OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
December 31, 2013

T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants

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OFFICIALS
OSAGE MUNICIPAL UTILITIES

December 31, 2013

Title	Name of Official	Term Expires
Chairman	Royce Tack	December 2015
Trustee	Jen Frein	December 2014
Trustee	Harlan Bremer	December 2015
Trustee	Tom Kenny	December 2016
Trustee	Nan Jakobson	December 2018
General Manager	Dennis Fannin	Indefinite
Board Secretary	Mike Banta	Indefinite
Cashier	Jane Michels	Indefinite
Treasurer	Beverly Schuler	January 2014

T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Osage Municipal Utilities
Osage, Iowa

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Osage Municipal Utilities, a component unit of the City of Osage, Iowa as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Osage Municipal Utilities, as of December 31, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, budgetary comparison information, and a schedule of funding progress for the retiree health plan* on pages 4 through 8 and 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the 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 Osage Municipal Utilities' basic financial statements. The comparative schedules of net position, revenues, expenses, and changes in fund net position, and cash flows and the schedule of operating revenues and the schedule of operating expenses (supplementary information) are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014 on our consideration of Osage Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 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 Osage Municipal Utilities' internal control over financial reporting.

T.P. Anderson & Company, P.C.

September 16, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2013 FINANCIAL HIGHLIGHTS

- The Utilities' operating revenues increased 6% or approximately $560,000 from 2012 to 2013.
- Operating expenses increased 5%, or approximately $402,118, from 2012 to 2013.
- The Utilities' net position increased 6% or approximately $1,077,000 during 2013.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

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

Fund financial statements report the Utilities' operations by providing information about the most significant funds.

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 and a funding schedule for the Retiree Health Plan.

The Supplementary Information in schedules 1 through 5 provides comparative data along with additional detail with respect to the Utilities' revenues and expenses.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Fund Financial Statements

Osage Municipal Utilities utilizes one kind of fund:

Proprietary funds account for the Utilities' enterprise activities. Enterprise funds are used to report business type activities. Osage Municipal Utilities maintains three Enterprise Funds to provide separate information for the light and power, gas, and communications funds.

The condensed statement of net position, shown below, shows how assets and liabilities have changed over the past two years. In 2013, capital assets increased by approximately 7% and represent 61% of total assets. Total assets increased by approximately $1,075,000 and liabilities decreased by $2,000 resulting in the increase in net position

of approximately $1,077,000 during the year.

Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2013	2012
Current and other assets	$ 9,835	$ 9,723
Capital assets (net of accumulated depreciation)	15,175	14,211
Total assets	25,010	23,934
Long-term debt outstanding	4,795	4,901
Other liabilities	1,965	1,861
Total liabilities	6,760	6,762
Net position		
Invested in capital assets (net of related debt)	9,718	8,771
Restricted – bond covenant	850	850
Unrestricted	7,682	7,551
Total net position	$ 18,250	$ 17,172

INDIVIDUAL MAJOR FUND ANALYSIS

As Osage Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of $18.3 million, an increase of more than $1,077,000 over last year's total of $17.2 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

Electric Utility Results of Operations

Light and Power operating revenues were fairly stable in 2013, decreasing only $6,000 or 0.1% from the prior year.

Total operating expenses for 2013 also experienced a marginal decrease, down approximately $32,000, or 0.7% from 2012. The slight decrease can be attributed to a minor decrease in plant operating expenses offset by a correspondingly minor increase in distribution expenses.

The combined effect of these two factors resulted in 2013 operating income of $752,000. This was a 3.5% increase compared to the 2012 operating income of $726,000. The combination of all factors resulted in the Electric Utility achieving an increase in Net Position of approximately $646,000 in 2013, compared to an increase of $539,000 in 2012. The cash balance for 2013 also increased by approximately $368,000, or 11% over the cash balance in 2012.

Gas Utility Results of Operations

The volume of natural gas consumed by Osage residents and businesses increased in 2013 by approximately 71,000 Mcf, causing gas operating revenues to increase over $634,000, or 34%, due to an early spring in 2012 compared to a colder winter in 2013. Fortunately, total operating expenses did not increase as significantly, up a corresponding $388,000, or 21% higher than the 2012 level.

These factors combined to effectively increase net position by approximately $292,000, a 13% increase over the net position at the end of 2012.

The cash balance for 2013 decreased by more than $468,000, or 44% below the cash balance in 2012, as a result of investment in capital infrastructure for the growth of industry in the community. This resulted in 2013 capital assets to represent about 56% of total assets compared to only 27% in 2012.

Communications Utility Results of Operations

The Communications Utility ended the year with a gain in net position of over $139,000. The increase of high speed internet usage continues to enable the Communications Utility to grow.

A $16,000 decrease in cash balance for 2013 represented a 0.9% decrease below the 2012 cash balance.

Most of the Communications Utility's capital assets are owned by the Electric Utility. The Communications Utility leases the use of these assets through an operating joint lease agreement as outlined in Note 9.

Combined Results of Operations

The following analysis focuses on the change in net position for the combined divisions of Osage Municipal Utilities. The pie charts following the chart below show the source of revenues and expenses by fund for Osage Municipal Utilities.

Changes in Net Position of Business Type Activities
(Expressed in Thousands)

	Year ended December 31,	
	2013	2012
Operating revenues	$ 9,789	$ 9,228
Operating expenses	(8,567)	(8,164)
Operating income	1,222	1,064
Net non-operating revenues (expenses)	(153)	(144)
Other financing sources (uses)	9	(56)
Change in net position	1,077	864
Net position beginning of year	17,173	16,309
Net position end of year	$ 18,250	$ 17,173

BUDGETARY HIGHLIGHTS

Osage Municipal Utilities did not amend their budget during the year nor did they exceed the budgeted limits for expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2013, Osage Municipal Utilities had approximately $15.2 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase in total capital assets (including additions and deletions net of depreciation) of approximately $964,000 or 7% compared to last year.

Capital Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2013	2012
Land and improvements	$ 105	$ 105
Buildings and improvements	1,218	1,118
Equipment and vehicles	13,852	12,953
Iowa Stored Energy Project	-	35
Total	$ 15,175	$ 14,211

The changes to capital assets can be attributed predominantly to the upgrade to the natural gas town border station and high pressure gas line installed to serve new industrial natural gas requirements.

Osage Municipal Utilities had depreciation expense of $1,071,438 in 2013 and total accumulated depreciation of $16,923,341 at December 31, 2013.

LONG TERM DEBT/LIABILITIES

At December 31, 2013, Osage Municipal Utilities had $5,457,000 in revenue bonds outstanding compared to $5,441,000 at December 31, 2012, as shown below.

