

DENISON MUNICIPAL UTILITIES

INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2014 and 2013

MAHONEY & GOTTO COMPANY

Certified Public Accountants

Denison, Iowa

DENISON MUNICIPAL UTILITIES

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DENISON MUNICIPAL UTILITIES

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brad Nelson	Chairman	2019
Nancy Bradley	Vice Chairman	2016
Dane Dammen	Board Member	2020
Chad Langenfeld	Board Member	2015
Jessica Garcia	Board Member	2018
Mark Ramthun	General Manager	Indefinite
Renee Vary	Manager-Finance & Customer Information	Indefinite
D. R. Franck	Attorney	Indefinite

MAHONEY & GOTTO COMPANY

Certified Public Accountants

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Denison, IA 51442**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Denison Municipal Utilities

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund types and the fiduciary fund information of Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities, each major enterprise fund and the fiduciary fund of Denison Municipal Utilities as of June 30, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Denison Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the four years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2014 on our consideration of Denison Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Denison Municipal Utilities' internal control over financial reporting and compliance.

Mahoney & Gotto Company
MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 12, 2014
Denison, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Denison Municipal Utilities annual report presents an analysis of the Utilities financial performance for the fiscal year ended June 30, 2014. Denison Municipal Utilities is organized into four operating divisions. They are the electric utility, water utility, sewer utility, and the joint treatment utility. This discussion and analysis not only points out the highlights of each utility but also reports and discusses highlights in combined form. We encourage readers to consider the information presented here in conjunction with the utilities financial statements and notes to the basic financial statements in order to enhance their understanding of the utilities financial performance.

2014 FINANCIAL HIGHLIGHTS

- Total combined operating revenues increased \$395,517 or 2.73% from the prior year. An increase in kilowatts of electricity sold along with an increase in the demand rate for peak usage contributed to the increase.
- Interest income decreased \$5,634 or 12.1% from the prior year. This decrease is a direct result of the use of cash reserve funds for capital improvement projects.
- Operating expenses increased \$645,573 or 5.45% from the prior year. Increased electric purchases due to increased usage along with increased wastewater processing costs contributed to the increase.
- Total assets increased \$720,452 and total liabilities decreased \$393,477, resulting in total net position increasing \$1,113,929 or 2.93% from the prior year. Investments in capital assets increased \$2,684,499 funded by amounts set aside in cash reserve funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides comparative financial information for each operating division.

FINANCIAL ANALYSIS OF THE UTILITIES

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

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

<u>Condensed Statement of Net Position</u>			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 11,454,710	\$ 11,989,779	\$ 12,024,308
Capital Assets	<u>32,012,745</u>	<u>30,757,224</u>	<u>30,059,625</u>
Total Assets	<u>43,467,455</u>	<u>42,747,003</u>	<u>42,083,933</u>
Long-term debt outstanding	2,095,000	2,515,000	2,926,000
Other liabilities	<u>2,242,892</u>	<u>2,216,369</u>	<u>2,334,157</u>
Total Liabilities	<u>4,337,892</u>	<u>4,731,369</u>	<u>5,260,157</u>
Net Investment in Capital Assets	29,515,155	27,851,120	27,253,008
Restricted Net Position	734,925	726,434	716,000
Unrestricted Net Position	<u>8,879,483</u>	<u>9,438,080</u>	<u>8,854,768</u>
Total Net Position	<u>\$ 39,129,563</u>	<u>\$ 38,015,634</u>	<u>\$ 36,823,776</u>

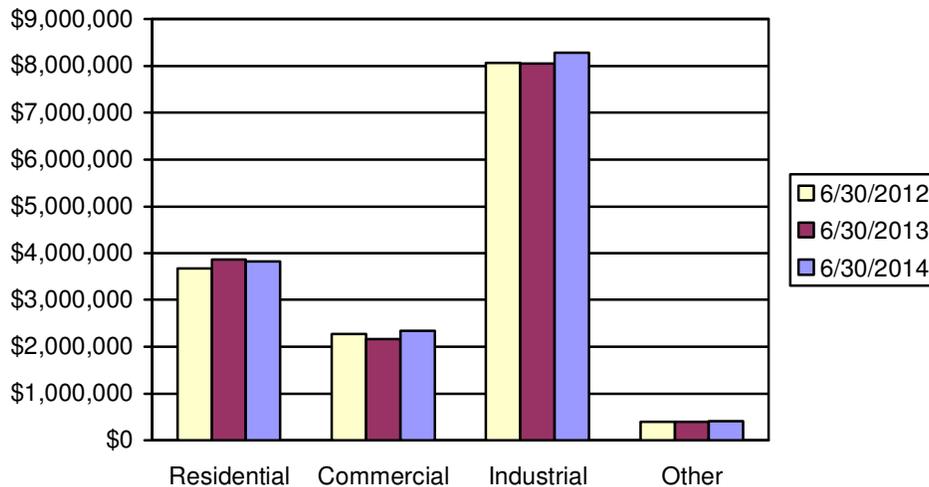
2014 OPERATING RESULTS

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

<u>Condensed Statements of Revenues, Expenses, and Changes in Net Position</u>			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Program revenues			
Operating revenues	\$14,858,755	\$14,463,238	\$ 14,387,060
Miscellaneous	460,341	320,092	511,527
Unrestricted investment earnings	<u>40,862</u>	<u>46,496</u>	<u>65,411</u>
Total revenues	<u>15,359,958</u>	<u>14,829,826</u>	<u>14,963,998</u>
Program expenses			
Operating expenses	12,485,857	11,840,284	12,053,598
Depreciation	1,600,416	1,527,017	1,401,490
Interest on long-term debt	59,756	96,252	121,823
Economic development	100,000	100,000	0
Payment in lieu of taxes	<u>0</u>	<u>74,415</u>	<u>66,614</u>
Total expenses	<u>14,246,029</u>	<u>13,637,968</u>	<u>13,643,525</u>
Change in net position	1,113,929	1,191,858	1,320,473
Unrestricted Net Position July 1	<u>38,015,634</u>	<u>36,823,776</u>	<u>35,503,303</u>
Unrestricted Net Position June 30	<u>\$ 39,129,563</u>	<u>\$ 38,015,634</u>	<u>\$ 36,823,776</u>

The following graph shows a comparison of total operating revenue by customer category for the fiscal years ended June 30, 2014, 2013 and 2012.

Comparison of Total Operating Revenues



Following is a schedule of the number of electric meters and the kilowatts used by customer class for the fiscal years ended June 30, 2014, 2013 and 2012:

Comparison of Electric Meters & Usage by Customer Class						
	2014		2013		2012	
	Meters	KWH	Meters	KWH	Meters	KWH
Commercial C1	615	14,557,276	608	14,425,811	619	18,670,720
Commercial C1M	16	431,780	16	394,946	16	416,715
Residential R1	2,438	30,667,441	2,444	29,954,273	2,434	31,683,204
Residential R2M	253	5,025,843	257	4,704,645	254	4,500,368
Industrial	72	96,472,545	72	95,651,941	61	97,117,347
Water plant		3,303,082		3,118,136		3,352,184
Sewer plant		6,566,683		5,625,770		6,921,629
City Government		2,660,640		2,578,958		2,827,847
Other DMU uses		598,270		571,843		565,351
Total Meters & KWH Billed	<u>3,394</u>	<u>160,283,560</u>	<u>3,397</u>	<u>157,026,323</u>	<u>3,384</u>	<u>166,055,365</u>

The number of water meters and gallons used by customer class for the fiscal years ended June 30, 2014, 2013 and 2012 is as follows:

Comparison of Water Meters & Usage by Customer Class						
	2014		2013		2012	
	Meters	Gals.	Meters	Gals.	Meters	Gals.
Residential	2,238	112,600,000	2,258	118,523,000	2,255	134,883,000
Commercial	396	106,996,000	396	105,864,000	394	110,361,000
West Central Rural Water	4	220,266,000	4	216,105,000	4	216,700,000
Residential Outside City	129	8,362,000	130	13,486,000	129	13,863,000
Commercial Outside City	20	33,329,000	20	29,391,000	19	29,234,000
Industrial	8	375,357,000	8	369,288,000	9	392,298,000
Electric Department		454,000		192,000		1,040,000
Sewer plant		1,118,000		2,563,000		2,047,000
City Government		4,469,000		5,130,000		4,665,000
Total Meters & Gals. Billed	<u>2,795</u>	<u>862,951,000</u>	<u>2,816</u>	<u>860,542,000</u>	<u>2,810</u>	<u>905,091,000</u>

ANALYSIS BY FUND

The Electric Utility, which accounts for the operation and maintenance of the electric system, ended fiscal year 2014 with a net position of \$14,474,429 compared to the prior year ending net position of \$14,412,104, an increase of 0.43%. An increase in amounts invested in capital assets and a decrease in current liabilities contributed to the increase along with increased electric usage and an increase in the demand rate charge for peak usage.

The Water Utility, which accounts for the operation and maintenance of the water treatment and distribution system, ended fiscal year 2014 with an \$11,888,874 net position compared to the prior year ending net position of \$11,596,053, an increase of 2.53%. An increase in capital assets and a decrease in the related debt contributed to the increase in net position.

The Sewer Utility, which accounts for the operation and maintenance of the wastewater treatment and sanitary sewer system, ended fiscal year 2014 with a net position of \$4,608,144 compared to \$4,218,757 for the previous fiscal year, an increase of 9.23%. An increase in amounts invested in capital assets and an increase in revenue due to an increase in the strength of the discharge from industries flowing to the sewer system contributed to the increase.

The Joint Treatment Utility, which accounts for the operation and maintenance of the waste water treatment system to which the major industries in the City of Denison discharge their pretreated waste water, ended the fiscal year 2014 with a net position of \$8,158,116 compared to the prior year ending net position of \$7,788,720, an increase of 4.74%. An increase in amounts invested in capital assets and a decrease in the related debt contributed to the increase in the net asset balance.

CAPITAL ASSETS

The Utilities capital assets include land, buildings, improvements, service lines, automobiles and equipment, and street lights. A total of \$2,855,937 was invested in new capital assets, after accounting for depreciation, there was an increase of \$1,255,521 in Capital Assets from June 30, 2013.

LONG-TERM DEBT

As of June 30, 2014, the Utilities had \$2.515 million in outstanding debt compared to \$2.926 million as of June 30, 2013. The decrease represents principal payments made during the fiscal year ended June 30, 2014. The outstanding debt of the Water Utility consists entirely of revenue bonds, which are secured by future water revenues.

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

BUDGETARY HIGHLIGHTS

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

The Utilities receipts were \$28,875 more than budgeted. Charges for utility services were more than anticipated due to higher than anticipated electric usage and also due to an increase in the demand charge for large commercial electric customers.

Total expenditures were \$475,200 less than budgeted. Delays in capital projects in each utility contributed to this variance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Various economic factors were considered when establishing the Utilities budget for fiscal 2014. Anticipated industry expansion and demographic changes are all considered in order to determine capital expenditures and expected revenues. During fiscal year 2015, the Utilities will review all rate structures to determine if any rate changes will be needed. Planned capital additions will be financed through cash reserves and operating cash flows thereby reducing the assets that bear interest and reducing interest income for the coming fiscal years.

COMMUNITY BENEFITS PROVIDED

As a municipal utility, DMU is able to provide the citizens of Denison with a variety of community benefits through lower rates and various customer programs. Following is a schedule of community benefits provided during the fiscal years ended June 30, 2014, 2013 and 2012.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
KWH Billed	160,283,560	157,026,323	166,055,365
Rate difference between Iowa average utility rate and Denison Municipal Utilities	<u>0.0167</u>	<u>0.0158</u>	<u>0.0153</u>
(1) Calculated total electric savings	\$ 2,676,735	\$ 2,481,016	\$ 2,540,647
(2) Transfer to City general fund in lieu of taxes	243,150	294,491	342,200
(3) New housing assistance program	2,000	2,000	0
(4) Water heater rebates	<u>3,780</u>	<u>6,580</u>	<u>7,520</u>
Total Community Benefits	<u>\$ 2,925,665</u>	<u>\$ 2,784,087</u>	<u>\$ 2,890,367</u>

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

ADDITIONAL FINANCIAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

DENISON MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

Exhibit A

	BUSINESS-TYPE ACTIVITIES	
	2014	2013
ASSETS		
UTILITY PLANT		
Plant in Service, at cost	\$ 62,008,467	\$ 59,323,968
Less: Accumulated depreciation	29,995,722	28,566,744
Net Utility Plant	\$ 32,012,745	\$ 30,757,224
OTHER ASSETS		
Restricted		
Revenue bond reserve	\$ 742,052	\$ 734,460
Loan origination fee, net of accumulated amortization	17,409	19,896
Unrestricted		
Note receivable	125,000	250,000
Equipment replacement investment	1,311,739	1,158,789
	\$ 2,196,200	\$ 2,163,145
CURRENT ASSETS		
Restricted		
Consumers' deposit fund	\$ 69,442	\$ 69,660
Unrestricted		
Cash	2,867,319	3,075,902
Deposits and investments	3,939,995	4,516,083
Accounts receivable	124,230	26,541
Unbilled usage	1,121,339	1,080,363
Due from other funds	34,648	30,400
Interest receivable	8,104	9,686
Grant funds receivable	0	0
Inventory	822,389	748,304
Prepaid insurance	146,044	144,695
Note receivable	125,000	125,000
Total Current Assets	\$ 9,258,510	\$ 9,826,634
Total Assets	\$ 43,467,455	\$ 42,747,003

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
June 30, 2014 and 2013**

Exhibit A

	BUSINESS-TYPE ACTIVITIES	
	2014	2013
LIABILITIES AND NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 29,515,155	\$ 27,851,120
Restricted:		
Debt Service	734,925	726,434
Consumer Deposits	0	0
Unrestricted net assets	8,879,483	9,438,080
Total Net Position	\$ 39,129,563	\$ 38,015,634
LONG-TERM DEBT		
Net of current maturities	\$ 2,095,000	\$ 2,515,000
CURRENT LIABILITIES		
Accounts payable	\$ 1,245,958	\$ 1,204,404
Due to other funds	34,648	30,400
Accrued vacation and sick leave	338,964	365,096
Other accrued liabilities	121,230	120,028
Payable from restricted assets		
Current maturities of long-term debt	420,000	411,000
Interest payable	12,127	15,526
Consumers' deposits	69,965	69,915
Total Current Liabilities	\$ 2,242,892	\$ 2,216,369
Total Liabilities and Net Position	\$ 43,467,455	\$ 42,747,003

