

**CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES**

**Financial Statements
(With Independent Auditor's Report Thereon)**

**Independent Auditor's Report on Compliance and on
Internal Control over Financial Reporting**

Schedule of Findings

June 30, 2004 and 2003

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

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CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Officials

June 30, 2004

Electric and Water Utility Board of Trustees

Authority: Indianola City Ordinance No. 642

		<u>Term Expires</u> <u>December 31</u>	<u>Amount</u> <u>of Bond</u>
Shelley Lucas	Chairperson	2005	2,500
Bradley K. Butler	Vice Chairperson	2006	2,500
Ray Walton	Secretary	2007	2,500
David Zwanziger		2008	2,500
Gary Ruble		2009	2,500

Indianola Municipal Utilities Management

Mark Ramthun	General Manager	25,000
Chris Longer	Administrative Assistant	25,000
Bob Miller	Electric Superintendent	25,000
Lon Elbert	Water Superintendent	25,000

Joint City and Utility Employees

Todd Kielkopf	City Clerk	25,000
Roxanne Hunerdosse	Administrative Assistant	25,000
Diana Bowlin	Deputy City Clerk	25,000
Douglas Shull	City Treasurer	25,000
John Hoyman	City Solicitor	25,000

All other city employees are bonded under the AID Insurance Co., "Faithful Performance Blanket Position Bond," #33961 in the amount of \$25,000.

Indianola Municipal Utilities
Board of Trustees Report

January 1, 2005

To the Honorable Mayor, Members of the Council, and Citizens of the City of Indianola,

This report consists of the board and management's representations concerning the finances of Indianola Municipal Utilities. Consequently, the board and management assume full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, the board and management have established a comprehensive internal control framework that is designed both to protect the utility's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of these financial statements. Because the cost of internal controls should not outweigh their benefits, the utility's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. The board and management assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Indianola Municipal Utilities' financial statements have been audited by Shull & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2004 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Indianola Municipal Utilities' financial statements for the fiscal year ended June 30, 2004 are fairly presented. The independent auditor's report is presented as the first component of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Profile of the Utility Board of Trustees

The City of Indianola, incorporated in 1864 and the county seat of Warren County, is located in the central part of the state approximately 17 miles south of the state capital, Des Moines. Indianola is considered part of the Des Moines MSA, one of the top growth areas in the state. The City of Indianola encompasses an area of approximately nine square miles and a population of 13,044. The city provides electric, water, and telecommunications services as a discretely reported component unit under the management and control of a board of trustees. The board operates these three utilities as Indianola Municipal Utilities (IMU). This system of management and control was established by a vote of the electorate and implemented by city ordinance in 1973 as provided in Iowa Code.

Electric and water utility territories are fixed in that any new territory expansions must be negotiated and purchased from incumbent service providers. The telecommunications utility currently leases fiber optic lines and offers wireless Internet service to customers in a partnership contract with a private Internet service provider.

Utility board. Utility boards are vested with the authorities of the city with the exceptions that the board may not certify taxes to be levied, pass ordinances or amendments, or issue general obligation or special assessment bonds. Real property is held in the name of the city, but the utility board has all the powers and authorities of the city with respect to the acquisition by purchase, condemnation, or otherwise, lease, sale, or other disposition of such property, and the management, control, and operation of the same, subject to provisions of any outstanding obligations which are payable from the revenues of the city utility. Separate funds are maintained for each utility. Utility fund balances deemed by the board of trustees to be in excess of the needs of a utility may be transferred to any other fund, upon approval by the city council. The five trustees are appointed by the mayor and approved by the city council, each serving staggered six-year terms.

Management. The board of trustees appoints a general manager to oversee the day-to-day management of the electric, water, and telecommunications utilities. The general manager appoints the employees of each of these utilities, carries out the policies of the board of trustees, and performs other duties as determined by resolution of the board.

Other officials. An appointed clerk serves as the chief accounting officer for all city services, including those provided by IMU, and submits budget and year-end financial reports required of the utility. The clerk has other custodial and financial duties prescribed in Iowa Code, local ordinances, board resolutions, and by management discretion. An appointed treasurer serves as custodian for all funds. An attorney is also appointed to represent the city, its boards, and its commissions and performs certain functions prescribed in local ordinances and in the Iowa Code.