Outstanding Debt of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2013	2012
Revenue bonds	$ 5,457	$ 5,441
Total	$ 5,457	$ 5,441

The gas utility issued $700,000 in 2013 to finance a portion of a new gas line placed in service during the year.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview

of Osage Municipal Utilities' finances and to provide accountability for the money the Utilities receive. If you have questions about this report or need additional financial information, contact Robert Stangel, General Manager, 720 Chestnut Street, Osage, Iowa.

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

STATEMENTS OF NET POSITION

AS OF DECEMBER 31:

		ENTERPRISE LIGHT AND POWER 2013
Assets		
Current assets:		
Cash and cash equivalents	$	3,611,163
Accounts receivable (net of allowance for uncollectibles)		557,517
Unbilled usage		345,745
Certificate of deposit		43,336
Inventory		430,411
Prepaid expenses		30,540
Revolving loan receivable		-
Other assets:		
Bond discount (net of accumulated amortization)		159,095
Revolving loan receivable - net of current portion		-
Sinking fund - restricted		12,686
Certificate of deposit - restricted		856,177
Cash - restricted		-
Capital assets:		
Capital assets (net of accumulated depreciation)		12,942,740
Total assets	$	18,989,410
Liabilities:		
Current liabilities:		
Accounts payable	$	310,068
Accounts payable - City of Osage		85,140
Customer meter deposits		21,986
Customer budget billing		10,619
Accrued expenses		65,915
Accrued interest payable		9,806
Deferred revenue		-
Revenue bonds payable		694,466
Noncurrent liabilities:		
Revenue bonds (net of current portion)		4,062,728
Bond premium (net of accumulated amortization)		25,045
Accrued wind expenses		38,000
OPEB liabilities		34,674
Total liabilities		5,358,447
Net position:		
Invested in capital assets (net of related debt)		8,185,546
Restricted - bond covenant		856,177
Unrestricted		4,589,240
Total Net Position	$	13,630,963

See notes to the financial statements.

FUNDS			
GAS	COMMUNICATIONS	NON-MAJOR	TOTAL
2013	2013	2013	2013
$ 507,061	$ 1,887,116	$ -	$ 6,005,340
283,378	232,324	-	1,073,219
318,551	-	-	664,296
-	-	-	43,336
7,660	34,099	-	472,170
164,132	3,814	-	198,486
37,440	-	-	37,440
-	-	-	159,095
230,089	-	-	230,089
12,429	-	-	25,115
-	-	-	856,177
70,000	-	-	70,000
2,041,449	190,905	-	15,175,094
$ 3,672,189	$ 2,348,258	$ -	$ 25,009,857
$ 321,822	$ 30,937	$ -	$ 662,827
-	-	-	85,140
36,527	18,598	-	77,111
34,994	-	-	45,613
18,537	34,207	-	118,659
1,179	-	-	10,985
-	135,278	-	135,278
135,000	-	-	829,466
565,000	-	-	4,627,728
-	-	-	25,045
-	-	-	38,000
47,484	21,994	-	104,152
1,160,543	241,014	-	6,760,004
1,341,449	190,905	-	9,717,900
82,429	-	-	938,606
1,087,768	1,916,339	-	7,593,347
$ 2,511,646	$ 2,107,244	$ -	$ 18,249,853

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31:

	ENTERPRISE LIGHT AND POWER 2013
Operating revenues:	
Charges for service	$ 5,422,955
Operating expenses:	
Business type activities	4,671,128
Operating income (loss)	751,827
Non-operating revenues (expenses):	
Interest income	29,060
Interest expense	(140,561)
Other income	66,340
Donations	(65,876)
Total non-operating revenues (expenses)	(111,037)
Other financing sources (uses):	
Operating transfers in	-
Operating transfers (out)	-
State Awards	-
Gain (loss) on sale of capital assets	5,139
Total other financing sources (uses)	5,139
Change in net position	645,929
Net position - beginning of year	12,985,034
Net position - end of year	$ 13,630,963

See notes to the financial statements.

FUNDS			
GAS	COMMUNICATIONS	NON-MAJOR	TOTAL
2013	2013	2013	2013
$ 2,499,411	$ 1,866,251	$ -	$ 9,788,617
2,231,042	1,664,410	-	8,566,580
268,369	201,841	-	1,222,037
4,449	6,020	-	39,529
(5,384)	(193)	-	(146,138)
37,844	-	-	104,184
(16,664)	(68,339)	-	(150,879)
20,245	(62,512)	-	(153,304)
-	1,967,915	-	1,967,915
-	-	(1,967,915)	(1,967,915)
-	-	-	-
3,393	-	-	8,532
3,393	1,967,915	(1,967,915)	8,532
292,007	2,107,244	(1,967,915)	1,077,265
2,219,639	-	1,967,915	17,172,588
$ 2,511,646	$ 2,107,244	$ -	$ 18,249,853

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31:

	ENTERPRISE LIGHT AND POWER 2013
Cash flows from operating activities:	
Cash receipts from customers	$ 5,192,075
Cash received from other funds	143,523
Cash payments to suppliers	(2,967,962)
Cash payments to employees	(535,836)
Cash payments to other funds	-
Cash payments for contributions	(170,718)
Net cash provided (used) by operating activities	1,661,082
Cash flows from noncapital financing activities:	
Transfers in	-
Transfers out	-
Miscellaneous non-operating revenue	66,340
Donations	(65,876)
Net cash provided (used) by noncapital financing activities	464
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(503,874)
Funded debt reserve	-
Proceeds from sale of assets	46,070
Proceeds from revenue bonds	-
Repayment of revenue bonds	(692,006)
Cash paid for interest	(141,642)
Net cash (used) by capital and related financing activities	(1,291,452)
Cash flows from investing activities:	
Purchases of investments	(31,195)
Revolving loan fund - advances	-
Revolving loan fund - collections	-
Investment income	29,060
Net cash provided by investing activities	(2,135)
Net increase (decrease) in cash and cash equivalents	367,959
Cash and cash equivalents-beginning of year	3,243,204
Cash and cash equivalents-end of year	$ 3,611,163
Reconciliation of operating income to net cash provided (used) by operating activities:	
Income (loss) from operations	$ 751,827
Adjustments to reconcile operating income to Net cash provided by operating activities:	
Depreciation and amortization	1,008,409
Change in accounts receivable	(30,098)
Change in meter deposits and unbilled usage	(43,776)
Change in prepaid expenses	(6,534)
Change in inventory	26,053
Change in accounts payable and other liabilities	(44,799)
Net cash provided (used) by noncapital financing activities	$ 1,661,082

See notes to the financial statements.