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
June 30, 2014 and 2013

Exhibit B

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Joint Treatment</u>	<u>Total 2014</u>	<u>Total 2013</u>
ASSETS						
UTILITY PLANT						
Plant in Service, at cost	\$ 21,262,557	22,487,535	7,400,112	10,858,263	62,008,467	59,323,968
Less: Accumulated depreciation	12,331,780	10,542,063	3,172,940	3,948,939	29,995,722	28,566,744
Net Utility Plant	<u>\$ 8,930,777</u>	<u>11,945,472</u>	<u>4,227,172</u>	<u>6,909,324</u>	<u>32,012,745</u>	<u>30,757,224</u>
OTHER ASSETS						
Restricted						
Revenue bond reserve	\$ 0	742,052	0	0	742,052	734,460
Loan origination fee, net of accumulated amortization	0	17,409	0	0	17,409	19,896
Unrestricted						
Note receivable - Joint Treatment Utility	125,000	0	0	0	125,000	250,000
Equipment replacement investment	0	0	0	1,311,739	1,311,739	1,158,789
Total Other Assets	<u>\$ 125,000</u>	<u>759,461</u>	<u>0</u>	<u>1,311,739</u>	<u>2,196,200</u>	<u>2,163,145</u>
CURRENT ASSETS						
Restricted						
Consumers' deposit fund	\$ 69,442	0	0	0	69,442	69,660
Unrestricted						
Cash	1,708,812	681,254	373,763	103,490	2,867,319	3,075,902
Deposits and investments	3,210,084	542,602	187,309	0	3,939,995	4,516,083
Accounts receivable	(48,829)	89,097	26,510	57,452	124,230	26,541
Unbilled usage	689,413	178,444	120,380	133,102	1,121,339	1,080,363
Due from other funds	4,455	7,368	21,197	1,628	34,648	30,400
Interest receivable	7,543	561	0	0	8,104	9,686
Grant funds receivable	0	0	0	0	0	0
Inventory	723,143	99,246	0	0	822,389	748,304
Prepaid insurance	58,262	50,972	13,344	23,466	146,044	144,695
Note receivable - Joint Treatment Utility	125,000	0	0	0	125,000	125,000
Total Current Assets	<u>\$ 6,547,325</u>	<u>1,649,544</u>	<u>742,503</u>	<u>319,138</u>	<u>9,258,510</u>	<u>9,826,634</u>
Total Assets	<u>\$ 15,603,102</u>	<u>14,354,477</u>	<u>4,969,675</u>	<u>8,540,201</u>	<u>43,467,455</u>	<u>42,747,003</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
June 30, 2014 and 2013

Exhibit B

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Joint Treatment</u>	<u>Total 2014</u>	<u>Total 2013</u>
LIABILITIES AND NET POSITION						
NET POSITION						
Net Investment in Capital Assets	\$ 8,930,777	9,697,881	4,227,172	6,659,325	29,515,155	27,851,120
Restricted:						
Debt Service	0	734,925	0	0	734,925	726,434
Consumer Deposits	0	0	0	0	0	0
Unrestricted	5,543,652	1,456,068	380,972	1,498,791	8,879,483	9,438,080
Total Net Position	<u>\$ 14,474,429</u>	<u>11,888,874</u>	<u>4,608,144</u>	<u>8,158,116</u>	<u>39,129,563</u>	<u>38,015,634</u>
LONG-TERM DEBT -						
Net of current maturities	<u>\$ 0</u>	<u>1,970,000</u>	<u>0</u>	<u>125,000</u>	<u>2,095,000</u>	<u>2,515,000</u>
CURRENT LIABILITIES						
Accounts payable	\$ 772,878	67,234	295,384	110,462	1,245,958	1,204,404
Due to other funds	26,852	2,415	4,178	1,203	34,648	30,400
Accrued vacation and sick leave	206,147	88,132	44,685	0	338,964	365,096
Other accrued liabilities	52,831	35,695	17,284	15,420	121,230	120,028
Payable from restricted assets						
Current maturities of long-term debt	0	295,000	0	125,000	420,000	411,000
Interest payable	0	7,127	0	5,000	12,127	15,526
Consumers' deposits	69,965	0	0	0	69,965	69,915
Total Current Liabilities	<u>\$ 1,128,673</u>	<u>495,603</u>	<u>361,531</u>	<u>257,085</u>	<u>2,242,892</u>	<u>2,216,369</u>
 Total Liabilities and Net Position	 <u>\$ 15,603,102</u>	 <u>14,354,477</u>	 <u>4,969,675</u>	 <u>8,540,201</u>	 <u>43,467,455</u>	 <u>42,747,003</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
Years Ended June 30, 2014 and 2013

Exhibit C

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2014	Total 2013
OPERATING REVENUES						
Sales to consumers	\$ 9,537,791	2,318,496	1,343,285	1,630,650	14,830,222	14,430,115
Other operating revenues	28,533	0	0	0	28,533	33,123
Total operating revenues	\$ 9,566,324	2,318,496	1,343,285	1,630,650	14,858,755	14,463,238
OPERATING EXPENSES						
Cost of Power	\$ 7,620,118	0	0	0	7,620,118	7,288,412
Administrative & general	372,072	189,767	71,683	181,875	815,397	771,371
Transportation	45,567	14,645	16,762	12,268	89,242	95,865
Property, liability & work comp Insurance	70,614	61,577	16,181	28,117	176,489	164,357
Payroll tax expense	123,994	79,434	44,476	44,327	292,231	276,316
Employee insurance	160,461	88,690	50,497	49,198	348,846	348,331
Waste water processing expense	0	0	0	728,700	728,700	601,678
Joint treatment costs	0	0	262,611	0	262,611	251,657
Repair & maintenance	108,119	0	156,383	0	264,502	230,812
Power & pumping	0	301,339	18,948	0	320,287	235,319
Transmission & distribution	489,555	222,838	131,430	0	843,823	854,288
Purification	0	503,217	0	0	503,217	511,588
Consumer accounting & collection	79,867	75,819	64,708	0	220,394	210,290
Total operating expenses excluding depreciation	\$ 9,070,367	1,537,326	833,679	1,044,485	12,485,857	11,840,284
OPERATING INCOME BEFORE DEPRECIATION	\$ 495,957	781,170	509,606	586,165	2,372,898	2,622,954
DEPRECIATION	583,667	644,174	150,180	222,395	1,600,416	1,527,017
OPERATING INCOME (LOSS)	\$ (87,710)	136,996	359,426	363,770	772,482	1,095,937
NONOPERATING REVENUES (EXPENSES)						
Miscellaneous	\$ 221,148	195,927	28,907	14,359	460,341	320,092
Interest income	28,887	7,154	1,054	3,767	40,862	46,496
Interest expense	0	(47,256)	0	(12,500)	(59,756)	(96,252)
Payment in lieu of taxes	0	0	0	0	0	(74,415)
Economic Development expense	(100,000)	0	0	0	(100,000)	(100,000)
Total nonoperating revenues (expenses)	\$ 150,035	155,825	29,961	5,626	341,447	95,921
CHANGE IN NET POSITION	\$ 62,325	292,821	389,387	369,396	1,113,929	1,191,858
NET POSITION, BEGINNING OF YEAR	14,412,104	11,596,053	4,218,757	7,788,720	38,015,634	36,823,776
NET POSITION, END OF YEAR	\$ 14,474,429	11,888,874	4,608,144	8,158,116	39,129,563	38,015,634

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
Years Ended June 30, 2014 and 2013

