$106,155; and \$85,369; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa, Chapter 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits.

(7) Income Tax Status

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

(8) Related Party Transactions

The Utility provides water service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$74,246 and \$65,630 in 2013 and 2012, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2013 to reimburse the Water Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(8) Related Party Transactions, Continued

the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$325,149 and \$532,122 as of December 31, 2013 and 2012, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting other liability at December 31, 2013 and 2012 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$206,973 and \$230,592 in 2013 and 2012, respectively, and is recorded as miscellaneous non-operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

The Utility also provides billing and collection services to the City for the City’s sanitary sewer system and garbage and refuse service. Revenues from the service provided amounted to \$177,840 in 2013 and \$157,680 in 2012, and are recorded in miscellaneous non-operating revenue.

(9) Risk Management

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities’ employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2013 plan year for aggregate medical claims exceeding \$2.6 million.

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

	2013	2012
Unpaid claims and IBNR, beginning of year	\$ 194,000	\$ 351,000
Current year costs including IBNR	3,328,303	2,912,606
Claims paid	(3,197,303)	(3,069,606)
Unpaid claims and IBNR, end of year	\$ 325,000	\$ 194,000

The Water Utility has recorded \$26,000 and \$15,520 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2013 and 2012, respectively.

The Utilities are a member of the Iowa Municipalities Workers’ Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers’ compensation liabilities. Approximately 505 governmental entities participate in the Association as of June 30, 2013. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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December 31, 2013 and 2012

(9) Risk Management, Continued

The following table sets forth summarized financial data of the Association as of and for its years ended June 30, 2013 and 2012:

	2013	2012
Cash and cash equivalents and investments	\$ 69,938,392	\$ 62,785,294
Receivables	1,045,398	1,593,981
Other assets	853,067	691,581
Total assets	<u>\$ 71,836,857</u>	<u>\$ 65,070,856</u>
Total liabilities	\$ 27,709,153	\$ 25,755,687
Total equity	44,127,704	39,315,169
Total liabilities and equity	<u>\$ 71,836,857</u>	<u>\$ 65,070,856</u>
Total revenue	\$ 9,069,064	\$ 11,433,229
Total expenses	4,256,529	3,824,547
Distribution to members	-	-
Net increase in equity	<u>\$ 4,812,535</u>	<u>\$ 7,608,682</u>

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

(10) Other Post-Employment Benefits (OPEB)

Plan Description

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

Funding Policy

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2013 and 2012, the Utilities contributed \$333,282 and \$180,589, respectively and retirees receiving benefits contributed \$121,230 and \$115,319, respectively, through their required contributions.

Annual OPEB and Net OPEB Obligations

The Plan's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of General Accounting

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
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(10) Other Post-Employment Benefits (OPEB), Continued

Annual OPEB and Net OPEB Obligations, Continued

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

	2013	2012
Annual required contribution	\$ 73,136	\$ 73,136
Interest on net OPEB obligation	53,435	53,435
Adjustment to annual required contribution	(41,179)	(41,179)
Annual OPEB expense	85,392	85,392
Contributions and payments made	212,052	65,270
Increase (Decrease) in net OPEB obligation	\$ (126,660)	\$ 20,122
Net OPEB obligation, December 31, 2012	1,088,804	1,068,682
Net OPEB obligation, December 31, 2013	\$ 962,144	\$ 1,088,804

The Water Utility's share of the December 31, 2013 and 2012 Net OPEB obligation is \$100,137 and \$115,210, respectively.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the year ended December 31, 2013, 2012 and 2011:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 85,392	248.33%	\$ 962,144
December 31, 2012	\$ 85,392	76.44%	\$ 1,088,804
December 31, 2011	\$ 302,004	23.76%	\$ 1,068,682

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$908,961. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$13,400,936 in 2013 and the ratio using the January 1, 2012 actuarial valuation UAAL to the covered payroll was 6.8%.

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
December 31, 2013 and 2012

(10) Other Post-Employment Benefits (OPEB), Continued

Funded Status and Funding Progress, Continued

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

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2012
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	9.5% declining 0.5% annually to 5%
Projected Salary Increases	4.0%

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

(11) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, well equipment, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation. As of December 31, 2009, damaged Utility facilities were operational. In 2013 and 2012, the Water Utility spent \$25,000 and \$357,470, respectively, for flood recovery and has recognized \$25,277 and \$293,870, respectively, in revenues for FEMA flood recovery reimbursement. As of December 31, 2013 and 2012, the Utility recognized a receivable of \$46,144 and \$72,035, respectively, for FEMA flood disaster reimbursement.

(12) Commitments and Contingencies

As of December 31, 2013, the Utility was not involved in any major construction projects to complete through 2015.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Notes to Financial Statements
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(13) Subsequent Events

Subsequent events for the Utility have been evaluated through March 31, 2014, which is the date that the financial statements were available to be issued.

Effective January 1, 2014, the Board of Trustees approved a 4% water rate increase.

**Municipal Electric, Gas, Water and Communications Utilities
Of the City of Cedar Falls, Iowa
Required Supplemental Information
December 31, 2013, 2012 and 2011**

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

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

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*

Independent Auditors' Report

To the Board of Trustees
Cedar Falls Utilities – Municipal Water Utility

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Water Utility of the City of Cedar Falls, Iowa (Municipal Water Utility) as of and for the year ended December 31, 2013, and have issued our report thereon dated March 28, 2014.

Internal Control Over Financial Reporting

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

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

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

To the Board of Trustees
Cedar Falls Utilities – Municipal Water Utility

Compliance and Other Matters

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 28, 2014



Cedar Falls Utilities

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

Including Independent Auditors' Reports

**For The Years Ended
December 31, 2013 and 2012**

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Cedar Falls Utilities – Municipal Communications Utility

Report on the Financial Statements

We have audited the accompanying financial statements of Municipal Communications Utility of the City of Cedar Falls, Iowa (Municipal Communications Utility), a component unit of the City of Cedar Falls, Iowa, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 over financial reporting relevant to the Municipal Communications Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Communications Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Trustees
Cedar Falls Utilities – Municipal Communications Utility

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Communications Utility as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Municipal Communications Utility component unit and do not purport to, and do not, present fairly the financial position of the City of Cedar Falls, Iowa, as of December 31, 2013 and 2012 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in the Note 1, the Municipal Communications Utility adopted the provisions of GASB Statement No. 65, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective January 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated March 28, 2014 on our consideration of the Municipal Communications Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including those systems applicable to Municipal Communications Utility. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipal Communications Utility's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
December 31, 2013, 2012 and 2011
Unaudited

The following discussion and analysis of the Municipal Communications Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2013, 2012 and 2011. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

Communications Utility operating revenues increased \$1.4 million in 2013 due to an increase of 89 cable TV subscribers and 543 internet subscribers and an average 10.7% rate increase in cable TV services. Likewise, the Utilities operating expenses increased \$1.7 million during 2013 due in part to cable TV programming and bandwidth cost increases but mainly due to a \$1.6 million one-time increase in depreciation expense from the write-off of the coax cable system which was replaced by the fiber to the premise system in 2013. The Utility's net position continues to grow due to strong operating income.