FUNDS			
GAS	COMMUNICATIONS	NONMAJOR	TOTAL
2013	2013	2013	2013
$ 2,224,713	$ 1,747,212	$ -	$ 9,164,000
-	-	-	143,523
(1,783,591)	(1,075,555)	-	(5,827,108)
(252,655)	(319,798)	-	(1,108,289)
-	(143,523)	-	(143,523)
(11,667)	-	-	(182,385)
176,800	208,336	-	2,046,218
-	1,903,365	-	1,903,365
-	-	(1,903,365)	(1,903,365)
37,844	-	-	104,184
(16,664)	(68,339)	-	(150,879)
21,180	1,835,026	(1,903,365)	(46,695)
(1,400,344)	(162,073)	-	(2,066,291)
(82,429)	-	-	(82,429)
14,390	-	-	60,460
700,000	-	-	700,000
-	-	-	(692,006)
(5,384)	(193)	-	(147,219)
(773,767)	(162,266)	-	(2,227,485)
-	-	-	(31,195)
(16,000)	-	-	(16,000)
36,471	-	-	36,471
4,449	6,020	-	39,529
24,920	6,020	-	28,805
(550,867)	1,887,116	(1,903,365)	(199,157)
1,057,928	-	1,903,365	6,204,497
$ 507,061	$ 1,887,116	$ -	$ 6,005,340
$ 268,369	$ 201,841	$ -	1,222,037
72,106	7,949	-	1,088,464
(104,844)	(31,278)	-	(166,220)
(102,751)	(2,089)	-	(148,616)
22,071	(521)	-	15,016
107	4,980	-	31,140
21,742	27,454	-	4,397
$ 176,800	$ 208,336	$ -	$ 2,046,218

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Osage Municipal Utilities is a component unit of the City of Osage whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. Osage Municipal Utilities is governed by a separate Board of Trustees and operates under the authority of Chapter 388 of the Code of Iowa. Osage Municipal Utilities provides electric, gas, cable, telephone, internet, and wireless internet services on a user charge basis to the general public and other governmental units within Mitchell County, Iowa.

A. Reporting Entity

For financial reporting purposes, Osage Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. Osage Municipal Utilities has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with Osage Municipal Utilities are such that exclusion would cause Osage Municipal Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of Osage Municipal Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on Osage Municipal Utilities. Osage Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

Osage Municipal Utilities participates in a jointly governed organization that provides goods and services to Osage Municipal Utilities but does not meet the criteria of a joint venture since there is not an ongoing financial interest or responsibility by the participating parties. The General Manager serves on the Upper Midwest Municipal Power Agency.

B. Basis of Presentation

Fund Financial Statements - Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the financial statements.

Osage Municipal Utilities has three major funds:

The Light and Power Fund is used to account for delivery of electricity to the citizens and businesses of Osage.

The Gas Fund is used to account for the delivery of natural gas to the citizens and businesses of Osage.

The Communications Fund is used to account for the delivery of telephone, cable, and high speed internet to the citizens and businesses of Osage.

C. Measurement Focus and Basis of Accounting

Osage Municipal Utilities maintains their financial records on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred, regardless of the timing of cash flows.

The proprietary funds of Osage Municipal Utilities apply all applicable GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Osage Municipal Utilities result from charges to customers for sales and services. Operating expenses include 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.

D. Budgets and Budgetary Accounting

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

E. Osage Municipal Utilities Plant and Depreciation

Osage Municipal Utilities' plant is stated at original cost when first placed in service. Expenditures for additions and betterments over $2,500 (including labor charges) are capitalized, while expenditures for repairs and maintenance are charged to operations as incurred. Interest costs incurred during construction periods are also capitalized. The costs of assets retired or sold and the related accumulated deprecation are eliminated from the accounts in the year of disposal, with the resulting gain or loss credited or charged to operations. The straight-line method is used for computing depreciation with estimated useful lives ranging from two to fifty years.

F. Revenue, Unbilled Usage, and Deferred Revenue

Revenues are based on billing rates applied to customers' consumption. Unbilled usage represents revenues based upon estimated consumption for the period between the last billing dates and the end of the year. Deferred revenue represents amounts billed for cable, internet, and telephone services that had not yet been provided at the end of the year.

G. Inventory

Inventories, which consist of fuel oil and materials for plant and distribution systems, are stated at the lower of cost (first-in, first-out) or market. Inventories are recorded as expenses when consumed rather than when purchased.

H. Rate Matters

Rates charged by Osage Municipal Utilities are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Fair Value of Financial Instruments

The Utilities are required to disclose the estimated fair values for all financial instruments for which it is practicable to estimate fair value. For instruments including cash, accounts receivable and payable and accruals, it is estimated that the carrying values approximate fair value because of their short maturities. The carrying amounts of long term debt, which matures through the year 2029, are also assumed to approximate their fair value.

K. Cash and Cash Equivalents

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

L. Restricted Assets

Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers. The Utilities' policy is to utilize restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

M. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

The Electric and Gas funds of Osage Municipal Utilities use the direct write off method to charge off uncollectible accounts receivable which approximates the results that would have been experienced using the allowance method to account for bad debts. A 1.5% per month penalty is charged for accounts older than 30 days. Utilities are shut off for all users when 32 days past due except for utilities purchased under Iowa's Winder Utility Shutoff Moratorium. Therefore, uncollectible accounts are insignificant.

The Communications Fund uses the allowance method to charge off uncollectible accounts receivable. Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for doubtful accounts and related accounts receivable write offs. A 1.5% per month penalty is charged for accounts older than 30 days. As of December 31, 2013 the allowance for doubtful accounts was $-0-.

NOTE 2 - CASH AND INVESTMENTS

Osage Municipal Utilities' deposits at December 31, 2013 (which include certificates of deposit totaling $899,513) were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

Osage Municipal Utilities have funds on deposit with the Wisconsin Local Government Investment Pool as part of their Shared Transmission System Agreement with Dairyland Power Cooperative. According to the agreement, the funds can be withdrawn at any time, and have been withdrawn in the past. These deposits were $276,084 as of December 31, 2013. The Wisconsin Local Government Investment Pool is held outside the State of Iowa. Cash is used in order to invest in transmission improvements and to cover control center costs.

Osage Municipal Utilities' investments are categorized to give an indication of the level of risk assumed by Osage Municipal Utilities at year-end. Osage Municipal Utilities' investments are all category 1, which means that the investments are insured or registered or the securities are held by Osage Municipal Utilities or their agent in Osage Municipal Utilities' name.

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

NOTE 3 – REVENUE BONDS PAYABLE

The following is a summary of changes in long-term debt for the year ended December 31, 2013 and 2012.