Exhibit D

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2014	Total 2013
CASH FLOWS FROM OPERATING ACTIVITIES						
Change in Net Position	\$ 62,325	292,821	389,387	369,396	1,113,929	1,320,473
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:						
Depreciation	583,667	644,174	150,180	222,395	1,600,416	1,401,490
Amortization of origination fees	0	2,487	0	0	2,487	2,487
ARRA Loan Forgiven	0	0	0	0	0	(107,000)
Changes in assets and liabilities						
(Increase) decrease in consumers' deposit fund	218	0	0	0	218	(2,600)
(Increase) decrease in trade receivables	9,272	(53,278)	3,769	(57,452)	(97,689)	883,851
(Increase) decrease in unbilled usage	(65,556)	(2,411)	(9,670)	36,661	(40,976)	(474,537)
(Increase) decrease in grant funds receivable	0	0	0	0	-	(39,401)
(Increase) decrease in inventories	(69,623)	(4,462)	0	0	(74,085)	32,667
(Increase) decrease in prepaid expenses	(310)	(414)	(271)	(354)	(1,349)	(5,302)
(Increase) decrease in other current assets	2,082	767	(5,107)	(408)	(2,666)	8,053
Increase (decrease) in accounts payable and accrued liabilities	(213,774)	(91,370)	246,716	75,901	17,473	85,672
Increase (decrease) in customer deposits	50	0	0	0	50	(805)
Net cash provided by (used in) operating activities	<u>308,351</u>	<u>788,314</u>	<u>775,004</u>	<u>646,139</u>	<u>2,517,808</u>	<u>3,105,048</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale/maturities of securities	100,000	1,036,455	130,000	0	1,266,455	7,631,479
Purchase of investment securities	(112,461)	(585,258)	(240)	(152,950)	(850,909)	(5,074,537)
Purchase of property and equipment	(385,014)	(726,365)	(647,164)	(1,097,394)	(2,855,937)	(4,633,500)
Interfund loan to Joint Treatment	125,000	0	0	0	125,000	125,000
Net cash provided by (used in) investing activities	<u>(272,475)</u>	<u>(275,168)</u>	<u>(517,404)</u>	<u>(1,250,344)</u>	<u>(2,315,391)</u>	<u>(1,951,558)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from long-term borrowing	0	0	0	0	0	809
Principal payments on long-term borrowings	0	(286,000)	0	(125,000)	(411,000)	(647,000)
Net cash provided by (used in) financing activities	<u>0</u>	<u>(286,000)</u>	<u>0</u>	<u>(125,000)</u>	<u>(411,000)</u>	<u>(646,191)</u>
Net increase (decrease) in cash and cash equivalents	35,876	227,146	257,600	(729,205)	(208,583)	507,299
Cash and cash equivalents:						
Beginning	<u>1,672,936</u>	<u>454,108</u>	<u>116,163</u>	<u>832,695</u>	<u>3,075,902</u>	<u>2,841,697</u>
Ending	<u>\$ 1,708,812</u>	<u>681,254</u>	<u>373,763</u>	<u>103,490</u>	<u>2,867,319</u>	<u>3,348,996</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2014 and 2013

Exhibit E

	2014	2013
ASSETS		
OTHER ASSETS		
Restricted		
Deferred compensation	\$ 347,069	\$ 330,454
CURRENT ASSETS		
None	\$ <u>0</u>	\$ <u>0</u>
Total Assets	\$ <u><u>347,069</u></u>	\$ <u><u>330,454</u></u>
 LIABILITIES AND NET POSITION		
NET POSITION		
None	\$ <u>0</u>	\$ <u>0</u>
CURRENT LIABILITIES		
Payable from restricted assets		
Deferred compensation	\$ <u>347,069</u>	\$ <u>330,454</u>
Total Current Liabilities	\$ <u>347,069</u>	\$ <u>330,454</u>
Total Liabilities and Net Position	\$ <u><u>347,069</u></u>	\$ <u><u>330,454</u></u>

DENISON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies

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

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

Reporting entity

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

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

Basis of Presentation

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

Assets, Liabilities and Net Position

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

Cash, Investments and Cash Equivalents - The Utilities considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. There were no cash equivalents as of June 30, 2014. Investments consist of non-negotiable certificates of deposit which are stated at cost.

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

Restricted For	2014	2013	2012
Debt Service	\$ 734,925	\$ 726,434	\$ 712,274
Consumer Deposits	0	0	3,726

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

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

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

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

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

Major costs for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the utility plant constructed, net of interest earned on the invested proceeds over the same period. There were no qualifying assets acquired during the year ended June 30, 2014.

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

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

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

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

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

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

Estimates

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

Budgets and Budgetary Accounting

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

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted as amended.

Note 2 – Deposits and Investments

The Utilities deposits, in banks, at June 30, 2014 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

Note 3 – Utility Plant

Capital asset activity for the year ended June 30, 2014 is as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	Ending <u>Balance</u>
Land	\$ 1,086,792	\$ 0	\$ 0	\$ 1,086,792
River Levee	<u>212,153</u>	<u>0</u>	<u>0</u>	<u>212,153</u>
Non-Depreciable Capital Assets	<u>1,298,945</u>	<u>0</u>	<u>0</u>	<u>1,298,945</u>
Plant	19,998,322	571,514	0	20,569,836
Distribution & Collection	24,296,445	730,686	0	25,027,131
Machinery & Equipment	966,548	124,929	3,294	1,088,183
General Buildings	2,132,268	3,642	0	2,135,910
Transportation Equipment	1,365,003	338,466	168,144	1,535,325
Joint Treatment Facility	<u>9,266,437</u>	<u>1,086,700</u>	<u>0</u>	<u>10,353,137</u>
Depreciable Capital Assets	58,025,023	2,855,937	171,438	60,709,522
Less Accumulated Depreciation	<u>28,566,744</u>	<u>1,600,416</u>	<u>171,438</u>	<u>29,995,722</u>
Depreciable Capital Assets-Net	<u>29,458,279</u>	<u>1,255,521</u>	<u>0</u>	<u>30,713,800</u>
Net Capital Assets	<u>\$30,757,224</u>	<u>\$ 1,255,521</u>	<u>\$ 0</u>	<u>\$32,012,745</u>

Depreciation charged to operations for the years ended June 30, 2014, 2013, and 2012 was \$1,600,416, \$1,527,017, and \$1,401,490 respectively. Construction in progress included in the above amounts is \$27,949, \$74,500, and \$1,737,852 for June 30, 2014, 2013, and 2012 respectively. No depreciation was taken on the construction in progress amounts.

Note 4 – Loan Origination Fee

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

Note 5 – Long-Term Debt

Following is a summary of changes in the water utility long-term debt for the year ended June 30, 2014:

	Series 2001 Water Revenue <u>Capital Loan Note</u>	Series 2010 Water Revenue <u>Capital Loan Note</u>	<u>Total Debt Payable</u>
Balance July 1, 2013	2,270,000	281,000	2,551,000
Redeemed	<u>(255,000)</u>	<u>(31,000)</u>	<u>(286,000)</u>
Balance June 30, 2014	2,015,000	250,000	2,265,000
Less: current portion	<u>(263,000)</u>	<u>(32,000)</u>	<u>(295,000)</u>
Long-term debt, net of current portion	<u>1,752,000</u>	<u>218,000</u>	<u>1,970,000</u>

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

Year Ending <u>June 30</u>	<u>Series 2001</u>			<u>Series 2010</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>
2015	\$ 263,000	60,450	5,038	32,000	7,500	625
2016	271,000	52,560	4,380	33,000	6,540	545
2017	279,000	44,430	3,703	35,000	5,550	463
2018	287,000	36,060	3,005	36,000	4,500	375
2019	296,000	27,450	2,287	37,000	3,420	285
2020	305,000	18,570	1,547	38,000	2,310	193
2021	<u>314,000</u>	<u>9,420</u>	<u>785</u>	<u>39,000</u>	<u>1,170</u>	<u>97</u>
	\$ <u>2,015,000</u>	<u>248,940</u>	<u>20,475</u>	\$ <u>250,000</u>	<u>30,990</u>	<u>2,583</u>

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

During the fiscal year ended June 30, 2006, the electric utility had advanced funds to the joint treatment utility to expand the waste treatment facility. The loan bears an interest rate of 4.0% and is due in annual installments payable on January 1 of each year. Following is the long-term liability activity for the fiscal year ended June 30, 2014:

	<u>Notes Payable</u>
Balance July 1, 2013	\$ 375,000
Redeemed	<u>(125,000)</u>
Balance June 30, 2014	250,000
Less: current portion	<u>(125,000)</u>
Long-term debt, net of current portion	\$ <u>125,000</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	125,000	10,000
2016	<u>125,000</u>	<u>5,000</u>
	\$ <u>250,000</u>	<u>15,000</u>

Note 6 – Pension and Retirement Benefits

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

Plan members are required to contribute 5.95% of their annual covered salary and the Utilities is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$143,559, \$135,073, and \$123,430 respectively, equal to the required contributions for the year.