Overview of the Financial Statements

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

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

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

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

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

Condensed Financial Information & Analysis

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

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

Condensed Statement of Net Position

	2013	2012	2011
Current assets	\$ 6,761,789	\$ 7,915,924	\$9,962,020
Noncurrent assets	582,139	968,538	104,185
Capital assets, net	27,622,986	29,227,223	24,089,337
Total assets	\$34,966,914	\$38,111,685	\$34,155,542
Current liabilities	\$ 3,985,211	\$ 5,141,833	\$ 4,028,046
Noncurrent liabilities	837,698	1,174,744	315,494
Long-term debt	14,727,441	17,072,111	16,482,462
Total liabilities	\$ 19,550,350	\$ 23,388,688	\$ 20,826,002
Net investment in capital assets	\$ 10,471,048	\$ 9,775,113	\$ 6,626,929
Restricted	1,717,341	1,852,120	1,810,529
Unrestricted	3,228,175	3,095,764	4,892,082
Total net position	\$15,416,564	\$14,722,997	\$13,329,540

2013 Compared to 2012

- ❖ Total Assets decreased \$3.1 million or 8.3% primarily due to:
 - Decrease in current assets of \$1.2 million or 14.6% due to:
 - Decrease in cash and investments of \$674,000 or 15.8% primarily related to the reduction in accounts payable.
 - Decrease in government grants receivable of \$441,000 or 87.6% due to the substantial completion of the rural broadband grant project.
 - Decrease in materials and supplies inventory of \$179,000 or 15.1% due to reduced need for materials on hand due to the completion of the fiber to the premise project and substantial completion of the rural broadband project.
 - Increase in customer accounts receivable of \$105,000 or 6.1%.
 - Decrease in noncurrent assets of \$386,000 or 39.9% due to the reduction of the tax increment financing (TIF) receivable for future TIF revenues as a result of the City of Cedar Falls adopting resolutions demonstrating TIF debt owed to the Communications Utility for certified expenditures.
 - Decrease in net capital assets of \$1.6 million or 5.5% primarily due to the write-off of the coax cable system that was replaced by the fiber to the premise system. Net capital assets represent 79.0% of total assets for the Utility in 2013.

- ❖ Total Liabilities decreased \$3.8 million or 16.4% primarily due to:
 - Decrease in current liabilities of \$1.2 million or 22.5% as a result of a decline in accounts payable of \$1.2 million or 53.1% due to the rural broadband project and completion of the fiber to the premise project.
 - Decrease in noncurrent liabilities of \$337,000 or 28.7% primarily due to a reduction of the Tax Increment Financing (TIF) liability as a result of the payment by the City of Cedar Falls for TIF

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Management Discussion and Analysis
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debt owed to the Communications Utility for certified expenditures.

- Decrease of \$2.3 million or 13.7% in long-term debt less current installments due to:
 - Decrease in long-term note payable, less current installments of \$785,000 or 26.6%. Long-term note payable, less current installments, is comprised of notes payable to the Municipal Electric Utility and Municipal Gas Utility. The Utility has an outstanding loan with the Municipal Electric Utility totaling \$553,090 and an outstanding loan with the Municipal Gas Utility totaling \$2,400,000 at December 31, 2013.
 - Decrease in long-term debt less, current installments of \$1.6 million or 11.0% due to principal payments and amortization of debt discounts and premiums.

Additional detail on the change in capital assets and long-term debt can be found in Notes 4 and 5, respectively. Additional information on the long term notes payable can be found in Notes 5 and 8.

2012 Compared to 2011

- ❖ Total Assets increased \$4.0 million or 11.6% primarily due to:
 - Decrease in current assets of \$2.0 million or 20.5% due to:
 - Decrease in cash and investments of \$2.1 million or 33.6% primarily due to expenditure of funds for the fiber to the premise and rural broadband projects.
 - Increase in customer accounts receivable of \$286,000 or 20.1%.
 - Increase in government grants receivable of \$404,000 or 410.5% due to the rural broadband grant project.
 - Decrease in materials and supplies inventory of \$581,000 or 32.9% due to reduced materials inventory as the fiber to the premise and rural broadband projects progress toward completion.
 - Increase in noncurrent assets of \$864,000 or 829.6% primarily due to the addition of tax increment financing (TIF) receivable for future TIF revenues as a result of the City of Cedar Falls adopting resolutions demonstrating TIF debt owed to the Communications Utility for certified expenditures.
 - Increase in net capital assets of \$5.1 million or 21.3% primarily due to the continuation of the fiber to the premise build out that is replacing coax cable system and the rural broadband project. Net capital assets represent 76.7% of total assets for the Utility in 2012.
- ❖ Total Liabilities increased \$2.6 million or 12.3% primarily due to:
 - Increase in current liabilities of \$1.1 million or 27.7% as a result of:
 - Increase in accounts payable of \$411,000 or 22.7%.
 - Increase in current installments of note payable of \$600,000 or 324.3% for a note payable to the Municipal Gas Utility related to a \$3,000,000 loan in 2012.
 - Increase in noncurrent liabilities of \$859,000 or 272.4% primarily due to the recording of a Tax Increment Financing (TIF) liability for future TIF revenues as a result of the City of Cedar Falls adopting resolutions demonstrating TIF debt owed to the Communications Utility for certified expenditures.
 - Increase in long-term debt less current installments of \$590,000 or 3.6% due to:
 - Increase in long-term note payable, less current installments of \$2.2 million. Long-term note payable, less current installments, is comprised of notes payable to the Municipal

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Electric Utility and Municipal Gas Utility. The Utility has an outstanding loan with the Municipal Electric Utility totaling \$738,090 and an outstanding loan with the Municipal Gas Utility totaling \$3,000,000 at December 31, 2012.

- Decrease in long-term debt less, current installments of \$1.7 million due to principal payments and amortization of debt discounts and premiums.

Additional detail on the change in capital assets and long-term debt can be found in Notes 4 and 5, respectively. Additional information on the long term notes payable can be found in Notes 5 and 8.

Condensed Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Cable television	\$8,666,930	\$7,913,921	\$7,125,207
High speed data communications	7,016,679	6,391,826	5,479,181
Other	41,504	3,966	(1,114)
Total operating revenues	15,725,113	14,309,713	12,603,274
Operation and maintenance	8,012,154	8,009,105	7,318,913
Depreciation and amortization	3,755,349	2,190,992	1,607,050
Sales, customer service, corporate operations	3,141,149	2,999,629	2,991,418
Total operating expenses	14,908,652	13,199,726	11,917,381
Operating Income	816,461	1,109,987	685,893
Interest income	4,171	6,006	12,768
Interest expense	(652,923)	(502,144)	(544,889)
Other, net	525,858	779,608	305,762
Total non-operating revenues (expenses)	(122,894)	283,470	(226,359)
Change in net position	693,567	1,393,457	459,534
Net position, beginning of year	14,722,997	13,329,540	12,870,006
Net position, end of year	\$15,416,564	\$14,722,997	\$13,329,540

2013 Compared to 2012

- ❖ Total Operating Revenues increased \$1.4 million or 9.9% due to:
 - Increase in cable television operating revenues of \$753,000 or 9.5% due to an increase of 89 cable TV subscribers and an average 10.7% rate increase.
 - Increase in internet operating revenues of \$625,000 or 9.8% due to an increase of 543 internet subscribers.

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- ❖ Total Operating Expenses increased \$1.7 million or 12.9% primarily due to:
 - Increase in depreciation expense increase of \$1.6 million or 71.4% due to the one-time write off of the coax cable system that was replaced by the fiber to the premise system.
 - Increase in services and administrative expenses of \$238,000 or 14.2% primarily due to:
 - Increase of \$166,000 or 16.1% in human resources due to an increase of approximately 51% in medical insurance premiums in the new medical plan year.
 - Increase in other general and administrative expenses of \$30,000 or 24.6% due to increases in wages and property insurance costs.
- ❖ Interest Income decreased \$2,000 or 30.6% due to low interest rates for investments and cash accounts.
- ❖ Interest expense increased \$151,000 or 30.0% mainly due to the write-off of debt issuance costs per GASB 65.
- ❖ Other, net decreased \$254,000 or 32.5% primarily due to:
 - Decrease of \$324,000 or 67.2% in intergovernmental grant funds revenue due to substantial completion of grant projects.
 - Decrease in the allowance for funds used during construction (AFUDC) of \$25,000 or 39.2%.
 - Increase in miscellaneous revenues due to tax increment financing (TIF) revenues of \$138,000 or 52.1%.
 - Increase in interest expense on affiliated note payable of \$42,000 or 133.4%.