Budgeting process. The annual budget serves as the foundation for the utilities' financial planning and control. The budget process, in general, is as follows:

- The general manager submits a 5-year capital improvement project budget to the board of trustees for review and adoption.
- Departments submit operating budget requests to the general manager.
- The general manager compiles the annual budgets for review.
- The board of trustees adopts budgets for the electric, water, and telecommunications utilities. These are compiled with the City of Indianola's governmental services' budgets and that of the sewer utility for presentation to the public in publication form.
- The city council sets and conducts a public hearing on the budget.
- Any proposed changes to the IMU budget are referred back to the board of trustees.
- The city council adopts the overall budget and the budget is filed with the county auditor and the State of Iowa no later than March 15 of each year.

The state of Iowa limits expenditures to the total amount budgeted by function. Expenditures for individual departments or services may exceed those budgeted as long as total expenditures by function are not exceeded. Budget amendments are permitted under provisions similar to the adoption of the original budget. Budget-to-actual comparisons are provided in this report on a cash accounting basis, which is consistent with the city's financial basis of accounting.

Cash management policies and practices. The board of trustees annually reviews and adopts an investment policy outlining the roles and responsibilities in making investments using available cash balances. The clerk and treasurer are jointly responsible for the investment of funds under that policy, with oversight by the board of trustees.

Cash temporarily idle during the year was invested in bank deposits or money market funds, repurchase agreements, and the Iowa Public Agency Investment Trust. These temporary cash deposits were maintained in stable value investments with a rate of return of 2.25%.

The utility invests reserve funds (those not intended to be expended within 365 days) in a portfolio with the assistance of an investment advisement firm. The investment portfolio includes mortgage-backed securities, preferred stock, obligations of the U.S. Treasury or its agencies, and cash held in a public entity money market fund. At fiscal year end, the effective duration of the portfolio was 2.8 years with a current yield of 3.7%. Reported returns may include changes in fair value during the year but do not necessarily represent continuing returns; nor is it always possible to realize changes in fair value, especially in the case of temporary changes for securities the city intends to hold until maturity.

Additional information on the utility's cash management can be found in notes to the financial statements.

Risk management. Indianola Municipal Utilities participates in the Iowa Communities Assurance Pool (ICAP), a local government risk-sharing pool with over 500 members throughout the state of Iowa. The utility makes annual contributions to ICAP recorded as disbursements from its operating funds for automobile, property, casualty, and liability coverage. The utility maintains reserve funds to meet deductibles as they occur. The utility also participates as a member of the Iowa Municipal Workers' Compensation Association (IMWCA) and pays premiums to the association on an annual basis from its operating funds. The utility purchases boiler and machinery insurance from a private carrier. In addition, the utility has an ongoing safety program to monitor its facilities and employees to maintain a safe environment for employees and the public. Additional information on Indianola Municipal Utilities' risk management activity can be found in notes to the financial statements.

Pension and other post-employment benefits. Indianola Municipal Utilities provides pension benefits for its employees. These benefits are provided through a statewide plan managed by the Iowa Public Employees Retirement System. Indianola Municipal Utilities has no obligation in connection with employee benefits offered through this plan beyond its periodic payments based on earned compensation by active employees.

IMU also provides post-retirement access to its medical insurance plan until age 65 as required under Iowa Code. Retirees contribute an amount equal to the premium amount charged to city departments and active employees on a pay-as-you-go basis.

IMU maintains a health reimbursement arrangement (HRA) for the benefit of employees. The utility makes a fixed annual commitment that employees may use to offset premium contributions or cash payments for any medical expense allowed under IRS Code. If the employee does not utilize the full amount provided in the fiscal year, the balance is carried forward to the following year and is available in any future period, including after retirement. Disbursements are paid out of operating funds and not held in trust.

Additional information on the utility's pension arrangements and other post-employment benefits

can be found in notes to the financial statements.

Closing

State law and city ordinance require municipal utility boards to provide the city council an annual report with complete financial statements. State law also requires the city to publish within nine months of the close of each fiscal year a complete set of financial statements, including that of municipal utilities as a component unit. State law requires that financial statements must be audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to these requirements, we hereby issue this report for Indianola Municipal Utilities for the fiscal year ending June 30, 2004.

Shelly Lucas
Board Chairperson

Mark Ramthun
General Manager

Todd Kielkopf
Clerk of the Board of Trustees

Operational Review

Utility operations are divided into departments, all of which work toward the common goal of providing superior services to the citizens of Indianola. The following summary provides a brief review of the various departmental operations during the 2003-04 fiscal year.