The Utilities sponsors a deferred compensation plan under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary to future years. All full-time employees who have completed six months of continuous employment and are 18 years of age are eligible to participate. The Utilities will contribute up to \$75 per month for all employees contributing at least \$75 per month of their salary. The Utilities' contribution for the year ended June 30, 2014, 2013 and 2012 was \$22,823, \$20,250 and \$14,625 respectively.

Note 7 – Major Customers

A significant portion of the Electric Utility and Water Utility revenue is derived from a single customer. This customer accounted for approximately 32.0% of the Electric Utility usage and 37.8% of the Water Utility usage for the year ended June 30, 2014.

Note 8 – Concentrations

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

Note 9 – Post-employment Benefits (OPEB)

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

Funding Policy – The Utilities currently finances the retiree benefit plan on a pay-as-you-go basis. The Utilities incurred \$10,500 for retiree health premiums and \$8,138 of self-funding costs during the current fiscal year as a result of this program.

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

The following table shows the components of the Utilities annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the Utilities net OPEB obligation:

Annual required contribution	\$ 23,864
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost	23,864
Contributions made	<u>(10,500)</u>
Increase in net OPEB obligation	13,364
Net OPEB obligation beginning of year	<u>40,555</u>
Net OPEB obligation end of year	<u>\$ 53,919</u>

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2014 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$ 23,864	53.4%	\$ 23,607
6/30/13	\$ 23,864	29.0%	\$ 40,555
6/30/14	\$ 23,864	44.0%	\$ 53,919

Funded Status and Funding Progress - As of June 30, 2014, the actuarial accrued liability for benefits was \$280,831, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,591,026, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 17.7%. As of June 30, 2014 there were no trust fund assets.

Actuarial Methods and Assumptions - The actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Note 10 – Related Party Transactions

The Utilities had business transactions between the Utilities and Utility officials totaling \$17,043 during the year ended June 30, 2014.

Note 11 – Construction and Other Commitments

The Utilities has entered into a construction contract totaling \$417,150 for the painting of two water towers. At June 30, 2014, \$216,423 had been paid under the construction contract.

The Utilities has entered into a construction contract totaling \$930,985 for the installation of an ultra-violet disinfection system at the waste water treatment plant. As of June 30, 2014, \$884,436 had been paid under the construction contract.

The Utilities has approved the replacement of a water main and sanitary sewer manhole repair with a cost of \$102,911 in conjunction with the City of Denison's 2014 Street replacement project. At June 30, 2014, no funds had been paid under the construction contract.

On March 10, 2003, the Utilities entered into an amended, substituted and restated contract, for the sale and purchase of water and for the sale of an undivided interest in Capacity of Water Supply, Treatment Works and Transmission Facilities with West Central Iowa Rural Water Association (WCIRW). The term of the contract extends for a period of 40 years from the date of the initial delivery of water as shown by the first water bill submitted by DMU to WCIRW under the original agreement dated September 12, 1996. WCIRW may obtain up to 1.5 million gallons per day excluding water needed during fire emergencies. In accordance with the contract, WCIRW has contributed capital in the amount of \$2,649,179 for its share of the capacity of the plant required by WCIRW (21.43%). WCIRW has agreed to purchase water from Denison Municipal Utilities at Denison Municipal Utilities' cost of production.

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

Note 12 – Risk Management

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

Note 13 – Subsequent Events

Management has evaluated subsequent events through September 12, 2014, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

DENISON MUNICIPAL UTILITIES
 BUDGETARY COMPARISON SCHEDULE
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2014

	<u>Per Financial Statements</u>	<u>Accrual Adjustments</u>	<u>Budget Adjustments</u>	<u>Cash Basis</u>	<u>Amended Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue/Receipts						
Charges for services	\$ 14,858,755	(138,665)	0	14,720,090	14,677,300	42,790
Interest income	40,862	1,582	0	42,444	42,300	144
Miscellaneous	<u>460,341</u>	<u>0</u>	<u>125,000</u>	<u>585,341</u>	<u>599,400</u>	<u>(14,059)</u>
Total Revenue/Receipts	15,359,958	(137,083)	125,000	15,347,875	15,319,000	28,875
Expenses/Expenditures						
Operating expenses	12,485,857	(14,149)	0	12,471,708	12,493,200	21,492
Interest expense & Economic Development	159,756	3,399	0	163,155	160,300	(2,855)
Debt payments	0	0	411,000	411,000	411,000	0
Depreciation & capital expenditures	<u>1,600,416</u>	<u>0</u>	<u>1,255,521</u>	<u>2,855,937</u>	<u>3,312,500</u>	<u>456,563</u>
Total Expenses/Expenditures	14,246,029	(10,750)	1,666,521	15,901,800	16,377,000	475,200
Change in Net Position	1,113,929	(126,333)	(1,541,521)	(553,925)	<u>(1,058,00)</u>	<u>504,075</u>
Beginning Net Position	<u>38,015,634</u>	<u>(19,279,374)</u>	<u>(7,893,336)</u>	<u>10,842,924</u>		
Ending Net Position	\$ <u>39,129,563</u>	<u>(19,405,707)</u>	<u>(9,434,857)</u>	<u>10,288,999</u>		

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

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,436,882	10.1%
2010	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,491,370	9.8%
2011	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,533,107	9.5%
2012	June 30, 2012	\$ 0	\$ 280,831	\$ 280,831	0.00%	\$1,510,275	18.6%
2013	June 30, 2012	\$ 0	\$ 280,831	\$ 280,831	0.00%	\$1,547,689	18.1%
2014	June 30, 2012	\$ 0	\$ 280,831	\$ 280,831	0.00%	\$1,591,026	17.7%

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

SUPPLEMENTARY INFORMATION

DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2014 and 2013

Schedule 1

	2014	2013
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in Service, at cost	\$ 21,262,557	\$ 20,994,003
Less: Accumulated depreciation	12,331,780	11,864,573
Net Electric Utility Plant	\$ 8,930,777	\$ 9,129,430
OTHER ASSETS		
Note receivable-Joint Treatment Utility	\$ 125,000	\$ 250,000
CURRENT ASSETS		
Restricted		
Consumers' deposit fund	\$ 69,442	\$ 69,660
Unrestricted		
Cash	1,708,812	1,672,936
Deposits and investments	3,210,084	3,197,623
Accounts receivable	(48,829)	(39,557)
Unbilled usage	689,413	623,857
Due from other funds	4,455	4,669
Interest receivable	7,543	9,411
Grant funds receivable	0	0
Inventory	723,143	653,520
Prepaid insurance	58,262	57,952
Note receivable-Joint Treatment Utility	125,000	125,000
Total Current Assets	\$ 6,547,325	\$ 6,375,071
 Total Assets	 \$ 15,603,102	 \$ 15,754,501
 LIABILITIES AND NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 8,930,777	\$ 9,129,430
Restricted for Consumer Deposits	0	0
Unrestricted	5,543,652	5,282,674
Total Net Position	\$ 14,474,429	\$ 14,412,104
CURRENT LIABILITIES		
Accounts payable	\$ 772,878	\$ 987,381
Due to other funds	26,852	22,801
Accrued vacation and sick leave	206,147	211,143
Other accrued liabilities	52,831	51,157
Payable from restricted assets		
Consumers' deposits	69,965	69,915
Total Current Liabilities	\$ 1,128,673	\$ 1,342,397
 Total Liabilities and Net Position	 \$ 15,603,102	 \$ 15,754,501