2012 Compared to 2011

- ❖ Total Operating Revenues increased \$1.7 million or 13.5% due to:
 - Increase in cable television operating revenues of \$788,000 or 11.1% due to an increase of 67 cable TV subscribers and an average 9.5% rate increase.
 - Increase in internet operating revenues of \$913,000 or 16.7% due to an increase of 485 internet subscribers and an average 9.5% rate increase.
- ❖ Total Operating Expenses increased \$1.3 million or 10.8% due to:
 - Increase in operation and maintenance expenses of \$690,000 or 9.4% primarily due to:
 - Increase in cable television programming cost of \$468,000 or 11.4%.
 - Increase in access (bandwidth) expense of \$172,000 or 42.0%.
 - Increase in depreciation expense of \$584,000 or 36.3% due to completion of capital asset projects placed into service in 2011.
- ❖ Interest Income decreased \$7,000 or 53.0% due to low interest rates for investments.
- ❖ Interest expense decreased \$43,000 or 7.8% due to less outstanding long term debt.
- ❖ Other, net increased \$474,000 or 155.0% due to:
 - Increase in intergovernmental grant funds revenue of \$415,000 or 614.8%.
 - Increase in miscellaneous revenues due to tax increment financing (TIF) revenues of \$199,000 or 307.2%.
 - Decrease in the allowance for funds used during construction (AFUDC) of \$145,000 or 69.4%.

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Condensed Statement of Cash Flows

	2013	2012	2011
Cash Flows from Operating Activities	\$ 4,531,644	\$ 4,079,707	\$ 2,944,328
Cash Flows from Noncapital Financing Activities	(867,476)	2,780,661	(350,629)
Cash Flows from Capital and Related Financing Activities	(4,344,385)	(9,022,682)	(12,207,479)
Cash Flows from Investing Activities	53,527	15,234	18,259
Net Change in Cash and Cash Equivalents	(626,690)	(2,147,080)	(9,595,521)
Cash and Cash Equivalents-Beginning of Year	2,601,438	4,748,518	14,344,039
Cash and Cash Equivalents-End of Year	\$ 1,974,748	\$ 2,601,438	\$4,748,518

2013 Compared to 2012

- ❖ Cash flows from operations increased by \$452,000 or 11.1% due to:
 - Increase in retail sales due to rate increases for services of \$1.6 million or 11.2%.
 - Increase in payments made to suppliers of \$1.0 million or 12.6%
- ❖ Cash flows from noncapital financing activities decreased by \$3.6 million or 131.2% due to:
 - Decrease of \$3.0 million due to a loan from the Gas Utility in 2012.
 - Increase of \$600,000 or 324.3% due to principal repayment of the annual installment of the loan to the Gas Utility.
- ❖ Cash flows from Capital and related financing activities increased \$4.7 million or 51.9% and include:
 - Decrease in capital expenditures by \$4.0 million or 54.9% and totaling \$3.3 million in 2013 and \$7.3 million in 2012.
 - Increase in grant reimbursements by \$529,000 or 751.7% and totaling \$599,000 in 2013 and \$70,000 in 2012.
- ❖ Cash flows from investing activities increased \$38,000 or 251.4% primarily related to the net sales of investment securities.

2012 Compared to 2011

- ❖ Cash flows from operations increased by \$1.1 million or 38.6% due to:
 - Increase in retail sales due to rate increases for services of \$1.4 million or 11.0%.
- ❖ Cash flows from noncapital financing activities increased by \$3.1 million or 893.0% due to a \$3.0 million loan from the Gas Utility.
- ❖ Cash flows from Capital and related financing activities increased \$3.2 million or 26.1% and include:
 - Increase in bond principal and interest payments by \$165,000 and totaling \$2.1 million in 2012 and \$2.0 million in 2011.

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- Decrease in capital expenditures by \$2.9 million or 28.7% and totaling \$7.3 million in 2012 and \$10.3 million in 2011.
- ❖ Cash flows from investing activities decreased \$3,000 or 16.6% primarily related to lower interest received from investments.

FINANCIAL STATEMENTS

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MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Statements of Net Position
December 31, 2013 and 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents (note 3)	\$ 1,787,295	\$ 2,341,894
Cash - restricted (note 2 and 3)	187,453	259,544
Investments - restricted (note 2 and 3)	1,615,000	1,661,858
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$22,291 in 2013 and \$21,083 in 2012	1,813,524	1,709,011
Interest	1,950	4,448
Government grants (note 11 and 12)	62,187	502,746
Other	162,612	130,868
Material and supplies	1,004,328	1,183,414
Prepayments and other	127,440	122,141
Total current assets	6,761,789	7,915,924
Noncurrent assets:		
Other (note 8)	582,139	874,313
Unamortized debt expense	-	94,225
Total noncurrent assets	582,139	968,538
Capital assets: (note 4)		
Capital assets, in service	34,049,194	35,247,872
Less accumulated depreciation	6,836,155	7,431,058
Capital assets, net	27,213,039	27,816,814
Construction work in progress	409,947	1,410,409
Total capital assets, net	27,622,986	29,227,223
Total assets	\$ 34,966,914	\$ 38,111,685

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Statements of Net Position
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<u>Liabilities</u>	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable	\$ 1,040,001	\$ 2,217,831
Accrued wages and vacation	341,707	363,755
Accrued interest	41,271	54,137
Other accrued liabilities	137,232	126,110
Current installments of note payable (note 5)	785,000	785,000
Current installments of long-term debt (note 5)	1,640,000	1,595,000
Total current liabilities	3,985,211	5,141,833
Noncurrent liabilities: (note 5)		
Other liabilities (note 5, 8 and 10)	808,038	1,134,013
Customer advances for construction	29,660	40,731
Total noncurrent liabilities	837,698	1,174,744
Long-term Debt:		
Long-term note payable, less current installments (note 5)	2,168,090	2,953,090
Long-term debt, less current installments (note 5)	12,559,351	14,119,021
Total long-term debt	14,727,441	17,072,111
Total liabilities	19,550,350	23,388,688
<u>Net Position</u>		
Net investment in capital assets	10,471,048	9,775,113
Restricted	1,717,341	1,852,120
Unrestricted	3,228,175	3,095,764
Total net position	15,416,564	14,722,997
Total liabilities and net position	\$ 34,966,914	\$ 38,111,685

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MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA

(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Cable system revenues	\$ 8,666,930	\$ 7,913,921
Data services revenue	6,537,201	5,975,439
Network access revenue	223,267	236,407
Local private line revenue	256,211	179,980
Other operating Income	41,504	3,966
Total operating revenues	<u>15,725,113</u>	<u>14,309,713</u>
Operating expenses:		
Plant specific and programming	6,482,046	6,653,462
Depreciation	3,755,349	2,190,992
Plant nonspecific	1,530,108	1,355,643
Customer operations	769,686	810,465
Sales	449,980	505,950
Corporate operations (note 8)	1,921,483	1,683,214
Total operating expenses	<u>14,908,652</u>	<u>13,199,726</u>
Operating income	<u>816,461</u>	<u>1,109,987</u>
Non-operating revenues (expenses):		
Interest income	4,171	6,006
Miscellaneous revenue (expense), net (note 8)	402,064	264,288
Intergovernmental grant funds	158,246	482,690
Interest expense on long-term debt (note 5)	(652,923)	(502,144)
AFUDC (note 1)	38,978	64,094
Interest expense on affiliated note payable (note 5 and 8)	(73,430)	(31,464)
Total non-operating revenues (expenses)	<u>(122,894)</u>	<u>283,470</u>
Change in net position	693,567	1,393,457
Net position, beginning of year	<u>14,722,997</u>	<u>13,329,540</u>
Net position, end of year	<u>\$ 15,416,564</u>	<u>\$ 14,722,997</u>