Light and Power Fund:

	Bal.1/1/13	Issued	Repaid	Bal.12/31/13
Business type activities:				
Revenue bonds–issued November 2008	$ 1,204,660	-	120,466	$ 1,084,194
Revenue bonds–issued February 2010	406,000	-	18,000	388,000
Revenue bonds–issued February 2010	1,000,000	-	100,000	900,000
Revenue bonds–issued December 2010	2,830,000	-	445,000	2,385,000
	$ 5,440,660	-	683,466	$ 4,757,194

Gas Fund:

	Bal.1/1/13	Issued	Repaid	Bal.12/31/13
Business type activities:				
Revenue bonds–issued August 2013	$ -	700,000	-	$ 700,000
	$ -	700,000	-	$ 700,000

Annual debt service requirements to maturity for the Light and Power revenue bonds are as follows:

Year Ending December 31,	Light and Power Series 2008 Interest 1.27%		Light and Power Series 2010 Interest 2-4%		SRF Revenue Bonds Feb 2010 Interest 3%		2010 Refunding Dec 2010 Interest 2-3.25%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 120,466	$13,769	$ 100,000	$ 29,900	$ 19,000	$ 11,640	$ 455,000	$ 62,363	$ 694,466	$117,672
2015	120,466	12,239	100,000	27,600	19,000	11,070	465,000	53,262	704,466	104,171
2016	120,466	10,710	100,000	25,000	20,000	10,500	480,000	42,800	720,466	89,010
2017	120,466	9,179	100,000	22,000	21,000	9,900	485,000	30,800	726,466	71,879
2018	120,466	7,650	100,000	18,800	21,000	9,270	500,000	16,250	741,466	51,970
2019-2023	481,864	15,299	400,000	39,200	118,000	36,330	-	-	999,864	90,829
2024-2028	-	-	-	-	140,000	17,400	-	-	140,000	17,400
2029	-	-	-	-	30,000	900	-	-	30,000	900
	$1,084,194	$68,846	$900,000	$162,500	$388,000	$107,010	$2,385,000	$205,475	$4,757,194	$543,831

Annual debt service requirements to maturity for the Gas revenue bonds are as follows:

Year Ending December 31,	Gas Series 2013 Interest 1.00-3.00%	
	Principal	Interest
2014	$ 135,000	$14,150
2015	135,000	12,800
2016	140,000	10,775
2017	145,000	7,975
2018	145,000	4,350
	$700,000	$50,050

Bond discount amortization was $17,026 for the year ended December 31, 2013.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

A. The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.

B. Sufficient monthly transfers shall be made to the sinking fund for the purpose of making the note principal and interest payments when due.

C. Sufficient monthly transfers shall be made to a light and power reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund. The reserve fund set aside amounted to $688,499 at December 31, 2013.

D. Sufficient monthly transfers shall be made to a gas reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund. The reserve fund set aside amounted to $70,000 at December 31, 2013.

E. Sufficient monthly transfers shall be made to a light and power improvement fund to be used solely for the purpose of paying principal or interest on the bonds should insufficient money be available in the sinking and reserve funds; and to the extent not required for the foregoing purposes to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, or capital improvements to the system. The required minimum balance in the reserve is $100,000 and has been achieved as of December 31, 2013.

NOTE 4 – INTEREST COSTS

During the year ended December 31, 2013, the interest incurred and expensed is as follows:

	December 31, 2013	
Light and Power	$	140,561
Gas	$	5,384
Communications	$	193

NOTE 5 - PENSION AND RETIREMENT BENEFITS

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

Plan members were required to contribute 5.95% of their salary and Osage Municipal Utilities was required to contribute 8.93% of covered payroll. Contribution requirements are established by State statute. Osage Municipal Utilities' contributions to IPERS for the years ended December 31, 2013, 2012 and 2011 were $108,665, $99,359, and $87,420 respectively, equal to the required contributions for each year.

NOTE 6 – RISK MANAGEMENT

Osage Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years. Osage Municipal Utilities assumes liability for any deductibles and claims in excess of coverage limitations.

NOTE 7 – COMPENSATED ABSENCES

Osage Municipal Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the proprietary fund financial statements. Osage Municipal Utilities' approximate liability for earned vacation payments payable to employees at December 31, 2013 and 2012 is as follows:

December 31, 2013	Light and Power	Gas	Communications	Total
Vacation	$ 46,657	$ 8,713	$ 14,872	$ 70,242

NOTE 8 – INTERFUND TRANSFERS

Interfund transfers were made during the year ended December 31, 2013. The transfers are as detailed below. The transfers that were made were to combine all communication type funds into one fund.

Transfers for the year ended December 31, 2013:

Transferred from:	Transferred to:	Amount
Cable – Non major	Communications	$ 817,206
Telephone – Non major	Communications	$ 818,396
Wireless – Non major	Communications	$ 332,313
		$ 1,967,915

NOTE 9 – JOINT LEASE AGREEMENT

Osage Municipal Utilities' Light and Power Fund constructed a Fiber Optic System to facilitate information transmission. Portions of this system are leased to the Cable, Internet, Telephony and Wireless funds under a thirty-year operating lease, required annual payments of $142,408. Future minimum lease payments are as follows:

Year Ending:	Payment
2014	$ 142,408
2015	142,408
2016	142,408
2017	142,408
2018	142,408
2019-2023	712,040
2024-2028	712,040

2029-2033	712,040
2034-2035	284,816
Total	$ 3,132,976

NOTE 10 – CAPITAL ASSETS

The following schedules disclose the major fixed asset additions for the year ended December 31, 2013.

Light and Power Fund

Capital Assets	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
Capital Assets not being depreciated:				
Land	$ 41,029	-	-	$ 41,029
Iowa Stored Energy Park Agency	24,070	-	24,070	-
Construction in progress	5,368	11,492	16,860	-
Capital Assets being depreciated:				
Buildings and improvements	1,200,844	-	1,621	1,199,223
Generating equipment and lines	14,990,499	417,511	1,361	15,406,649
HFC distribution center	5,796,222	9,975	-	5,806,197
Equipment and vehicles	1,566,351	35,620	46,224	1,555,747
Broadband room and digital cable	401,255	36,192	-	437,447
Wind Energy	3,628,696	12,627	-	3,641,323
Total capital assets	27,654,334	523,417	90,136	28,087,615
Less: Accumulated depreciation	14,202,695	991,383	49,203	15,144,875
Book value	$ 13,451,639			$ 12,942,740

Gas Fund

Capital Assets	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
Capital Assets not being depreciated:				
Land	$ 7,734	-	-	$ 7,734
Iowa Stored Energy Park Agency	10,700	-	10,700	-
Construction in progress	15,467	1,226,124	1,241,591	-
Capital Assets being depreciated:				
Buildings and improvements	580,915	-	578	580,337
Peak shaving plant	254,476	-	-	254,476
Gas plant, lines and meters	916,374	71,408	7,308	980,474
VBC gas pipeline	-	1,323,116	-	1,323,116
Equipment and vehicles	501,492	22,361	33,501	490,352
Total capital assets	2,287,158	2,643,009	1,293,678	3,636,489
Less: Accumulated depreciation	1,564,129	72,106	41,195	1,595,040
Book value	$ 723,029			$ 2,041,449