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2014 and 2013

Schedule 1

	2014	2013
OPERATING REVENUES		
Sales to consumers	\$ 9,537,791	\$ 9,142,174
Other operating revenues	28,533	33,123
Total operating revenues	\$ 9,566,324	\$ 9,175,297
OPERATING EXPENSES		
Cost of Power	\$ 7,620,118	\$ 7,288,412
Administrative & general	372,072	348,724
Transportation	45,567	52,476
Property, liability, work comp insurance	70,614	64,786
Payroll tax expense	123,994	117,102
Employee insurance	160,461	162,555
Repair & maintenance	108,119	89,674
Transmission & distribution	489,555	484,094
Consumer accounting & collection	79,867	67,165
Total operating expenses excluding depreciation	\$ 9,070,367	\$ 8,674,988
OPERATING INCOME BEFORE DEPRECIATION	\$ 495,957	\$ 500,309
DEPRECIATION	583,667	549,008
OPERATING INCOME (LOSS)	\$ (87,710)	\$ (48,699)
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 221,148	\$ 165,534
Interest income	28,887	33,006
Payment in lieu of taxes	0	(74,415)
Economic Development expense	(100,000)	(100,000)
Total nonoperating revenues (expenses)	\$ 150,035	\$ 24,125
CHANGE IN NET POSITION	\$ 62,325	\$ (24,574)
NET POSITION, BEGINNING OF YEAR	14,412,104	14,436,678
NET POSITION, END OF YEAR	\$ 14,474,429	\$ 14,412,104

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2014 and 2013

Schedule 1

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 62,325	\$ (24,574)
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	583,667	549,008
Changes in assets and liabilities		
(Increase) decrease in consumers' deposit fund	218	3,551
(Increase) decrease in trade receivables	9,272	(13,860)
(Increase) decrease in unbilled usage	(65,556)	100,439
(Increase) decrease in grant funds receivable	0	39,401
(Increase) decrease in inventories	(69,623)	(165,187)
(Increase) decrease in prepaid expenses	(310)	(7,520)
(Increase) decrease in other current assets	2,082	5,501
Increase (decrease) in accounts payable and accrued liabilities	(213,774)	(105,084)
Increase (decrease) in customer deposits	50	430
Net cash provided by (used in) operating activities	\$ 308,351	\$ 382,105
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 100,000	\$ 100,000
Purchase of investment securities	(112,461)	(113,060)
Interfund loan to Joint Treatment	125,000	125,000
Purchase of property and equipment	(385,014)	(877,941)
Net cash provided by (used in) investing activities	\$ (272,475)	\$ (766,001)
CASH FLOWS FROM FINANCING ACTIVITIES		
None	\$ 0	\$ 0
Net cash provided by (used in) financing activities	\$ 0	\$ 0
Net increase (decrease) in cash and cash equivalents	\$ 35,876	\$ (383,896)
Cash and cash equivalents:		
Beginning	1,672,936	2,056,832
Ending	\$ 1,708,812	\$ 1,672,936

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2014

Schedule 2

	Actual	Amended Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 9,537,791	9,350,900	186,891
Other operating revenues	28,533	29,000	(467)
Total operating revenues	\$ 9,566,324	9,379,900	186,424
 OPERATING EXPENSES			
Cost of Power	\$ 7,620,118	7,540,000	(80,118)
Administrative & general	372,072	376,000	3,928
Transportation	45,567	45,000	(567)
Property, liability, work comp insurance	70,614	68,500	(2,114)
Payroll tax expense	123,994	117,600	(6,394)
Employee insurance	160,461	157,500	(2,961)
Repair & maintenance	108,119	107,000	(1,119)
Transmission & distribution	489,555	490,100	545
Consumer accounting & collection	79,867	78,500	(1,367)
Total operating expenses excluding depreciation	\$ 9,070,367	8,980,200	(90,167)
 OPERATING INCOME BEFORE DEPRECIATION	\$ 495,957	399,700	96,257
 DEPRECIATION	583,667	530,000	(53,667)
 OPERATING INCOME (LOSS)	\$ (87,710)	(130,300)	42,590
 NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 221,148	228,600	(7,452)
Interest income	28,887	30,000	(1,113)
Payment in lieu of taxes	0	0	0
Economic Development expense	(100,000)	(100,000)	0
Total nonoperating revenues (expenses)	\$ 150,035	158,600	(8,565)
 CHANGE IN NET POSITION	\$ 62,325	28,300	34,025
 NET POSITION, BEGINNING OF YEAR	14,412,104	11,651,130	
 NET POSITION, END OF YEAR	\$ 14,474,429	11,679,430	

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
WATER UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2014 and 2013

Schedule 3

	2014	2013
ASSETS		
WATER UTILITY PLANT		
Plant in Service, at cost	\$ 22,487,535	\$ 21,800,148
Less: Accumulated depreciation	10,542,063	9,936,867
Net Water Utility Plant	\$ 11,945,472	\$ 11,863,281
OTHER ASSETS		
Revenue bond reserve	\$ 742,052	\$ 734,460
Loan origination fee	17,409	19,896
Total Other Assets	\$ 759,461	\$ 754,356
CURRENT ASSETS		
Unrestricted		
Cash	\$ 681,254	\$ 454,108
Deposits and investments	542,602	1,001,391
Accounts receivable	89,097	35,819
Unbilled usage	178,444	176,033
Due from other funds	7,368	8,421
Interest receivable	561	275
Inventory	99,246	94,784
Prepaid insurance	50,972	50,558
Total Current Assets	\$ 1,649,544	\$ 1,821,389
Total Assets	\$ 14,354,477	\$ 14,439,026
LIABILITIES AND NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 9,697,881	\$ 9,332,177
Restricted for Debt Service	734,925	726,434
Unrestricted	1,456,068	1,537,442
Total Net Position	\$ 11,888,874	\$ 11,596,053
LONG-TERM DEBT - Net of current maturities	\$ 1,970,000	\$ 2,265,000
CURRENT LIABILITIES		
Accounts payable	\$ 67,234	\$ 156,467
Due to other funds	2,415	2,770
Accrued vacation and sick leave	88,132	91,009
Other accrued liabilities	35,695	33,701
Payable from restricted assets		
Current maturities of long-term debt	295,000	286,000
Interest payable	7,127	8,026
Total Current Liabilities	\$ 495,603	\$ 577,973
Total Liabilities and Net Position	\$ 14,354,477	\$ 14,439,026

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
WATER UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2014 and 2013

Schedule 3

	2014	2013
OPERATING REVENUES		
Sales to consumers	\$ 2,318,496	\$ 2,329,235
OPERATING EXPENSES		
Administrative & general	\$ 189,767	\$ 194,944
Transportation	14,645	15,163
Property, liability, work comp insurance	61,577	58,600
Payroll tax expense	79,434	74,889
Employee insurance	88,690	98,949
Power & pumping	301,339	210,484
Transmission & distribution	222,838	214,211
Purification	503,217	511,588
Consumer accounting & collection	75,819	79,187
Total operating expenses excluding depreciation	\$ 1,537,326	\$ 1,458,015
OPERATING INCOME BEFORE DEPRECIATION	\$ 781,170	\$ 871,220
DEPRECIATION	644,174	632,257
OPERATING INCOME (LOSS)	\$ 136,996	\$ 238,963
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 195,927	\$ 30,339
Interest income	7,154	7,524
Interest expense	(47,256)	(78,752)
Total nonoperating revenues (expenses)	\$ 155,825	\$ (40,889)
CHANGE IN NET POSITION	\$ 292,821	\$ 198,074
NET POSITION, BEGINNING OF YEAR	11,596,053	11,397,979
NET POSITION, END OF YEAR	\$ 11,888,874	\$ 11,596,053