See accompanying notes to financial statements.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Statements of Cash Flows
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 15,625,757	\$ 14,057,032
Intergovernmental grants	1,913	-
Cash paid to suppliers	(9,355,484)	(8,310,927)
Cash paid to employees	(1,740,542)	(1,666,398)
	4,531,644	4,079,707
Cash flows from noncapital financing activities:		
Advance from affiliated utility	-	3,000,000
Payments on advance from affiliated utility	(785,000)	(185,000)
Interest paid on note payable	(82,476)	(34,339)
	(867,476)	2,780,661
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(1,595,000)	(1,555,000)
Interest payments on long-term debt	(482,188)	(526,203)
Proceeds from customer advances for construction	7,100	-
Refunds of customer advances for construction	(18,171)	(23,344)
Acquisition, construction and removal cost of capital assets	(3,308,941)	(7,335,388)
Proceeds from sale of capital assets	88,453	70,604
Reimbursement of utility construction costs	365,557	276,345
Intergovernmental grants	598,805	70,304
	(4,344,385)	(9,022,682)
Cash flows from investing activities:		
Proceeds from maturities of investment securities	1,654,000	1,674,000
Purchase of investment securities	(1,615,000)	(1,664,677)
Interest received	14,527	5,911
	53,527	15,234
Net increase (decrease) in cash and cash equivalents	(626,690)	(2,147,080)
Cash and cash equivalents, beginning of year	2,601,438	4,748,518
Cash and cash equivalents, end of year (note 1)	\$ 1,974,748	\$ 2,601,438

See accompanying notes to financial statements.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Statements of Cash Flows, Continued
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 816,461	\$ 1,109,987
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	3,755,349	2,190,992
Other income (expense), net	36,507	(3,931)
(Increase) decrease in accounts receivable	(136,257)	(284,283)
(Increase) decrease in materials and supplies	179,086	580,879
(Increase) decrease in prepayments and other	(5,299)	(2,548)
Increase (decrease) in accounts payable	(69,476)	410,989
Increase (decrease) in accrued wages and vacation	(22,048)	62,439
Increase (decrease) in other accrued liabilities	11,122	6,902
Increase (decrease) in other noncurrent liabilities	<u>(33,801)</u>	<u>8,281</u>
Net cash provided by operating activities	<u>\$ 4,531,644</u>	<u>\$ 4,079,707</u>
Schedule of noncash investing, capital and financing activities:		
AFUDC	38,978	64,094
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Cash and cash equivalents	\$ 1,787,295	\$ 2,341,894
Cash - Restricted	<u>187,453</u>	<u>259,544</u>
Cash and cash equivalents	<u>\$ 1,974,748</u>	<u>\$ 2,601,438</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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(1) **Summary of Significant Accounting Policies**

Organization and Basis of Accounting

The Municipal Communications Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls, Iowa. The Utility was formed to engage in the development and operation of a broadband communications system and the marketing of related services such as cable television and high-speed data communications. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Communications Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 47 – Telecommunication, Chapter I – Federal Communications Commission.

Accounting Changes

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, ***“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”*** (Statement 62). GASB No. 62 incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 included in: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that do no conflict with or contradict GASB pronouncements. This statement also supersedes SGAS No. 20 ***“Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting”*** which eliminates the election for business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict or contradict GASB pronouncements. This statement is effective for the Utility for 2012. The Utility has assessed the financial statement impact of adopting this statement and its impact is not material.

In June 2011, the GASB issued Statement No. 63, ***“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”***. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. This statement is effective for the Utility for 2012. The Utility has assessed the financial statement impact of adopting this statement and its impact is not material.

The GASB Statement No. 65, ***“Items Previously Reported as Assets and Liabilities”*** (“GASB 65”) was issued in March 2012 effective for periods beginning after December 15, 2012. The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Additionally, GASB 65 requires that debt issuance costs should be recognized as expense in the period incurred. The adoption of GASB 65 resulted in reclassification of items that were previously reported as assets and liabilities and the write-off of amounts previously reported as unamortized debt costs. Total net position decreased by \$219,103 which represents the expensing of prior years’ unamortized debt issuance costs.

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

Accounting Changes, Continued

The GASB has approved GASB Statement No. 66, "**Technical Corrections – 2012**" which is an amendment of GASB Statements No.10 and No. 62; Statement no. 67, "**Financial Reporting for Pension Plans**" which is an amendment of GASB Statement No. 25; and Statement No. 68, "**Accounting and Financial Reporting for Pensions**" which is an amendment of GASB Statement No. 27. Application of these standards may restate portions of these financial statements.

Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 3.01% in 2013 and 2.95% in 2012. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure – 18 to 35 years and equipment – 5 to 20 years. The depreciation provision was equivalent to an overall composite rate of 10.2% and 6.5% of depreciable assets for 2013 and 2012, respectively.

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

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

Cash and Investments

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

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December 31, 2013 and 2012 were \$6,570 and \$6,570, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories

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

Bond Premiums and Discounts

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

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Net Position

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

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

Operating Revenues and Expenses

Operating revenues include revenues resulting from the sale of products and services. Operating expenses include expenses for plant specific and programming, depreciation, plant nonspecific, customer operations, sales, and corporate operations. Nonoperating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities and investing activities.

Revenues are based on billing rates, which are applied to customers' consumption of communications services. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not billed at December 31, 2013 and 2012, were \$467,223 and \$438,004, respectively and are recorded in customer accounts receivable.

Estimates

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

Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Formal and legal budgetary control is based on the total of all four utilities as a whole. During 2013 and 2012, there were no budget amendments.

Grants

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

Employee Benefits

Employee benefits for accumulated sick leave hours are not accrued as they are not payable to

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Notes to Financial Statements
December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Employee Benefits, Continued

employees. Vacation hours are earned monthly and are accrued and recorded as liabilities and unused vacation hours are paid upon termination of service. Accrued wages represents time employees worked during the calendar year.

The Communications Utility provides retirement severance pay to qualifying full-time employees upon death or retirement. Retirement severance pay will be credited at the rate of two days per year of continuous service, with a minimum of twenty years of continuous service needed to qualify. The retirement severance pay shall apply only to regular full-time employees hired prior to June 30, 2007. Employees who are hired after that date shall not be entitled to the benefit. As of December 31, 2013 and 2012 the accrued liability was \$180,086 and \$173,036, respectively.

Customer Advances

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

Reclassifications

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

(2) Restricted Assets

The composition of restricted assets as of December 31, 2013 and 2012 was as follows:

Current Assets – Restricted	Cash	2013 Investments	Total
Bond Reserve	\$ -	\$ 1,615,000	\$ 1,615,000
Bond and Interest	173,029	-	173,029
Self-Insured Medical and Dental	14,424	-	14,424
Total Current Assets – Restricted	187,453	1,615,000	1,802,453
 Total restricted assets	 \$ 187,453	 \$ 1,615,000	 \$ 1,802,453

Current Assets – Restricted	Cash	2012 Investments	Total
Bond Reserve	\$ 16,427	\$ 1,661,858	\$ 1,678,285
Bond and Interest	173,099	-	173,099
Self-Insured Medical and Dental	70,018	-	70,018
Total Current Assets – Restricted	259,544	1,661,858	1,921,402
 Total restricted assets	 \$ 259,544	 \$ 1,661,858	 \$ 1,921,402

The monies deposited into the various accounts have been invested in interest-bearing securities as required by the bond resolution. Amounts deposited in the bond reserve and bond interest funds may only be used for the purpose of paying principal and interest on the bonds when due or such other purposes as set forth in the bond resolutions and as a result are classified as restricted. Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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December 31, 2013 and 2012

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2013 and 2012 was \$60.

Deposits

At December 31, 2013, the Utility's carrying amount of deposits, including \$1,615,000 of certificates of deposits and \$575,000 of money market accounts, was \$3,583,118. At December 31, 2012, the Utility's carrying amount of deposits, including \$340,000 of certificates of deposits and \$575,000 of money market accounts, was \$2,934,808.

Investments

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

As of December 31, 2013, the Utility had no Federal Agency Obligations investments and maturities.

As of December 31, 2012, the Utility had a \$1,321,858 Federal Agency Obligation investment that matured September 23, 2013. This investment had a Standard & Poor's credit rating of AA+ and Moody's Investor Services credit rating of Aaa. (The Utility assumes callable bonds will not be called):

2012 Investment Type	Investment Maturities (in years)		Total
	Less than 1	1 to 3	
Federal Agency Obligations	\$1,321,858	\$ -	\$1,321,858

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$6,570 and \$6,570 at December 31, 2013 and 2012, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during 2013 or 2012. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

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

Concentration of Credit Risk

The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during 2013 or 2012.