- **Electric Utility.** The IMU electric department had another busy year with many different, yet very important projects completed.

The underground conversion program was continued with the projects in the N. Buxton/Caroline Terrace/Angela Drive area and the N. "B"/N. "C" St. area. Each year we get closer to our goal of a complete underground electric distribution system that will improve reliability, reduce maintenance and improve the overall aesthetics of Indianola. Of the total length of the IMU distribution system of over 95 miles, over 55 miles, or 57%, are currently underground. In conjunction with the IMU underground effort, IMU continues to work with Qwest in our effort to remove their telephone facilities from the IMU electric poles that are no longer used for electric services after an underground conversion project. IMU feels that it is important to remove poles once the electric service is gone to reach our intended objectives.

The downtown generation plant received improvements with the replacement of three water cooling towers that serve generators #4, #5 and #6. In addition, the basement in the plant was converted to a containment area for fuels and oils, eliminating the possibility of contamination. A \$25,000 grant was received to help fund this project.

The conversion to radio-read meters continued in FY04 with the goal to have all electric and water meters converted by FY07. This change will improve the accuracy of billing invoices and will make the bills more timely.

The IMU rebate programs continued to increase in popularity with record participation in FY04. The most popular programs include attic insulation rebates and central air conditioner refunds. IMU's use of Chamber Bucks as compensation for the programs also helps booster the local economy.

IMU began to receive wholesale electricity under a new contract with MidAmerican Energy in January, 2004. The wholesale rate from MEC to IMU increased 65% forcing the IMU retail rates to increase an average of 35% effective in February, 2004. This increase was the first electric rate increase since 1985. The new MEC wholesale contract extends through December, 2006. Even with the increase, the IMU residential electric rates are still approximately 10% lower than the surrounding communities.

Due to our steady and consistent growth patterns in the sale of electricity, IMU purchased land on the west side of Indianola that will be the location for a new primary substation. This substation will provide needed redundancy and reliability that the citizens of Indianola have come to expect. This project will begin in the fall of 2004 with completion in October, 2005.

- **Water Utility.** The IMU water department also had a very busy year, starting with the replacement of two water mains on E. Iowa and N. Kenwood and the extension of a new main on S. 15th St. These new mains create better availability and service to the residents as well as improving fire protection and the overall water main system.

The drilling of a new well into the Jordan aquifer, approximately 2,500 ft. in depth, was completed and water is now being provided from the new well. This well will extend the life of the other three Jordan wells assuring the citizens of Indianola many years of quality water service.

The employees of the water department have worked very hard to identify, repair and replace valves throughout the system. Through this effort, the system can now be better isolated to minimize the loss of water when there is a main break and maintain water services to more customers when a section of the system needs to be shut down.

Security improvements to the treatment plant, well sites and water towers continue to be a high priority. Grant funding has been received from the Federal Department of Homeland Security to help with some of these improvements. This effort will continue until we are satisfied we have done all we can to protect this precious resource.

IMU negotiated the purchase of several hundred acres of service territory north of Hillcrest Ave. from the Warren Water District. Plans are currently underway to extend large distribution mains into the new territory to begin to serve those residents and provide fire protection.

The conversion to radio-read meters continued in FY04 with the goal to have all water and electric meters converted by FY07. This change will improve the accuracy of billing invoices and will make the bills more timely.

The annual Water Quality Report was again distributed to all residents of Indianola to provide information related to our water source, water quality and treatment methods. The IMU water department is again pleased to report there were no monitoring violations to EPA guidelines.

- **Communications Utility.** The IMU communications department also had a productive year. Due to the popularity of the IMU/DYBB wireless Internet service, a second transmitting antenna was added to another IMU water tower to provide better service to a larger area of Indianola. In addition, the IMU/DYBB signal was added to the IMU fiber optic system in the Industrial Park to provide a wired Internet option to customers who prefer that technology.

IMU will continue to pursue additional grant opportunities and study technological changes to improve and enhance the capability of the fiber system so every Indianola citizen can have access to advanced communications. One such technology is Broadband over Power Lines (BPL). New equipment can be purchased that will remove the noise of electricity from the transfer of data and voice over electric lines making BPL very cost effective. Issues regarding escaping radio-wave interference is a potential roadblock, but we will continue to study this initiative to see if it can be implemented for Indianola.