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
WATER UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2014 and 2013

Schedule 3

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 292,821	\$ 198,074
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	644,174	632,257
Amortization of origination fees	2,487	2,487
ARRA loan forgiven	0	0
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(53,278)	(29)
(Increase) decrease in unbilled usage	(2,411)	39,025
(Increase) decrease in inventories	(4,462)	3,354
(Increase) decrease in prepaid expenses	(414)	(3,986)
(Increase) decrease in other current assets	767	4,482
Increase (decrease) in accounts payable and accrued liabilities	(91,370)	82,407
Net cash provided by (used in) operating activities	\$ 788,314	\$ 958,071
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 1,036,455	\$ 369,944
Purchase of investment securities	(585,258)	(639,252)
Purchase of property and equipment	(726,365)	(682,985)
Net cash provided by (used in) investing activities	\$ (275,168)	\$ (952,293)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowing	\$ 0	\$ 0
Principal payments on long-term borrowing	(286,000)	(278,000)
Net cash provided by (used in) financing activities	\$ (286,000)	\$ (278,000)
Net increase (decrease) in cash and cash equivalents	\$ 227,146	\$ (272,222)
Cash and cash equivalents:		
Beginning	454,108	726,330
Ending	\$ 681,254	\$ 454,108

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
WATER UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2014

Schedule 4

	Actual	Amended Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 2,318,496	2,339,800	(21,304)
OPERATING EXPENSES			
Administrative & general	\$ 189,767	185,500	(4,267)
Transportation	14,645	14,000	(645)
Property, liability, work comp insurance	61,577	60,000	(1,577)
Payroll tax expense	79,434	75,200	(4,234)
Employee insurance	88,690	88,000	(690)
Power & pumping	301,339	313,000	11,661
Transmission & distribution	222,838	197,500	(25,338)
Purification	503,217	492,500	(10,717)
Consumer accounting & collection	75,819	74,500	(1,319)
Total operating expenses excluding depreciation	\$ 1,537,326	1,500,200	(37,126)
OPERATING INCOME BEFORE DEPRECIATION	\$ 781,170	839,600	(58,430)
DEPRECIATION	644,174	625,000	(19,174)
OPERATING INCOME (LOSS)	\$ 136,996	214,600	(77,604)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 195,927	198,800	(2,873)
Interest income	7,154	7,000	154
Interest expense	(47,256)	(47,800)	544
Total nonoperating revenues (expenses)	\$ 155,825	158,000	(2,175)
CHANGE IN NET POSITION	\$ 292,821	372,600	(79,779)
NET POSITION, BEGINNING OF YEAR	11,596,053	8,853,926	
NET POSITION, END OF YEAR	\$ 11,888,874	9,226,526	

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2014 and 2013

Schedule 5

	2014	2013
ASSETS		
SEWER UTILITY PLANT		
Plant in Service, at cost	\$ 7,400,112	\$ 6,768,948
Less: Accumulated depreciation	3,172,940	3,038,760
Net Sewer Utility Plant	\$ 4,227,172	\$ 3,730,188
 CURRENT ASSETS		
Unrestricted		
Cash	373,763	116,163
Deposits and investments	187,309	317,069
Accounts receivable	26,510	30,279
Unbilled usage	120,380	110,710
Due from other funds	21,197	16,090
Interest receivable	0	0
Prepaid insurance	13,344	13,073
Total Current Assets	\$ 742,503	\$ 603,384
Total Assets	\$ 4,969,675	\$ 4,333,572
 LIABILITIES AND NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 4,227,172	\$ 3,730,188
Restricted	0	0
Unrestricted	380,972	488,569
Total Net Position	\$ 4,608,144	\$ 4,218,757
 CURRENT LIABILITIES		
Accounts payable	\$ 295,384	\$ 26,742
Due to other funds	4,178	3,613
Accrued vacation and sick leave	44,685	62,944
Other accrued liabilities	17,284	21,516
Total Current Liabilities	\$ 361,531	\$ 114,815
Total Liabilities and Net Position	\$ 4,969,675	\$ 4,333,572

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2014 and 2013

Schedule 5

	2014	2013
OPERATING REVENUES		
Sales to consumers	\$ 1,343,285	\$ 1,264,583
OPERATING EXPENSES		
Administrative & general	\$ 71,683	\$ 91,784
Transportation	16,762	18,241
Property, liability, work comp insurance	16,181	15,082
Payroll tax expense	44,476	42,563
Employee insurance	50,497	41,649
Joint treatment processing	262,611	251,657
Repair & maintenance	156,383	141,138
Power & pumping	18,948	24,835
Plant & main maintenance	131,430	155,983
Consumer accounting & collection	64,708	63,938
Total operating expenses excluding depreciation	\$ 833,679	\$ 846,870
OPERATING INCOME BEFORE DEPRECIATION	\$ 509,606	\$ 417,713
DEPRECIATION	150,180	135,915
OPERATING INCOME (LOSS)	\$ 359,426	\$ 281,798
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 28,907	\$ 108,300
Loss on the sale of property and equipment	0	0
Interest income	1,054	1,531
Total nonoperating revenues (expenses)	\$ 29,961	\$ 109,831
CHANGE IN NET POSITION	\$ 389,387	\$ 391,629
NET POSITION, BEGINNING OF YEAR	4,218,757	3,827,128
NET POSITION, END OF YEAR	\$ 4,608,144	\$ 4,218,757

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2014 and 2013

Schedule 5

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 389,387	\$ 391,629
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	150,180	135,915
Changes in assets and liabilities		
(Increase) decrease in trade receivables	3,769	12,764
(Increase) decrease in unbilled usage	(9,670)	(11,162)
(Increase) decrease in prepaid expenses	(271)	(1,623)
(Increase) decrease in other current assets	(5,107)	(2,351)
Increase (decrease) in accounts payable and accrued liabilities	246,716	(111,139)
Net cash provided by (used in) operating activities	\$ 775,004	\$ 414,033
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 130,000	\$ 100,000
Purchase of investment securities	(240)	(374)
Purchase of property and equipment	(647,164)	(459,629)
Proceeds from the sale of property and equipment	0	0
Net cash provided by (used in) investing activities	\$ (517,404)	\$ (360,003)
CASH FLOWS FROM FINANCING ACTIVITIES		
None	\$ 0	\$ 0
Net cash provided by (used in) financing activities	\$ 0	\$ 0
 Net increase (decrease) in cash and cash equivalents	 \$ 257,600	 \$ 54,030
 Cash and cash equivalents:		
Beginning	116,163	62,133
Ending	\$ 373,763	\$ 116,163

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2014

Schedule 6

	Actual	Amended Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 1,343,285	1,338,300	4,985
OPERATING EXPENSES			
Administrative & general	\$ 71,683	95,500	23,817
Transportation	16,762	16,000	(762)
Property, liability, work comp insurance	16,181	15,500	(681)
Payroll tax expense	44,476	47,000	2,524
Employee insurance	50,497	50,500	3
Joint treatment processing	262,611	266,000	3,389
Repair & maintenance	156,383	160,000	3,617
Power & pumping	18,948	20,000	1,052
Plant & main maintenance	131,430	197,300	65,870
Consumer accounting & collection	64,708	60,000	(4,708)
Total operating expenses excluding depreciation	\$ 833,679	927,800	94,121
OPERATING INCOME BEFORE DEPRECIATION	\$ 509,606	410,500	99,106
DEPRECIATION	150,180	105,000	(45,180)
OPERATING INCOME (LOSS)	\$ 359,426	305,500	53,926
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 28,907	30,000	(1,093)
Interest income	1,054	1,000	54
Total nonoperating revenues (expenses)	\$ 29,961	31,000	(1,039)
CHANGE IN NET POSITION	\$ 389,387	336,500	52,887
NET POSITION, BEGINNING OF YEAR	4,218,757	3,231,350	
NET POSITION, END OF YEAR	\$ 4,608,144	3,567,850	