Custodial Credit Risk – Deposits

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

Custodial Credit Risk – Investments

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

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

	2013	2012
Cash on hand	\$ 60	\$ 60
Carrying amount of deposits	3,583,118	2,934,808
Carrying amount of federal agency obligations	-	1,321,858
Carrying amount of Iowa Agency Investment Trust	6,570	6,570
Total	<u>\$ 3,589,748</u>	<u>\$ 4,263,296</u>
Current Assets		
Cash and cash equivalents	\$ 1,787,295	\$ 2,341,894
Restricted cash	187,453	259,544
Restricted investments	1,615,000	1,661,858
Total	<u>\$ 3,589,748</u>	<u>\$ 4,263,296</u>

Of the unrestricted cash and investments listed above, the Board of Trustees of the Municipal Communications Utility has made no reserve fund designations.

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(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2013 and 2012 follows:

2013	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ -	\$ 2,177	\$ -	\$ 2,177
Construction, work-in-progress	1,410,409	2,129,201	3,129,663	409,947
Total capital assets, not being depreciated	1,410,409	2,131,378	3,129,663	412,124
Capital assets, being depreciated:				
Infrastructure	17,205,059	1,681,861	2,428,832	16,458,088
Equipment	18,042,813	1,445,625	1,899,509	17,588,929
Total capital assets, being depreciated	35,247,872	3,127,486	4,328,341	34,047,017
Less accumulated depreciation	7,431,058	3,843,993	4,438,896	6,836,155
Total capital assets, being depreciated, net	27,816,814	(716,507)	(110,555)	27,210,862
Capital assets, net	<u>\$ 29,227,223</u>	<u>\$ 1,414,871</u>	<u>\$ 3,019,108</u>	<u>\$ 27,622,986</u>
2012	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Construction, work-in-progress	\$ 1,273,710	\$ 7,382,169	\$ 7,245,470	\$ 1,410,409
Total capital assets, not being depreciated	1,273,710	7,382,169	7,245,470	1,410,409
Capital assets, being depreciated:				
Infrastructure	17,441,768	3,026,616	3,263,325	17,205,059
Equipment	15,028,514	4,218,854	1,204,555	18,042,813
Total capital assets, being depreciated	32,470,282	7,245,470	4,467,880	35,247,872
Less accumulated depreciation	9,654,655	2,291,273	4,514,870	7,431,058
Total capital assets, being depreciated, net	22,815,627	4,954,197	(46,990)	27,816,814
Capital assets, net	<u>\$ 24,089,337</u>	<u>\$ 12,336,366</u>	<u>\$ 7,198,480</u>	<u>\$ 29,227,223</u>

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(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2013 and 2012 was as follows:

2013	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation capital loan notes:					
Series 2009B	\$ 1,595,000	\$ -	\$ 155,000	\$ 1,440,000	\$ 165,000
Note payable-Municipal Electric Utility	738,090	-	185,000	553,090	185,000
Note payable-Municipal Gas Utility	3,000,000	-	600,000	2,400,000	600,000
Capital loan Notes:					
Series 2009	2,655,000	-	345,000	2,310,000	355,000
Series 2010	11,145,000	-	1,095,000	10,050,000	1,120,000
Unamortized premium	450,316	-	45,314	405,002	-
Unamortized discount	(131,295)	-	(125,644)	(5,651)	-
	<u>19,452,111</u>	-	<u>2,299,670</u>	<u>17,152,441</u>	<u>2,425,000</u>
Current installments of long-term debt	(2,380,000)	(45,000)	-	(2,425,000)	
Long-term debt, less current installments	<u>17,072,111</u>	<u>(45,000)</u>	<u>2,299,670</u>	<u>14,727,441</u>	
Customer advances for construction	40,731	7,100	18,171	29,660	
Other liabilities	874,313	31,064	323,237	582,139	
Accrued severance and OPEB	259,700	64,412	98,213	225,899	
Noncurrent liabilities	<u>1,174,744</u>	<u>102,576</u>	<u>439,621</u>	<u>837,698</u>	
Total noncurrent liabilities	<u>\$ 18,246,855</u>	<u>\$ 57,576</u>	<u>\$ 2,739,291</u>	<u>\$ 15,565,139</u>	

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Notes to Financial Statements
December 31, 2013 and 2012

(5) Noncurrent Liabilities, Continued

2012	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation capital loan notes:					
Series 2009B	\$ 1,750,000	\$ -	\$ 155,000	\$ 1,595,000	\$ 155,000
Note payable-Municipal Electric Utility	923,090	-	185,000	738,090	185,000
Note payable-Municipal Gas Utility	-	3,000,000	-	3,000,000	600,000
Capital loan Notes:					
Series 2009	2,990,000	-	335,000	2,655,000	345,000
Series 2010	12,210,000	-	1,065,000	11,145,000	1,095,000
Unamortized premium	494,381	-	44,065	450,316	-
Unamortized discount	(145,009)	-	(13,714)	(131,295)	-
	<u>18,222,462</u>	<u>3,000,000</u>	<u>1,770,351</u>	<u>19,452,111</u>	<u>2,380,000</u>
Current installments of long-term debt	(1,740,000)	(640,000)	-	(2,380,000)	
Long-term debt, less current installments	<u>16,482,462</u>	<u>2,360,000</u>	<u>1,770,351</u>	<u>17,072,111</u>	
Customer advances for construction	64,075	-	23,344	40,731	
Other liabilities	-	874,313	-	874,313	
Accrued severance and OPEB	251,419	57,632	49,351	259,700	
Noncurrent liabilities	<u>315,494</u>	<u>931,945</u>	<u>72,695</u>	<u>1,174,744</u>	
Total noncurrent liabilities	<u>\$ 16,797,956</u>	<u>\$ 3,291,945</u>	<u>\$ 1,843,046</u>	<u>\$ 18,246,855</u>	

All general obligation (G.O.) bonds and notes have been issued by the City on behalf of the Utility. The G.O. bonds and notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. In 2009, the City issued \$2,320,000 in General Obligation Capital Loan Notes, Series 2009B. Interest rates throughout the term of the bonds are in a range between .75% and 3.8%. Interest rates over the remaining term of the bonds are in a range between 2.05% and 3.8%. The proceeds of the Series 2009B bonds were used for the redemption of the outstanding Series 1998, Series 1999, and Series 2002 general obligation bonds to reduce total future debt service payments and the funding of qualified capital expenditures. The total debt service obligations of the bonds are as follows:

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(5) Noncurrent Liabilities, Continued

Year	General Obligation Capital Loan Notes, Series 2009B	
	December 1 Principal Amount	2.05% - 3.80% Interest Amount
2014	\$ 165,000	\$ 45,242
2015	105,000	41,860
2016	110,000	39,340
2017	115,000	36,370
2018	120,000	33,035
2019 – 2023	675,000	102,630
2024	150,000	5,700
	\$ 1,440,000	\$ 304,177

The Series 2009 and 2010 revenue capital loan notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 3.0% and 4.30%. The debt is secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

Year	Series 2009 Communications Revenue Capital Loan Notes		Series 2010 Communications Revenue Capital Loan Notes	
	December 1 Principal Amount	3.00% - 4.30% Interest Amount	December 1 Principal Amount	3.00% Interest Amount
	2014	\$ 355,000	\$ 89,610	\$ 1,120,000
2015	165,000	78,960	1,360,000	267,900
2016	170,000	74,010	1,400,000	227,100
2017	175,000	67,210	1,455,000	185,100
2018	180,000	60,210	1,510,000	141,450
2019 – 2023	1,030,000	184,308	3,205,000	145,200
2024	235,000	10,105	-	-
	\$ 2,310,000	\$ 564,413	\$ 10,050,000	\$ 1,268,250

In 2010, the Utility issued \$13,130,000 Communications Utility Revenue Capital Loan Notes, Series 2010 for the purpose of paying costs of improvements and extensions to the Utility. The notes mature in 2020 and interest rates throughout the term of the notes are 3.00%.