IMU joined a state-wide initiative called *Opportunity Iowa* that supports the formation of municipal telecommunication utilities. *Opportunity Iowa* will support legislative efforts to maintain the availability of Iowa communities to have a choice in telecommunication services. Finally, IMU will continue to explore the option of providing an Internet service to the rest of

Warren County. With some strategically placed transmitters, we will be able to reach many more potential customers who may have limited Internet options in the rural areas.

- **Administration.** The IMU Board of Trustees is very supportive and encourages involvement in community service and economic development activities. Participation in FY04 ranged from sponsoring musical events to providing free electric and water services to community parks. IMU also actively participates in the work of the Warren County Economic Development Corp. and the Indianola Alliance.

The water department donated over 2.1 million gallons of water to the Community Athletic Facilities irrigation system and the electric department assisted with the building of the trailhead building and adding transformer improvements to the Indianola Sports Association softball complex.

In an effort to protect our interest and maximize our purchasing power in future wholesale electricity contract negotiations, IMU has joined several other Iowa, Minnesota, Illinois and Nebraska municipal electric utilities to investigate the formation of a new joint action agency. Although formal organization of this large regional group will take several years to finalize, the end result will be a lower cost of wholesale electricity with better options for both generation and transmission availability.

The IMU Board created a Green Energy Bio-Diesel Program together with Indianola Schools, Warren County and the City of Indianola that uses a 5% blend of soy oil in all diesel vehicles of the four entities. Customers of IMU are given the opportunity to voluntarily contribute to this environmentally protective program through their utility bills.

Finally, through the efforts of the IMU employees, a Labor/Management Committee was established to work together to improve the working conditions between both union and management employees and to build a more trusting relationship. Projects started in FY04 included the creation of an infomercial that highlights employee duties in all work areas, participation in the Warren County Fair with an informational booth and distribution of an employees survey to help identify areas of concern and areas of strength. The Labor/Management Committee has been very successful and will continue in FY05.

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited the accompanying statement of net assets of the Indianola Municipal Utilities, a component unit of the City of Indianola, Iowa, as of June 30, 2004 and 2003 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indianola Municipal Utilities as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10, Indianola Municipal Utilities has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2004, on our consideration of the Indianola Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts for the year ended June 30, 2004. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 12 through 16 and 30 through 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 21, 2004

Management Discussion and Analysis (MD&A)

Indianola Municipal Utilities offers readers of its financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in this report.

2004 Financial Highlights

- Indianola Municipal Utilities has an ending cash balance of \$7,280,037 to meet the utility's ongoing obligations to citizens, creditors, for capital reinvestment in utility operations, and for emergency repairs. This equates to 87% of total accrual-based operating expenses.
- As reported on the Statement of Net Assets, total cash balances increased by \$1,479,327. This was primarily due to positive cash flow from the electric utility of \$1,411,831, as reported on the Statement of Cash Flows. The utility annually uses its positive cash flow to reinvest in capital projects, as detailed in the "Long term financial planning" section of this MD&A. At fiscal year-end, there were uncompleted capital projects totaling approximately \$600,000.
- At the end of the current fiscal year, unrestricted and undesignated net assets totaled \$11,845,056. This increased by \$898,842 over the prior year (8.2%).
- The utility's total liabilities increased by \$1,435,551 during the current fiscal year. This is primarily from adding general obligation debt for the construction of a new deep well at the water utility.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows:

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

The Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. These statements provide information about the activities of the utility as a whole and presents an overall view of the utility's finances.

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

Basis of accounting. Indianola Municipal Utilities maintains its financial records on the accrual basis and the financial statements presented in this report are prepared on that basis. The financial statements present the financial position and changes in financial position of the funds in accordance with U.S. generally accepted accounting principles.

Reporting the Utility's Financial Activities

One of the most important questions asked about the utility's finances is, "Is Indianola Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Financial Statements reports information which helps answer this question.

Fund Accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Separate funds are maintained for each utility. These funds are classified as business type, or proprietary, funds for reporting purposes.

Financial Statements. The Statement of Net Assets presents information on each utility's assets, liabilities, and equity. Over time, increases or decreases in unrestricted and undesignated net assets may serve as a useful indicator of whether the financial position of the utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets details the financial operating results of the utility during the most recent fiscal year, with a comparison to the prior year.

The Statement of Cash Flows provides the net increase or decrease in cash and investments as a result of operating, financing, and investment activities.

Analysis of Financial Activities

This section of this MD&A summarizes the financial data contained in the utility's financial statements. It also provides an analysis of the major activities affecting changes from the previous fiscal year.