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2014 and 2013

Schedule 7

	2014	2013
ASSETS		
JOINT TREATMENT PLANT		
Plant in Service, at cost	\$ 10,858,263	\$ 9,760,869
Less: Accumulated depreciation	3,948,939	3,726,544
Net Joint Treatment Plant	\$ 6,909,324	\$ 6,034,325
OTHER ASSETS		
Unrestricted		
Equipment replacement investment	\$ 1,311,739	\$ 1,158,789
CURRENT ASSETS		
Unrestricted		
Cash	\$ 103,490	\$ 832,695
Accounts receivable	57,452	0
Unbilled usage	133,102	169,763
Due from other funds	1,628	1,220
Interest receivable	0	0
Prepaid insurance	23,466	23,112
Total Current Assets	\$ 319,138	\$ 1,026,790
Total Assets	\$ 8,540,201	\$ 8,219,904
 LIABILITIES AND NET POSITION		
NET POSITION		
Net Investment in Capital Assets	\$ 6,659,325	\$ 5,659,325
Restricted	0	0
Unrestricted	1,498,791	2,129,395
Total Net Position	\$ 8,158,116	\$ 7,788,720
LONG-TERM DEBT - Net of current maturities	\$ 125,000	\$ 250,000
CURRENT LIABILITIES		
Accounts payable	\$ 110,462	\$ 33,814
Due to other funds	1,203	1,216
Other accrued liabilities	15,420	13,654
Current maturities of long-term debt	125,000	125,000
Interest payable	5,000	7,500
Total Current Liabilities	\$ 257,085	\$ 181,184
Total Liabilities and Net Position	\$ 8,540,201	\$ 8,219,904

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2014 and 2013

Schedule 7

	2014	2013
OPERATING REVENUES		
Sales to consumers	\$ 1,630,650	\$ 1,694,123
OPERATING EXPENSES		
Administrative & general	\$ 181,875	\$ 135,919
Transportation	12,268	9,985
Property, liability, work comp insurance	28,117	25,889
Payroll tax expense	44,327	41,762
Employee insurance	49,198	45,178
Waste water processing	728,700	601,678
Total operating expenses excluding depreciation	\$ 1,044,485	\$ 860,411
OPERATING INCOME BEFORE DEPRECIATION	\$ 586,165	\$ 833,712
DEPRECIATION	222,395	209,837
OPERATING INCOME (LOSS)	\$ 363,770	\$ 623,875
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 14,359	\$ 15,919
Interest income	3,767	4,435
Interest expense	(12,500)	(17,500)
Total nonoperating revenues (expenses)	\$ 5,626	\$ 2,854
CHANGE IN NET POSITION	\$ 369,396	\$ 626,729
NET POSITION, BEGINNING OF YEAR	7,788,720	7,161,991
NET POSITION, END OF YEAR	\$ 8,158,116	\$ 7,788,720

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2014 and 2013**

Schedule 7

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 369,396	\$ 626,729
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	222,395	209,837
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(57,452)	0
(Increase) decrease in unbilled usage	36,661	(29,738)
(Increase) decrease in prepaid expenses	(354)	(2,891)
(Increase) decrease in other current assets	(408)	(203)
Increase (decrease) in accounts payable and accrued liabilities	75,901	7,599
Net cash provided by (used in) operating activities	\$ 646,139	\$ 811,333
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 0	\$ 0
Purchase of investment securities	(152,950)	(153,277)
Purchase of property and equipment	(1,097,394)	(204,062)
Net cash provided by (used in) investing activities	\$ (1,250,344)	\$ (357,339)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from interfund loan	\$ 0	\$ 0
Principal payments on long-term borrowing	(125,000)	(125,000)
Net cash provided by (used in) financing activities	\$ (125,000)	\$ (125,000)
 Net increase (decrease) in cash and cash equivalents	 \$ (729,205)	 \$ 328,994
 Cash and cash equivalents:		
Beginning	832,695	503,701
Ending	\$ 103,490	\$ 832,695

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2014

Schedule 8

	Actual	Amended Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 1,630,650	1,619,300	11,350
OPERATING EXPENSES			
Administrative & general	\$ 181,875	185,000	3,125
Transportation	12,268	13,000	732
Property, liability, work comp insurance	28,117	28,500	383
Payroll tax expense	44,327	43,500	(827)
Employee insurance	49,198	50,000	802
Waste water processing	728,700	765,000	36,300
Total operating expenses excluding depreciation	\$ 1,044,485	1,085,000	40,515
OPERATING INCOME BEFORE DEPRECIATION	\$ 586,165	534,300	51,865
DEPRECIATION	222,395	187,500	(34,895)
OPERATING INCOME (LOSS)	\$ 363,770	346,800	16,970
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 14,359	17,000	(2,641)
Interest income	3,767	4,300	(533)
Interest expense	(12,500)	(12,500)	0
Total nonoperating revenues (expenses)	\$ 5,626	8,800	(3,174)
CHANGE IN NET POSITION	\$ 369,396	355,600	13,796
NET POSITION, BEGINNING OF YEAR	7,788,720	1,216,600	
NET POSITION, END OF YEAR	\$ 8,158,116	1,572,200	

See accompanying independent auditors' report.

MAHONEY & GOTTO COMPANY

Certified Public Accountants

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

To the Board of Trustees of the
Denison Municipal Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business type activities, each major enterprise fund, and the fiduciary fund information of the Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated September 12, 2014.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Denison Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We did not find any deficiencies in internal control to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in Part II of the accompanying Schedule of Findings as item II-A-14 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Denison Municipal Utilities' Responses to Findings

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

Purpose of this Report

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

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

Mahoney & Gotto Company
MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 12, 2014
Denison, Iowa

DENISON MUNICIPAL UTILITIES
Schedule of Findings
Year Ended June 30, 2014

Part I: Summary of the Independent Auditors' Results:

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

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-14 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent individuals from handling tasks that are incompatible.

Recommendation – We realize that with staffing limitations, segregation of duties is difficult. It is recognized that the Utilities has made reasonable efforts and improvements to segregate these duties. However, the Utilities should continue to monitor, update and review their control procedures. In addition, continued supervisory review of financial transactions and reports also remains extremely important when incompatible responsibilities cannot be segregated.

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

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

**DENISON MUNICIPAL UTILITIES
Schedule of Findings
Year Ended June 30, 2014**

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-14 Certified Budget – Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Disbursements did not exceed the certified budget during the fiscal year.
- III-B-14 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- III-C-14 Travel Expense - No disbursements of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- III-D-14 Business Transactions – Business transactions between Denison Municipal Utilities and Utility officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Langenfeld Owner, Langenfeld Contracting Father of Board Member	Purchase, hauling and beneficial reuse of municipal lime solids	\$ <u>17,043</u>

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

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

Response – We will do this.

Conclusion – Response accepted.

- III-E-14 Bond Coverage – Surety bond coverage of Utilities officials and employees is in accordance with statutory provision. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

DENISON MUNICIPAL UTILITIES
Schedule of Findings
Year Ended June 30, 2014

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

- III-F-14 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not. Minutes of the Utilities proceedings were all properly and timely published. Also, the Utilities did publish annual gross salaries for 2013 as in accordance with an Attorney General’s opinion dated April 12, 1978.
- III-G-14 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities’ investment policy were noted.
- III-H-14 Revenue Notes – No instances of non-compliance with the revenue note provisions were noted.