In 2009, the Utility issued \$3,640,000 Communications Utility Revenue Capital Loan Notes, Series 2009. The proceeds of the notes were used for the redemption of the outstanding Series 1999 revenue bonds to reduce total future debt service payments and the funding of other qualified capital expenditures.

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

All Utility revenues net of specified operating expenses are pledged as security of the above revenue capital loan notes until the notes are defeased. Principal and interest paid for 2013 and 2012 were \$1,874,310 and \$1,876,310, respectively. Total customer gross revenues as defined for the same periods were \$15,683,609 and \$14,305,746. Annual principal and interest payments are expected to require 8.23% of gross revenues on average.

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(5) Noncurrent Liabilities, Continued

The Board of Trustees of the Municipal Electric Utility authorized a loan bearing interest at 3.1% to be extended to the Utility under Resolutions No. 2759, 2840, 2939, 2994, and 3086. The December 31, 2013 and 2012 outstanding balances on this loan were \$553,090 and \$738,090, respectively. In January 2012 the Board of Trustees of the Municipal Electric Utility adopted resolution No. 5089 reducing the annual interest rate from 3.1% to 2.0% to be more reflective of the investment and borrowing markets. In January 2013 the Board of Trustees of the Municipal Electric Utility adopted resolution No. 5259 approving the continuation of the annual interest rate at 2.0%. The note requires annual principal payments, due December 1, and semiannual interest payments, due January and July 1. In January 2012, The Board of Trustees of the Municipal Gas Utility authorized a loan of \$3,000,000 to the Utility under Resolutions No. 5077, bearing interest at 2.0%. In January 2013 the Board of Trustees of the Municipal Gas Utility adopted resolution No. 5259 approving the continuation of the annual rate at 2.0%. The December 31, 2013 and 2012 outstanding balances on this loan were \$2,400,000 and \$3,000,000 respectively. Total debt service requirements are as follows:

Notes Payable to Municipal Electric Utility			Notes Payable to Municipal Gas Utility		
Year	Principal Amount	Interest Amount	Year	Principal Amount	Interest Amount
2014	185,000	10,747	2014	600,000	48,000
2015	185,000	7,048	2015	600,000	36,000
2016	183,090	3,351	2016	600,000	24,000
2017	-	-	2017	600,000	12,000
	\$ 553,090	\$ 21,146		\$ 2,400,000	\$ 120,000

(6) Pension and Retirement Benefits

The Utility 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 IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 5.78% of their annual covered salary and the Utility is required to contribute 8.67% of annual covered payroll through June 30, 2013. Beginning July 1, 2013 plan members are required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2013, 2012, and 2011, were \$258,040; \$251,418; and \$215,512, respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa, Chapter 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits.

(7) Income Tax Status

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

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(8) Related Party Transactions

The Utility provides communications service to the City. Operating revenues from the service provided amounted to \$52,445 and \$54,740 in 2013 and 2012, respectively.

The City Council of the City of Cedar Falls, Iowa approved resolutions in 2013 and 2012 to reimburse the Communications Utility for costs it incurred for improvement projects in the Tax Increment Financing (TIF) districts of the City of Cedar Falls, Iowa. This other receivable, with an outstanding balance of \$582,139 and \$874,313 as of December 31, 2013 and 2012, respectively, shall be repaid as TIF revenues are collected by the City. The Utility has recorded an offsetting other liability at December 31, 2013 and 2012 and will recognize revenue for contributed capital from the City as amounts are received. Total amounts received from the TIF amounted to \$323,237 and \$202,320 in 2013 and 2012, respectively and is recorded as miscellaneous non-operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

Outstanding loan balances from the Municipal Electric Utility are \$553,090, and \$738,090 as of December 31, 2013, and 2012, respectively. Interest accrues on the loan at 2.0%, and is paid semi-annually during December and June. Annual principal payments continue through 2016 (see note 5). Accrued interest payable was \$919 and \$8,968 at December 31, 2013 and 2012, respectively. Interest expense for the years ended December 31, 2013 and 2012 was \$14,427 and \$18,148 respectively. In January 2013 the Board of Trustees of the Municipal Electric Utility adopted resolution No. 5259 approving the continuation of the annual rate at 2.0%.

Outstanding loan balances from the Municipal Gas Utility are \$2,400,000, and \$3,000,000 as of December 31, 2013, and 2012, respectively. Interest accrues on the loan at 2.0%, and is paid semi-annually during December and June. Annual principal payments continue through 2017 (see note 5). Accrued interest payable was \$3,989 and \$4,986 at December 31, 2013 and 2012, respectively. Interest expense for the years ended December 31, 2013 and 2012 was \$59,003 and \$13,315 respectively.

See note 5 for description of debt with the City. The interest expense related to this debt to the City was \$47,658 and \$49,725 for the years ended December 31, 2013 and 2012, respectively. The accrued interest related to this debt was \$3,770 and \$3,990 at December 31, 2013 and 2012, respectively.

(9) Risk Management

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2013 plan year for aggregate medical claims exceeding \$2.6 million.

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(9) 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 the Utilities liabilities during the past two years are as follows:

	2013	2012
Unpaid claims and IBNR, beginning of year	\$ 194,000	\$ 351,000
Current year costs including IBNR	3,328,303	2,912,606
Claims paid	(3,197,303)	(3,069,606)
Unpaid claims and IBNR, end of year	\$ 325,000	\$ 194,000

The Communications Utility has recorded \$48,750 and \$29,100 in accounts payable for its share of these unpaid claims at December 31, 2013 and 2012, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 505 governmental entities participate in the Association as of June 30, 2013. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2013 and 2012:

	2013	2012
Cash and cash equivalents and investments	\$ 69,938,392	\$ 62,785,294
Receivables	1,045,398	1,593,981
Other assets	853,067	691,581
Total assets	\$ 71,836,857	\$ 65,070,856
Total liabilities	\$ 27,709,153	\$ 25,755,687
Total equity	44,127,704	39,315,169
Total liabilities and equity	\$ 71,836,857	\$ 65,070,856
Total revenue	\$ 9,069,064	\$ 11,433,229
Total expenses	4,256,529	3,824,547
Distribution to members	-	-
Net increase in equity	\$ 4,812,535	\$ 7,608,682

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

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(10) Other Post-Employment Benefits (OPEB)

Plan Description

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

Funding Policy

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the years ending December 31, 2013 and 2012, the Utilities contributed \$333,282 and \$180,589, respectively and retirees receiving benefits contributed \$121,230 and \$115,319, respectively, through their required contributions.

Annual OPEB and Net OPEB Obligations

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

	2013	2012
Annual required contribution	\$ 73,136	\$ 73,136
Interest on net OPEB obligation	53,435	53,435
Adjustment to annual required contribution	(41,179)	(41,179)
Annual OPEB expense	85,392	85,392
Contributions and payments made	212,052	65,270
Increase (Decrease) in net OPEB obligation	\$ (126,660)	\$ 20,122
Net OPEB obligation, December 31, 2012	1,088,804	1,068,682
Net OPEB obligation, December 31, 2013	\$ 962,144	\$ 1,088,804

The Communications Utility's share of the December 31, 2013 and 2012 Net OPEB obligation is \$45,814 and \$86,664, respectively.

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(10) Other Post-Employment Benefits (OPEB), Continued

Annual OPEB and Net OPEB Obligations, Continued

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and net OPEB obligation for the year ended December 31, 2013, 2012 and 2011:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 85,392	248.33%	\$ 962,144
December 31, 2012	\$ 85,392	76.44%	\$ 1,088,804
December 31, 2011	\$ 302,004	23.76%	\$ 1,068,682

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the Utilities actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$908,961. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$13,400,936 in 2013 and the ratio using the January 1, 2012 actuarial valuation UAAL to the covered payroll was 6.8%.