Communications

Capital Assets	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
Capital Assets being depreciated:				
Equipment	$ 178,889	162,073	7,108	$ 333,854
Organizational costs	40,476	-	-	40,476
Total capital assets	219,365	162,073	7,108	374,330
Less: Accumulated depreciation	182,584	7,949	7,108	183,425
Book value	$ 36,781			$ 190,905

NOTE 11 – RESTRICTED NET POSITION

As required by bond resolution, the Light and Power Fund of Osage Municipal Utilities has set aside the following reserve funds for the year ended December 31, 2013:

December 31, 2013

	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	$ 688,499	$ 61,115	$ 100,000	$ 849,614
Deposits	-	825,770	-	825,770
Withdrawals	-	819,207	-	819,207
Balance, end of year	$ 688,499	$ 67,678	$ 100,000	$ 856,177

As required by bond resolution, the Gas Fund of Osage Municipal Utilities has set aside the following reserve funds for the year ended December 31, 2013:

	Reserve for Debt Service	Reserve for Sinking Fund	Total
Balance, beginning of year	$ -	$ -	$ -
Deposits	70,000	12,429	82,429
Withdrawals	-		-
Balance, end of year	$ 70,000	$ 12,429	$ 82,429

NOTE 12 – REVOLVING LOAN FUND RECEIVABLE

Osage Municipal Utilities manages a revolving loan fund used to increase economic development in the area. The revolving loan fund was funded through a grant from the USDA. The initial loan made from the fund was to the City of Osage for $360,000 and as they repay their portion the Utilities will develop new programs to loan the money back out. An additional loan was made from this fund during the year ended December 31, 2013 of $16,000. As of December 31, 2013 the balance of the receivable was $267,529. Osage Municipal Utilities has a separate bank account specifically for making loans and depositing collections for this revolving loan fund that had a balance at December 31, 2013 of $94,165.

NOTE 13 - ECONOMIC DEVELOPMENT

Osage Municipal Utilities' Board of Trustees has agreed to contribute financially to assist in constructing the Cedar River Recreation & Fine Arts Complex. The contributions for the year ended December 31, 2013 was $125,000. The annual contributions are anticipated to be $100,000 per year for the next 10 years. The contributions may only come from surpluses generated by Osage Municipal Utilities and are expected to attract economic activity to the region.

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description. Osage Municipal Utilities operates a single-employer health plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 21 active members and 1 retired member in the plan. Retired participants must be age 55 or older at retirement.

The medical prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by Osage Municipal Utilities. Osage Municipal Utilities currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. Osage Municipal Utilities' annual OPEB cost is calculated based on the annual required contribution (ARC) of Osage Municipal Utilities, an amount actuarially determined in accordance with GASB Statement No. 45. 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.

As of December 31, 2013 Osage Municipal Utilities' had an OPEB Liability balance of $104,152. The following table shows the components of the Osage Municipal Utilities' annual OPEB cost for the year ended December 31, 2013, the amount actually contributed to the plan and changes in Osage Municipal Utilities' net OPEB obligations:

	Light and Power	Gas	Cable	Total
Annual required contribution	$10,944	$ 10,864	$ 6,914	$ 28,722
Interest on net OPEB obligation	550	540	160	1,507
Adjustment to annual required contribution	(550)	(540)	(160)	(1,507)
Annual OPEB cost	10,944	10,864	6,914	28,722
Contributions made	5,922	(1,364)	2,024	6,582
Increase in net OPEB obligation	5,022	12,228	4,890	22,140
Net OPEB obligation beginning of year	29,652	35,256	17,104	82,012
Net OPEB obligation end of year	$ 34,674	$ 47,484	$ 21,994	$ 104,152

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2013.

For the year ended December 31, 2013 the Utilities contributed $6,582 to the medical plan respectively. Plan members eligible for benefits contributed $0 of the OPEB liability. One Osage Municipal Utilities retiree is currently in the retirement benefit plan.

Osage Municipal Utilities' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	$ 30,167	26.6%	$ 59,870
December 31, 2012	$ 30,158	26.6%	$ 82,012
December 31, 2013	$ 31,522	29.7%	$ 104,152

Funded Status and Funding Progress. As of January 1, 2011, the most recent actuarial valuation date for the period January 1, 2010 through December 31, 2013, the actuarial accrued liability was $204,023, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $204,023. The covered payroll (annual payroll of active employees covered by the plan) was approximately $1,234,000 and the ratio of the UAAL to covered payroll was 16.5%. As of December 31, 2013 there were no trust fund assets.

Actuarial Methods and Assumptions. 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 health care cost trend. Actuarially determined amounts 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 in the section following the Notes to Financial Statements, will present 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 employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques 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.

As of the January 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on Osage Municipal Utilities' funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using scale AA. Annual retirement probability 100% at age 60 and termination probabilities were developed based on national averages.

Projected claim costs of the medical plan for retirees are $833 per month for the Traditional Plan and $582 for the HSA Plan. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 15 – SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 16, 2014, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES – BUDGET AND ACTUAL - ALL ENTERPRISE FUNDS

DECEMBER 31, 2013

	Proprietary Funds Actual	Budgeted Amounts Original	Final to Net Variance
Receipts:			
Charges for service	$ 9,788,617	$ 9,175,412	$ 613,205
Interest earnings	39,529	45,500	(5,971)
Miscellaneous	104,184	125,060	(20,876)
	9,932,330	9,345,972	586,358
Disbursements:			
Program:			
Business type activities	8,855,065	9,010,490	155,425
	8,855,065	9,010,490	739,952
Excess of revenues over expenses	1,077,265	335,482	$ 741,783
Other financing sources (uses)	-	1,620,000	
Excess of revenues and other Financing sources over expenses	1,077,265	1,955,482	
Balance beginning of year	17,172,588	17,540,567	
Balance end of year	$ 18,249,853	$ 19,496,049	

See accompanying independent auditor's report.

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

DECEMBER 31, 2013

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the all Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

For the year ended December 31, 2013, Osage Municipal Utilities did not exceed budgeted expenditures.

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(In Thousands)

DECEMBER 31, 2013

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
2009	January 1, 2009	-0-	$182	$182	0.00%	$1,144	15.9%
2010	January 1, 2009	-0-	182	182	0.00%	1,164	15.6%
2011	January 1, 2011	-0-	204	204	0.00%	1,084	18.8%
2012	January 1, 2011	-0-	204	204	0.00%	1,198	17.0%
2013	January 1, 2011	-0-	204	204	0.00%	1,234	16.5%

See Note 14 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost and Net OPEB Obligation, funded status and funding progress.