Statement of Net Assets	Year ended June 30,	
	2004	2003
Assets		
Current	\$ 9,413,821	8,017,343
Restricted	527,037	498,792
Other	31,468	29,469
Capital	34,055,351	32,777,330
Total Assets	<u>\$ 44,027,677</u>	<u>41,322,934</u>
Liabilities		
Current	\$ 1,477,571	1,079,149
Long Term	3,872,176	2,835,047
Total Liabilities	<u>\$ 5,349,747</u>	<u>3,914,196</u>
Net Assets		
Invested Capital Assets	\$ 26,213,726	25,823,508
Restricted	291,416	351,133
Designated	327,732	307,883
Unrestricted & Undesignated	11,845,056	10,946,214
Total Net Assets	<u>\$ 38,677,930</u>	<u>37,408,738</u>

As shown above, total utility assets increased by approximately \$2.7 million. Current assets increased by approximately \$1.4 million as a result of increased cash and investments, mainly from positive cash flow in the electric utility. Capital assets rose about \$1.3 million, primarily from the construction of a new deep well in the water utility.

The growth in assets was largely financed by two sources. First, net income provided for an increase in unrestricted and undesignated net assets of \$899,000. Second, there was an increase in debt to finance the deep well construction.

Net Income	Year ended June 30,	
	2004	2003
Operating revenues		
Sales of electricity	\$ 6,861,800	6,364,794
Electrical capacity contract fees	353,772	527,100
Sales of water	1,596,593	1,551,124
Fiber communications rental fees	38,543	36,164
Other	191,833	96,188
Total operating revenue	<u>9,042,541</u>	<u>8,575,370</u>
Operating expenses		
Electric utility	5,913,340	4,959,026
Water utility	834,175	808,859
Fiber communications utility	81,353	85,339
Administrative and general	1,019,023	1,008,834
Transfer to city for Clerk's operations	211,900	201,406
Transfer to city in lieu of property taxes	273,400	218,725
Total operating expenses	<u>8,333,191</u>	<u>7,282,189</u>
Income from operations	<u>709,350</u>	<u>1,292,639</u>
Nonoperating revenue (expenses)		
Revenue	411,404	377,490
Expenses	<u>(180,373)</u>	<u>(158,514)</u>
Net Income	<u>\$ 940,381</u>	<u>1,512,157</u>

Income from operations was a positive \$709,350 but did decrease by \$583,831 compared to the previous year. Sales of electricity were higher primarily due to a rate increase in March that was the result of a new 3-year wholesale electricity contract. There was a corresponding increase in electric utility operating expenses, as purchased energy increased by \$797,723. Another significant operating income factor was a decrease in electrical capacity fees, which was determined as part of a multi-year contract that ends in November of 2004.

Budgetary Highlights

The board of trustees annually adopts a budget for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level (i.e. proprietary) for the city as a whole, not at the fund or fund type level. Notice is given and a public hearing is held on the budget. The budget may be amended during the year utilizing similar statutorily prescribed procedures. None of the amendments made, if any, negatively affect the following year's budget.

A information pertaining to budgetary to actual receipts, disbursements, and changes in balances is provided in the financial statements on a cash basis. Highlights include:

- Charges for services were more than budgeted, primarily due to a positive energy adjustment charge throughout the year vs. an energy adjustment that is neutral to revenue. The energy adjustment charge is entirely based on the cost of energy supplied to customers.
- Disbursements were less than budgeted, primarily in the following areas:
 - As discussed above, there were approximately \$600,000 in funds for capital projects that were budgeted in FY 2004 but will not be completed until FY 2005.
 - Purchased energy was \$207,000 less than forecast due to the budget uncertainty associated with a new wholesale electricity contract.
 - The inventory of electrical supplies was reduced \$176,000, which was not budgeted.
 - Water utility operating expenses were approximately \$140,000 under budget, in total.

Capital Asset and Debt Administration

The utility added \$1.265 million in general obligation debt in FY 2004, with proceeds used for water projects. Water fee revenue will pay the annual debt service for this debt. The city's overall bond rating, including that of the utility, remained at A2.