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

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

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2012
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	9.5% declining 0.5% annually to 5%
Projected Salary Increases	4.0%

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(10) Other Post-Employment Benefits (OPEB), Continued

Funded Status and Funding Progress, Continued

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

(11) Commitments and Contingencies

As of December 31, 2013, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$1,492,000 and an estimated time frame to complete through 2015.

(12) Subsequent Events

Subsequent events for the Utility have been evaluated through March 31, 2014, which is the date that the financial statements were available to be issued.

Effective January 2, 2014, the Board of Trustees approved the following rate increases per month per subscriber: \$2, or 11.1%, for Basic Lifeline; \$3.00, or 8.0%, for Basic Plus; \$4.50, or 8.8% for FiberHome; \$4.50, or 6.4%, for FiberHome Plus; \$2.50, or 4.0% for FiberOffice; and \$2.50, or 2.8%, for FiberOffice Plus.

In January 2014 the Board of Trustees adopted resolution No.5419 approving the continuation of the annual interest rate on the notes between the Communications Utility and the Electric Utility and the Gas Utility at 2.0% as reflective of the investment and borrowing markets.

**Municipal Electric, Gas, Water and Communications Utilities
Of the City of Cedar Falls, Iowa
Required Supplemental Information
December 31, 2013, 2012 and 2011**

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

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

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*

Independent Auditors' Report

To the Board of Trustees
Cedar Falls Utilities – Municipal Communications Utility

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Communications Utility of the City of Cedar Falls, Iowa (Municipal Communications Utility) as of and for the year ended December 31, 2013, and have issued our report thereon dated March 28, 2014.

Internal Control Over Financial Reporting

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

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

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

To the Board of Trustees
Cedar Falls Utilities – Municipal Communications Utility

Compliance and Other Matters

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 28, 2014



March 28, 2014

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707 7398

We are providing this letter in connection with your audits of the financial statements of The Municipal Electric, Gas, Water and Communications Utilities of the City of Cedar Falls, Iowa (Utility or Utilities), each a component unit of the City of Cedar Falls, Iowa, as of December 31, 2013 and 2012 and for the years then ended for the purpose of expressing opinions as to whether the financial statements of each Utility presents fairly, in all material respects, the respective financial position, results of operations, and cash flows of the Utility in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. For purposes of this letter, materiality is as follows for each utility: (1) Electric - \$275,000, (2) Gas - \$125,000 (3) Water - \$40,000 and (4) Communications - \$160,000. Items are considered material regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the utility required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. These are related to the write-off of prior debt issue costs in 2013 due to the adoption of GASB 65 in the Electric and Communications Utilities and billing adjustments that will be corrected in 2014 in the Electric and Water Utilities.

In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.

9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
10. The Utilities record contributions in aid of construction from customer contributions, primarily relating to expansions to the Utilities' facilities, as Non-operating Revenues in the statements of revenues, expenses and changes in net position. Non-Cash contributions of capital are valued at estimated market cost.
11. With respect to information required by the Governmental Accounting Standards Board (GASB) to be presented with the basic financial statements (required supplementary information or RSI):
 - a. RSI is presented and measured according to authoritative guidelines on a basis consistent with that of the prior year.
 - b. RSI is consistent with the basic financial statements.
 - c. Management's discussion and analysis (MD&A) is based on facts, decisions, or conditions currently known to management.
12. The Utilities are in compliance with the requirements of the Code of Iowa Section 388.10 Municipal Utilities Providing Telecommunications Services regarding the subsidization of telecommunications operations by the electric and water utilities
13. We are unaware of any material changes in significant estimates included in the financial statements as of December 31, 2013, including but not limited to depreciation, self-insurance claims, other post-employment benefits, asset retirement obligations or bad debts.

Information Provided

14. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

- d. Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
15. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
16. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
- a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
17. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
18. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
19. There are no known related parties or related party relationships and transactions of which we are aware.

Other

20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
21. We have a process to track the status of any audit findings and recommendations.
22. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. The Utilities have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
24. There are no:
- a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
 - c. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - d. Restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

25. The Utilities have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
26. The Utilities have complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
27. The financial statements properly disclose all other joint ventures and other related organizations.
28. The financial statements properly classify all funds and activities.
29. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
30. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.
31. The Utilities have no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
32. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, depreciated/amortized. Any known impairments have been recorded and disclosed.
33. Tax exempt bonds issued have retained their tax exempt status.
34. The operations and rate setting process meet the condition for application of accounting for regulated operations as outlined in GASB No. 62. All regulatory items included in the financial statements have been approved and are being accounted for in accordance with specific action taken by the regulatory body and as such the expectation of future recovery or refund is reasonable.
35. We have appropriately disclosed the Utilities' policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding how restricted and unrestricted fund balance is used when an expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.
36. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
37. We assume responsibility for, and agree with, the findings of specialists in evaluating any potential Arbitrage liability and have adequately considered the qualifications of the specialists in determining any amounts and disclosures used in the financial statements and underlying accounting records.
38. In regards to the non-attest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

a) Adjusting Journal Entries

None of these non-attest services constitute an audit under generally accepted auditing standards, including Government Auditing Standards.

39. With respect to federal award programs:

- a. We are responsible for understanding and complying and have complied with the requirements of the Single Audit Act Amendments of 1996, OMB Circular A 133, Audits of States, Local Governments, and Non-Profit Organizations, and any other applicable laws and regulations and provisions of contracts and grant agreements, including requirements relating to preparation of the schedule of expenditures of federal awards.
- b. We understand that Baker Tilly, in accordance with Government Auditing Standards, will issue a report on the consideration of the Utilities' internal control over financial reporting and its tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. Baker Tilly will issue a separate letter of management representation in connection with the issuance of that report.

To the best of our knowledge and belief, no events have occurred subsequent to the statement of net position date and through the date of this letter that would require adjustment to or disclosure in the aforementioned combined financial statements.

Sincerely,

Signed: 
James R. Krieg, General Manager/CEO

Date 03/28/14

Signed: 
Rick McCollum, Director of Finance/CFO

Date 3-28-2014

MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES OF THE CITY OF CEDAR FALLS IOWA

SUMMARY OF PASSED ADJUSTING JOURNAL ENTRIES
December 31, 2013

Utility	2013									
	Financial Statements Effect - Increase (Decrease) to Financial Statement Total									
	Current Assets	Long-Term Assets	Total Assets	Current Liabilities	Long-Term Liabilities	Total Liabilities	Total Net Assets	Total Revenues	Total Expenses	Net Income
Water	\$ (10,471)	\$ -	\$ (10,471)	\$ -	\$ -	\$ -	\$ (10,471)	\$ (10,471)	\$ -	\$ (10,471)
Electric	(296,076)	-	(296,076)	-	-	-	-	-	(479,632)	479,632
Gas	-	-	-	-	-	-	-	-	-	-
Communications	-	-	-	-	-	-	-	-	(219,103)	219,103
Total Net Audit Differences	\$ (306,547)	\$ -	\$ (306,547)	\$ -	\$ -	\$ -	\$ (10,471)	\$ (10,471)	\$ (698,734)	\$ 688,263

**THE MUNICIPAL ELECTRIC, GAS, WATER
AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

REPORT ON FEDERAL AWARDS

Including Independent Auditors' Report

For the Year Ended December 31, 2013

**THE MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

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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*

Independent Auditors' Report

To the Board of Trustees
Cedar Falls Utilities
Cedar Falls, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Electric, Gas, Water, and Communications Utilities of the City of Cedar Falls, Iowa (Cedar Falls Utilities), component units of the City of Cedar Falls, Iowa, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cedar Falls 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 Cedar Falls Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Cedar Falls 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 and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. This material weakness is item 2013-001.

To the Board of Trustees
Cedar Falls Utilities

Compliance and Other Matters

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

Cedar Falls Utilities' Response to Findings

Cedar Falls Utilities' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs Cedar Falls Utilities' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 28, 2014

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

Independent Auditors' Report

To the Board of Trustees
Cedar Falls Utilities
Cedar Falls, Iowa

Report on Compliance for Each Major Federal Program

We have audited the Municipal Electric, Gas, Water, and Communications Utilities of the City of Cedar Falls, Iowa (Cedar Falls Utilities), component units of the City of Cedar Falls, Iowa, compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Cedar Falls Utilities' major federal programs for the year ended December 31, 2013. Cedar Falls Utilities' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Cedar Falls Utilities' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cedar Falls Utilities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Cedar Falls Utilities' compliance.