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

COMPARATIVE SCHEDULE OF NET POSITION

AS OF DECEMBER 31:

	ENTERPRISE LIGHT AND POWER	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 3,611,163	$ 3,243,204
Accounts receivable (net of allowance for uncollectibles)	557,517	527,419
Unbilled usage	345,745	310,863
Certificate of deposit	43,336	31,390
Inventory	430,411	456,464
Prepaid expenses	30,540	24,006
Revolving loan receivable	-	-
Other assets:		
Bond discount (net of accumulated amortization)	159,095	195,662
Revolving loan receivable - net of current portion	-	-
Sinking fund - restricted	12,686	-
Certificate of deposit - restricted	856,177	849,614
Cash - restricted	-	-
Capital assets:		
Capital assets (net of accumulated depreciation)	12,942,740	13,451,639
Total assets	$ 18,989,410	$ 19,090,261
Liabilities:		
Current liabilities:		
Accounts payable	$ 310,068	$ 355,867
Accounts payable - City of Osage	85,140	90,892
Customer meter deposits	21,986	30,880
Customer budget billing	10,619	24,102
Accrued expenses	65,915	60,202
Accrued interest payable	9,806	10,887
Deferred revenue	-	-
Revenue bonds payable	694,466	683,466
Noncurrent liabilities:		
Revenue bonds (net of current portion)	4,062,728	4,757,194
Bond premium (net of accumulated amortization)	25,045	33,585
Accrued wind expenses	38,000	28,500
OPEB liabilities	34,674	29,652
Total liabilities	5,358,447	6,105,227
Net position:		
Invested in capital assets (net of related debt)	8,185,546	8,010,979
Restricted - bond covenant	856,177	849,614
Unrestricted	4,589,240	4,124,441
Total Net Position	$ 13,630,963	$ 12,985,034

See accompanying independent auditor's report.

FUNDS							
GAS		COMMUNICATIONS		NONMAJOR		TOTAL	
2013	2012	2013	2012	2013	2012	2013	2012
$ 507,061	$ 1,057,928	$ 1,887,116	$ -	$ -	$ 1,903,365	$ 6,005,340	$ 6,204,497
283,378	178,534	232,324	-	-	201,046	1,073,219	906,999
318,551	219,200	-	-	-	-	664,296	530,063
-	-	-	-	-	-	43,336	31,390
7,660	7,767	34,099	-	-	39,079	472,170	503,310
164,132	186,203	3,814	-	-	3,293	198,486	213,502
37,440	-	-	-	-	-	37,440	-
-	-	-	-	-	-	159,095	195,662
230,089	288,000	-	-	-	-	230,089	288,000
12,429	-	-	-	-	-	25,115	-
-	-	-	-	-	-	856,177	849,614
70,000	-	-	-	-	-	70,000	-
2,041,449	723,029	190,905	-	-	36,781	15,175,094	14,211,449
$ 3,672,189	$ 2,660,661	$ 2,348,258	$ -	$ -	$ 2,183,564	$ 25,009,857	$ 23,934,486
$ 321,822	$ 244,054	$ 30,937	$ -	$ -	$ 17,090	$ 662,827	$ 617,011
-	-	-	-	-	-	85,140	90,892
36,527	39,927	18,598	-	-	20,687	77,111	91,494
34,994	102,097	-	-	-	-	45,613	126,199
18,537	19,688	34,207	-	-	32,747	118,659	112,637
1,179	-	-	-	-	-	10,985	10,887
-	-	135,278	-	-	128,021	135,278	128,021
135,000	-	-	-	-	-	829,466	683,466
565,000	-	-	-	-	-	4,627,728	4,757,194
-	-	-	-	-	-	25,045	33,585
-	-	-	-	-	-	38,000	28,500
47,484	35,256	21,994	-	-	17,104	104,152	82,012
1,160,543	441,022	241,014	-	-	215,649	6,760,004	6,761,898
1,341,449	739,029	190,905	-	-	36,781	9,717,900	8,786,789
82,429	-	-	-	-	-	938,606	849,614
1,087,768	1,480,610	1,916,339	-	-	1,931,134	7,593,347	7,536,185
$ 2,511,646	$ 2,219,639	$ 2,107,244	$ -	$ -	$ 1,967,915	$ 18,249,853	$ 17,172,588

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

COMPARATIVE SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2013	2012
Operating revenues:		
Charges for service	$ 5,422,955	$ 5,429,230
Operating expenses:		
Business type activities	4,671,128	4,703,082
Operating income (loss)	751,827	726,148
Non-operating revenues (expenses):		
Interest income	29,060	32,179
Interest expense	(140,561)	(155,140)
Other income	66,340	36,351
Donations	(65,876)	(73,726)
Total non-operating revenues (expenses)	(111,037)	(160,336)
Other financing sources (uses):		
Operating transfers in	-	-
Operating transfers (out)	-	-
State Awards	-	26,767
Gain (loss) on sale of capital assets	5,139	(53,047)
Total other financing sources (uses)	5,139	(26,280)
Change in net position	645,929	539,532
Net position - beginning of year	12,985,034	12,445,502
Net position - end of year	$ 13,630,963	$ 12,985,034

See accompanying independent auditor's report.

FUNDS							
GAS		COMMUNICATIONS		NON-MAJOR		TOTAL	
2013	2012	2013	2012	2013	2012	2013	2012
$ 2,499,411	$ 1,864,658	$ 1,866,251	$ -	$ -	$ 1,934,545	$ 9,788,617	$ 9,228,433
2,231,042	1,843,325	1,664,410	-	-	1,618,055	8,566,580	8,164,462
268,369	21,333	201,841	-	-	316,490	1,222,037	1,063,971
4,449	6,937	6,020	-	-	8,358	39,529	47,474
(5,384)	(111)	(193)	-	-	(685)	(146,138)	(155,936)
37,844	43,385	-	-	-	6,517	104,184	86,253
(16,664)	(15,449)	(68,339)	-	-	(32,336)	(150,879)	(121,511)
20,245	34,762	(62,512)	-	-	(18,146)	(153,304)	(143,720)
-	-	1,967,915	-	-	163,758	1,967,915	163,758
-	-	-	-	(1,967,915)	(163,758)	(1,967,915)	(163,758)
-	-	-	-	-	-	-	26,767
3,393	(28,946)	-	-	-	(622)	8,532	(82,615)
3,393	(28,946)	1,967,915	-	(1,967,915)	(622)	8,532	(55,848)
292,007	27,149	2,107,244	-	(1,967,915)	297,722	1,077,265	864,403
2,219,639	2,192,490	-	-	1,967,915	1,670,193	17,172,588	16,308,185
$ 2,511,646	$ 2,219,639	$ 2,107,244	$ -	$ -	$ 1,967,915	$ 18,249,853	$ 17,172,588