	Outstanding Debt at Year ended June 30,	
	2004	2003
Electric utility	\$ -	-
Water utility		
Revenue bonds	2,865,000	3,020,000
General Obligation bonds	1,265,000	
Fiber communications utility	-	-
Total	<u>\$ 4,130,000</u>	<u>3,020,000</u>
Internal loan from Electric utility to Water utility	<u>\$ 4,138,728</u>	<u>4,322,778</u>

Economic Factors and Next Year's Budgets and Rates

Local economy. The City of Indianola currently enjoys a favorable economic environment and local indicators point to continued moderate growth. The projection in 2010 is for Indianola to grow to a population of approximately 16,600, which represents an increase of 27% from the 2000 census. Although a primarily residential community, the varied nature of the educational, light manufacturing, agriculture services, and retail sectors of the local economy provides relative employment stability. Close proximity to the Des Moines metro area, the state capital with a combined population of approximately 460,000, provides employment for approximately 60% of the available workforce. Over the past 5 years, retail sales have grown at an annual average of over 5% and new single family dwellings have been constructed at an average annual rate in excess of 50 units.

The region (which includes the City of Indianola and the surrounding unincorporated area within Warren County) has a moderate growth employment outlook over the next several years. New commercial construction is occurring along the four-lane highway between the City of Indianola and the Des Moines metropolitan area. A four-lane bypass to the south of the Des Moines metro, completed in 2002, provides increased commercial development opportunities for the community as it improved traffic flow from Indianola to the western Des Moines suburbs and the interstate highway system. The utility makes annual financial commitments to the Indianola Development Corporation and Warren County Economic Development Corporation, both non-related entities to the city, to support economic development in the region. The utility also offers its own revolving loan program to spur economic development and participates in the Choose Des Moines Communities program of the Greater Des Moines Partnership.

Long-term financial planning. The utility annually adopts a 5-year capital improvement budget that prioritizes foreseen projects. Those with potential long-term significant impacts to the cash balances and financial operations of the utility are:

- Completion of an underground conversion project at a FY 2005 cost of \$350,000.
- Completion of a new deep well project at a FY 2005 cost of \$250,000.
- Construction of a new \$2.6 million substation in FY 2005 and FY 2006.

It is not anticipated that the utility will be subject to significant regulatory changes within the next 3-5 years.

Budgets and Rates. Indianola Municipal Utilities increased electrical rates in FY 2004 due to a new wholesale electric and transmission contracts and another rate increase is not expected in the near future. A new wholesale electric contract will take effect in 2007, at which time rates will be adjusted according to the terms of that contract. Water rates were unchanged this fiscal year and are not expected to increase.

Requests for Information

This financial report is designed to provide a general overview of Indianola Municipal Utilities' finances for all those with an interest in the utility's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the board's Trustee Clerk, 110 N. First St., PO Box 299, Indianola, IA 50125. The Clerk's Office telephone number is 515-961-9410.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Net Assets
June 30, 2004 and 2003

ASSETS	2004	2003
Current assets		
Cash and investments	\$ 7,280,037	5,800,710
Accounts receivable - customers	1,372,482	1,183,503
Other accounts receivable	14,724	73,490
Accrued interest receivable	50,196	41,459
Inventories	694,497	916,385
Promissory note receivable within one year	1,885	1,796
Total current assets	9,413,821	8,017,343
Restricted assets - cash and investments		
Water revenue bond and interest sinking fund	131,337	103,092
Water revenue bond debt service reserve fund	320,700	320,700
Water revenue bond water improvement fund	75,000	75,000
	527,037	498,792
Promissory note receivable after one year	10,980	12,865
Electric utility plant and equipment, net of accumulated depreciation of \$14,404,613 (2003 - \$13,531,289)	18,966,868	19,060,711
Water utility plant and equipment, net of accumulated depreciation of \$5,537,981 (2003 - \$5,122,218)	14,725,024	13,287,783
Fiber communications utility plant and equipment, net of accumulated depreciation of \$290,314 (2003 - \$224,937)	363,459	428,836
	34,055,351	32,777,330
Bond and note issue costs, net of accumulated amortization of \$9,572 (2003 - \$8,044)	20,488	16,604
	\$ 44,027,677	41,322,934

See accompanying notes to financial statements.