Opinion on Each Major Federal Program

In our opinion, Cedar Falls Utilities complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal major programs for the year ended December 31, 2013.

To the Board of Trustees
Cedar Falls Utilities

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-2. Our opinion on each major federal program is not modified with respect to these matters.

Cedar Falls Utilities' Response

The Cedar Falls Utilities' response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Cedar Falls Utilities' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Cedar Falls Utilities is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cedar Falls Utilities' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cedar Falls Utilities' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

To the Board of Trustees
Cedar Falls Utilities

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Cedar Falls Utilities as of and for the year ended December 31, 2013, and the related notes to the financial statements. We issued our report thereon dated March 28, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 28, 2014

**THE MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2013

Grantor Agency / Pass-Through Agency/ Program Title	Federal CFDA Number	Grant Number	2013 Expenditures
FEDERAL PROGRAMS			
U. S. Department of Housing and Urban Development			
Pass-through program from:			
City of Cedar Falls, Iowa:			
Community Development Block Grants/Entitlement Grants			
Block Grant Low Income	81.128	CDBG	\$ <u>4,810</u>
U.S. Department of Energy			
Renewable Energy Research and Development Program	81.087	DE-EE0000398	31,019
Pass-through program from:			
Iowa Association of Municipal Utilities:			
Smart Grid - ARRA	81.122	DE-EE0000359	<u>128,034</u>
Total U.S. Department of Energy			<u>159,053</u>
U.S. Department of Homeland Security			
Pass-through program from:			
Iowa Homeland Security and Emergency Management Division (IHSMD)			
Disaster Grants - Public Assistance (Presidentially Declared Disasters) - Flood 2008	97.036	013-000CA-00	294,570
Disaster Grants - Public Assistance (Presidentially Declared Disasters) - Wind Storm 2009 406 program	97.036	013-000CA-00	198,798
Hazard Mitigation Grant - Wind Storm 404 program	97.039	HMGP-DR-1763-0188-01	<u>1,762,560</u>
Total Department of Homeland Security			<u>2,255,928</u>
U.S. Department of Agriculture			
Pass-through program from:			
Rural Utilities Service:			
Broadband Grant - ARRA	10.787	Iowa 1123-A39	<u>158,676</u>
TOTAL FEDERAL PROGRAMS			<u>\$ 2,578,467</u>

See accompanying notes to schedule of expenditures of federal awards.

**THE MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

NOTE 1 – REPORTING ENTITY

This report on Federal Awards includes the federal awards of The Municipal Electric, Gas, Water, and Communications Utilities of the City of Cedar Falls, Iowa (Cedar Falls Utilities). The reporting entity for Cedar Falls Utilities is based upon criteria established by the Governmental Accounting Standards Board.

NOTE 2 – BASIS OF PRESENTATION

The accounting records for the federal awards are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

**THE MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2013

SECTION I – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- > Material weakness identified? X yes no
- > Significant deficiency identified? yes X none reported

Noncompliance material to financial statements noted?

 yes X no

FEDERAL AWARDS

Internal control over major programs:

- > Material weakness identified? yes X no
- > Significant deficiency identified? yes X none reported

Type of auditor’s report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

 X yes no

Auditee qualified as low-risk auditee?

 yes X no

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Identification of major federal programs:

CFDA Number

Name of Federal Program

97.036

Disaster Grants – Public Assistance,
Presidentially Declared Disaster

97.039

Hazard Mitigation Grant

**THE MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2013

**SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Finding 2013-001: Internal Control Over Financial Reporting

Criteria:

According to Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, sufficient internal controls should be in place that provide for the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles.

Condition:

Cedar Falls Utilities' financial records contained a material misstatement.

Cause:

Cedar Falls Utilities' controls over the review of journal entries did not identify and correct all misstatements in the financial records.

Effect:

There is a greater risk that Cedar Falls Utilities' financial records contain material misstatements.

Recommendation:

We recommend that management continue to carefully review journal entries that could have a material effect on the financial statements.

Management Response:

Management is aware of the incorrect journal entry completed annually and made improvements to the journal entry review process and the account reconciliation work paper process immediately upon the error being found.

**THE MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2013**

SECTION III – FEDERAL FINDINGS AND QUESTIONED COST

Finding 2013-002:

97.036 Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Criteria:

OMB Common Rule A-102 requires that Federal agencies, or their subgrantees, shall not award contracts to vendors that are debarred or suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549. Agencies, or subgrantees, shall establish procedures for the effective use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure that they do not contract with listed parties in violation of the Executive Order.

Condition:

Documentation of the utilities verification that vendors were not suspended or debarred before approving contracts with them was not maintained by the utility for two of the contracts that were tested during the audit.

Effect:

The utility could be awarding federal funds to vendors or subrecipients that have been suspended or debarred from federal contracts.

Cause:

In August 2011, Cedar Falls Utilities took action to incorporate verification measures into its contracting process, but did not have procedures in place to insure that proper documentation of the verification process was maintained.

Recommendation:

We recommend that the utility continue to incorporate this step into the normal contracting process and maintain documentation that the verification was completed for both new contracts awarded and previous contracts where verification was done after the contract was awarded.

Management Response:

In August 2011, Cedar Falls Utilities took action to incorporate verification measures into its contracting process. In early 2013, there was an interim lapse in proper documentation due in part to the conversion of websites from epls.arnet.gov to sam.gov. All purchase orders were reviewed in January 2014 to ensure that no vendors used were disbarred. Based upon our reviews, no vendors have been utilized by Cedar Falls Utilities that were disbarred.



March 28, 2014

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707

In connection with your audit of the federal awards received by The Municipal Electric, Gas, Water and Communications Utilities of the City of Cedar Falls, Iowa (Utility or Utilities), each a component unit of the City of Cedar Falls, Iowa, for the year ended December 31, 2013, in accordance with *Government Auditing Standards* and OMB Circular A-133, we confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. We reaffirm, as the date hereof and as if made on the date hereof, representations made to you in a letter dated March 28, 2014, related to the financial statements of the Utilities.
2. In addition, with respect to the federal award programs –
 - a. We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, including requirements relating to preparation of the schedule of expenditures of federal awards.
 - b. We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133, and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance.
 - c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
 - d. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information by posting the financial statements on our website no later than the date we issue the supplementary information and the auditors' report thereon.
 - e. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 .
 - f. We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

2. (cont.)

- g. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are administering our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- h. We have made available to you all contracts and grant agreements including amendments and any other correspondence relevant to the programs and related activities subject to the governmental audit requirement.
- i. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- j. We have complied with the direct and material compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards.
- k. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, if any, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- l. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- m. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.
- n. We have disclosed to you our interpretation of compliance requirements that are subject to varying interpretations, if any.
- o. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- p. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.

2. (cont.)

- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance) have occurred subsequent to the date as of which compliance was audited.
- r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
- t. We have charged costs to federal awards in accordance with applicable cost principles.
- u. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- v. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- w. We are responsible for preparing and implementing a corrective action plan for each audit finding.

Baker Tilly Virchow Krause, LLP

March 28, 2014

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3. There are no:
 - a. Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effect should be considered when reporting on noncompliance.
 - b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that would affect federal award programs, and we have not consulted a lawyer concerning litigation, claims or assessments relating to the federal award programs.
4. There have been no unusual adjustments related to the federal award programs made between December 31, 2013, and the date of this letter.
5. There are no substantial contingent liabilities or commitments related to the federal award programs as of December 31, 2013, or as of the date of this letter.

Very truly yours,

The Municipal Electric, Gas, Water
and Communications Utilities of the
City of Cedar Falls, Iowa



Rick McCollum
Director of Finance and Chief Financial Officer



James R. Krieg
General Manager and Chief Executive Officer