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

COMPARATIVE SCHEDULE OF CASH FLOWS

YEARS ENDED DECEMBER 31:

	ENTERPRISE LIGHT AND POWER	
	2013	2012
Cash flows from operating activities:		
Cash receipts from customers	$ 5,192,075	$ 5,352,757
Cash received from other funds	143,523	143,523
Cash payments to suppliers	(2,967,962)	(2,804,186)
Cash payments to employees	(535,836)	(626,894)
Cash payments to other funds	-	-
Cash payments for contributions	(170,718)	(156,082)
Net cash provided (used) by operating activities	1,661,082	1,909,118
Cash flows from noncapital financing activities:		
Transfers in	-	-
Transfers out	-	-
Miscellaneous non-operating revenue	66,340	33,701
Donations	(65,876)	(71,076)
Net cash provided (used) by noncapital financing activities	464	(37,375)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(503,874)	(232,977)
Proceeds from state awards	-	26,767
Proceeds from sale of assets	46,070	(53,047)
Funded debt reserve	-	-
Proceeds from revenue bonds	-	-
Repayment of revenue bonds	(692,006)	(678,466)
Acquisition of unamortized discount	-	12,645
Cash paid for interest	(141,642)	(155,140)
Net cash (used) by capital and related financing activities	(1,291,452)	(1,080,218)
Cash flows from investing activities:		
Purchases of investments	(31,195)	(18,178)
Revolving loan fund - advances	-	-
Revolving loan fund - collections	-	-
Investment income	29,060	32,179
Net cash provided by investing activities	(2,135)	14,001
Net increase (decrease) in cash and cash equivalents	367,959	805,526
Cash and cash equivalents-beginning of year	3,243,204	2,437,678
Cash and cash equivalents-end of year	$ 3,611,163	$ 3,243,204
Reconciliation of operating income to net cash provided (used) by operating activities:		
Income (loss) from operations	$ 751,827	$ 726,148
Adjustments to reconcile operating income to Net cash provided by operating activities:		
Depreciation and amortization	1,008,409	999,826
Change in accounts receivable	(30,098)	71,677
Change in meter deposits and unbilled usage	(43,776)	72,826
Change in prepaid expenses	(6,534)	(1,272)
Change in inventory	26,053	(21,809)
Change in accounts payable and other liabilities	(44,799)	61,722
Net cash provided (used) by noncapital financing activities	$ 1,661,082	$ 1,909,118

See accompanying independent auditor's report.

FUNDS							
GAS		COMMUNICATIONS		NONMAJOR		TOTAL	
2013	2012	2013	2012	2013	2012	2013	2012
$ 2,224,713	$ 1,916,894	$ 1,747,212	$ -	$ -	$ 1,935,723	$ 9,164,000	$ 9,205,374
-	-	-	-	-	-	143,523	143,523
(1,783,591)	(1,401,373)	(1,075,555)	-	-	(1,037,840)	(5,827,108)	(5,243,399)
(252,655)	(312,799)	(319,798)	-	-	(408,045)	(1,108,289)	(1,347,738)
-	-	(143,523)	-	-	(143,523)	(143,523)	(143,523)
(11,667)	(11,000)	-	-	-	-	(182,385)	(167,082)
176,800	191,722	208,336	-	-	346,315	2,046,218	2,447,155
-	-	1,903,365	-	-	163,758	1,903,365	163,758
-	-	-	-	(1,903,365)	(163,758)	-	(163,758)
37,844	43,385	-	-	-	6,517	104,184	83,603
(16,664)	(15,449)	(68,339)	-	-	(32,336)	(150,879)	(118,861)
21,180	27,936	1,835,026	-	(1,903,365)	(25,819)	1,856,670	(35,258)
(1,400,344)	(57,324)	(162,073)	-	-	(13,419)	(2,066,291)	(303,720)
-	-	-	-	-	-	-	26,767
14,390	(28,946)	-	-	-	-	60,460	(81,993)
(82,429)	-	-	-	-	-	(82,429)	-
700,000	-	-	-	-	-	700,000	-
-	-	-	-	-	-	(692,006)	(678,466)
-	-	-	-	-	-	-	12,645
(5,384)	(111)	(193)	-	-	(685)	(147,219)	(155,936)
(773,767)	(86,381)	(162,266)	-	-	(14,104)	(2,227,485)	(1,180,703)
-	-	-	-	-	-	(31,195)	(18,178)
(16,000)	-	-	-	-	-	(16,000)	-
36,471	36,000	-	-	-	-	36,471	36,000
4,449	6,937	6,020	-	-	8,358	39,529	39,116
24,920	42,937	6,020	-	-	8,358	28,805	56,938
(550,867)	176,214	1,887,116	-	(1,903,365)	314,750	1,704,208	1,296,490
1,057,928	881,714	-	-	1,903,365	1,588,615	4,301,132	4,908,007
$ 507,061	$ 1,057,928	$ 1,887,116	$ -	$ -	$ 1,903,365	$ 6,005,340	$ 6,204,497
$ 268,369	$ 21,333	$ 201,841	$ -	$ -	$ 316,490	1,222,037	1,063,971
							-
							-
72,106	73,635	7,949	-	-	11,194	1,088,464	1,084,655
(104,844)	47,024	(31,278)	-	-	9,879	(166,220)	128,580
(102,751)	6,498	(2,089)	-	-	10,815	(148,616)	90,139
22,071	(2,497)	(521)	-	-	1,506	15,016	(2,263)
107	-	4,980	-	-	(15,749)	31,140	(37,558)
21,742	45,729	27,454	-	-	12,180	4,397	119,631
$ 176,800	$ 191,722	$ 208,336	$ -	$ -	$ 346,315	$ 2,046,218	$ 2,447,155

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

COMPARATIVE SCHEDULE OF OPERATING REVENUE
ENTERPRISE FUNDS

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2013	2012
Operating revenues:		
Rural	$ 125,575	$ 118,408
Residential sales	1,506,242	1,446,376
Commercial and industrial	3,449,660	3,518,111
Public buildings	37,905	37,110
Interruptibles	-	-
Bookkeeping fee - City of Osage	9,000	9,750
Other operating fees	294,573	299,475
	$ 5,422,955	$ 5,429,230

See accompanying independent auditor's report.

FUNDS					
GAS		COMMUNICATIONS		TOTAL	
2013	2012	2013	2012	2013	2012
$ -	$ -	$ -	$ -	$ 125,575	$ 118,408
1,134,878	873,454	1,847,657	1,929,190	4,488,777	4,249,020
767,151	551,884	-	-	4,216,811	4,069,995
-	-	-	-	37,905	37,110
488,599	414,166	-	-	488,599	414,166
9,000	8,250	-	-	18,000	18,000
99,783	16,904	18,594	5,355	412,950	321,734
$ 2,499,411	$ 1,864,658	$ 1,866,251	$ 1,934,545	$ 9,788,617	$ 9,228,433

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

COMPARATIVE SCHEDULES OF OPERATING EXPENSES

YEARS ENDED DECEMBER 31:

	ENTERPRISE LIGHT AND POWER	
	2013	2012
Operating expenses:		
Plant expenses:		
Supervision and labor	$ 117,676	$ 99,080
Payroll taxes	21,904	20,047
Fuel	35,833	35,728
Insurance	27,135	23,847
Supplies	18,910	3,981
Power purchased	2,269,539	2,375,879
Maintenance and materials	12,584	8,557
Miscellaneous	4,676	4,954
Total plant expenses	2,508,257	2,572,073
Wind expenses:		
Supervision and labor	13,843	29,781
Insurance	6,961	10,665
Supplies	5,552	9,130
Maintenance	10,234	14,199
School and travel	-	6,841
Property lease	5,045	4,966
Total plant expenses	41,635	75,582
Distribution expenses:		
Supervision and labor	243,281	199,018
Payroll taxes	43,263	35,850
Insurance	39,766	38,958
Truck expense	20,485	19,085
Supplies	110,203	88,886
Maintenance, repairs and labor	13,178	12,549
Natural gas purchases	-	-
Internet, cable and phone	-	-
Utilities	564	496
Miscellaneous	10,429	10,732
Total distribution expenses	$ 481,169	$ 405,574

See accompanying independent auditor's report.

FUNDS					
GAS		COMMUNICATIONS		TOTAL	
2013	2012	2013	2012	2013	2012
$ -	$ -	$ -	$ -	$ 117,676	$ 99,080
-	-	-	-	21,904	20,047
-	-	-	-	35,833	35,728
-	-	-	-	27,135	23,847
-	-	-	-	18,910	3,981
-	-	-	-	2,269,539	2,375,879
-	-	-	-	12,584	8,557
-	-	-	-	4,676	4,954
-	-	-	-	2,508,257	2,572,073
-	-	-	-	13,843	29,781
-	-	-	-	6,961	10,665
-	-	-	-	5,552	9,130
-	-	-	-	10,234	14,199
-	-	-	-	-	6,841
-	-	-	-	5,045	4,966
-	-	-	-	41,635	75,582
87,947	135,749	194,720	206,751	525,948	541,518
28,053	22,928	39,940	32,721	111,256	91,499
38,028	29,050	51,842	52,186	129,636	120,194
8,788	9,868	10,045	7,913	39,318	36,866
18,716	16,732	62,083	41,540	191,002	147,158
19,400	26,637	44,977	22,157	77,555	61,343
1,598,097	1,213,760	-	-	1,598,097	1,213,760
-	-	727,518	722,103	727,518	722,103
370	204	26,878	26,960	27,812	27,660
15,688	11,578	4,771	14,309	30,888	36,619
$ 1,815,087	$ 1,466,506	$ 1,162,774	$ 1,126,640	$ 3,459,030	$ 2,998,720

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

COMBINING SCHEDULES OF OPERATING EXPENSES
ENTERPRISE FUNDS

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2013	2012
Office and administration expenses:		
Office salaries	$ 180,199	$ 211,853
Payroll taxes	27,393	29,609
Use tax	1,614	4,559
Property taxes	2,508	2,544
Trustee fees	1,810	1,655
Professional fees	8,149	3,565
Insurance	137,787	144,946
Global warming assessment	7,062	5,957
Office supplies and postage	22,928	16,864
Janitorial services	9,703	9,518
Office equipment expense	3,082	2,702
Dues	14,112	12,364
Contributions in lieu of taxes	170,718	156,082
Energy efficiency	18,728	21,463
Bad debts	12,112	6,339
Joint lease expense	-	-
Miscellaneous	13,753	20,008
Total office and administration expenses	631,658	650,028
Other expenses:		
Depreciation	991,383	982,799
Amortization	17,026	17,026
Total other expenses	1,008,409	999,825
Total operating expenses	$ 4,671,128	$ 4,703,082

See accompanying independent auditor's report.

FUNDS					
GAS		COMMUNICATIONS		TOTAL	
2013	2012	2013	2012	2013	2012
$ 147,262	$ 126,755	$ 142,147	$ 141,577	$ 469,608	$ 480,185
27,125	25,712	22,911	23,687	77,429	79,008
2,277	1,795	1,135	4,385	5,026	10,739
-	-	7,937	8,642	10,445	11,186
1,810	1,655	1,810	3,310	5,430	6,620
4,812	9,779	5,219	7,743	18,180	21,087
58,285	53,230	45,082	54,177	241,154	252,353
2,344	2,430	-	-	9,406	8,387
21,152	13,346	8,890	12,391	52,970	42,601
9,771	9,560	-	-	19,474	19,078
2,036	2,153	1,650	782	6,768	5,637
6,356	9,410	5,730	3,210	26,198	24,984
11,667	11,000	-	-	182,385	167,082
11,111	19,737	-	-	29,839	41,200
1,498	819	52,184	19,615	65,794	26,773
-	-	143,523	143,523	143,523	143,523
36,343	15,802	55,469	57,179	105,565	92,989
343,849	303,183	493,687	480,221	1,469,194	1,433,432
72,106	73,636	7,949	11,194	1,071,438	1,067,629
-	-	-	-	17,026	17,026
72,106	73,636	7,949	11,194	1,088,464	1,084,655
$ 2,231,042	$ 1,843,325	$ 1,664,410	$ 1,618,055	$ 8,566,580	$ 8,164,462

T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S 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
Osage Municipal Utilities:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of Osage Municipal Utilities, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise OMU's basic financial statements, and have issued our report thereon date September 16, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

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weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

T.P. Anderson & Company, P.C.

September 16, 2014

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

SCHEDULE OF FINDINGS

Part I: Summary of the Independent Auditor's Results

(a) Unmodified opinions were issued on each major fund.

(b) No material weaknesses in internal control were noted during the audit of the financial statements.

(c) The audit did not disclose any non-compliance, which is material to the financial statements.

SCHEDULE OF FINDINGS

Part II: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Material Weaknesses:

No material weaknesses were noted

SCHEDULE OF FINDINGS

Part III: Other Findings Related to Statutory Reporting:

III-A-13 Certified Budget - Disbursements during the year ended December 31, 2013 were within the budgeted limits.

III-B-13 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-13 Travel Expense – No disbursements of the Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.

III-D-13 Business Transactions – No business transactions between the Utilities and the Utilities' officials or employees were noted.

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

III-F-13 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.

III-G-13 Revenue Bonds – No violations of revenue bond resolution requirements were noted.

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

III-I-13 Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.