	LIABILITIES	2004	2003
Current liabilities			
Accounts payable		\$ 1,064,128	733,200
Wages and benefits payable		117,616	112,880
Sales tax payable		10,249	10,377
Deferred rental fees		49,957	55,033
Total current liabilities		<u>1,241,950</u>	<u>911,490</u>
Current liabilities payable from restricted assets			
Accrued interest payable		15,621	12,659
General obligation bonds payable within one year		75,000	-
Water revenue bonds payable within one year		145,000	155,000
Current liabilities payable from restricted assets		<u>235,621</u>	<u>167,659</u>
General obligation bonds payable after one year (net of unamortized discount of \$12,248)		1,177,752	-
Water revenue bonds payable after one year (net of unamortized discount of \$25,576 (2003 - \$29,953))		2,694,424	2,835,047
Total liabilities		<u>\$ 5,349,747</u>	<u>3,914,196</u>
	NET ASSETS		
Invested in capital assets, net of related debt		\$ 26,213,726	25,823,508
Restricted for debt service		216,416	256,133
Restricted for water utility improvements		75,000	75,000
Unrestricted			
Designated for electric utility improvement		207,691	207,691
Designated for payment of insurance coverage deductibles		37,132	40,142
Designated for economic development revolving loan fund		82,909	60,050
Undesignated		11,845,056	10,946,214
Total unrestricted		<u>12,172,788</u>	<u>11,254,097</u>
Total net assets		<u>\$ 38,677,930</u>	<u>37,408,738</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2004 and 2003

	2004	2003
Operating revenues		
Sales of electricity	\$ 6,861,800	6,364,794
Sales of water	1,596,593	1,551,124
Fiber communications rental fees	38,543	36,164
Capacity contract fees	353,772	527,100
Other	191,833	96,188
Total operating revenues	9,042,541	8,575,370
Operating expenses		
Electric utility		
Purchased energy	3,614,181	2,816,458
Plant operation and maintenance	601,557	634,111
Distribution operation and maintenance	824,278	677,855
Depreciation and amortization	873,324	830,602
Water utility		
Plant operation and maintenance	291,522	269,764
Distribution operation and maintenance	125,362	124,396
Depreciation and amortization	417,291	414,699
Fiber communications utility		
Operation and maintenance	15,976	19,962
Depreciation and amortization	65,377	65,377
Administrative and general	1,019,023	1,008,834
Transfer to city for Clerk's operations	211,900	201,406
Transfer to city in lieu of property taxes	273,400	218,725
Total operating expenses	8,333,191	7,282,189
Income from operations	709,350	1,293,181

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets - Continued
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Nonoperating revenues (expenses)		
Investment income	264,936	244,493
Connection fees	41,897	33,925
Sale of equipment	5,500	-
Other	99,071	99,072
Interest expense	<u>(180,373)</u>	<u>(158,514)</u>
	<u>231,031</u>	<u>218,976</u>
Net income	940,381	1,512,157
Capital contributions from developers	328,811	147,928
Cumulative effect on prior years of accounting change	<u>-</u>	<u>(30,754)</u>
Change in net assets	1,269,192	1,629,331
Net assets, beginning of year	<u>37,408,738</u>	<u>35,779,407</u>
Net assets, end of year	<u>\$ 38,677,930</u>	<u>37,408,738</u>

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Cash received from customers	\$ 8,869,931	8,713,487
Cash paid to suppliers	(5,045,662)	(4,275,820)
Cash paid to employees	(1,340,992)	(1,419,834)
Other nonoperating fees and revenues received	<u>145,168</u>	<u>142,914</u>
Net cash provided by operating activities	<u>2,628,445</u>	<u>3,160,747</u>
 Cash flows from capital and related financing activities		
Purchases and construction of electric utility plant and equipment	(589,270)	(943,345)
Purchases and construction of water utility plant and equipment	(1,714,404)	(146,408)
Proceeds from sale of equipment	5,500	-
Proceeds from general obligation bond	1,262,219	-
Bond issue costs paid	(5,412)	-
General obligation bond principal paid	(10,000)	-
General obligation bond interest paid	(24,390)	-
Water revenue bond principal paid	(155,000)	(100,000)
Water revenue bond interest paid	<u>(148,111)</u>	<u>(154,357)</u>
Net cash used by capital and related financing activities	<u>(1,378,868)</u>	<u>(1,344,110)</u>
 Cash flows from investing activities		
Promissory note principal received	1,796	1,710
Investment income received	<u>256,199</u>	<u>230,429</u>
Net cash provided by investing activities	<u>257,995</u>	<u>232,139</u>
 Net increase in cash and investments	1,507,572	2,048,776
 Cash and investments, beginning of year	<u>6,299,502</u>	<u>4,250,726</u>
 Cash and investments, end of year	<u>\$ 7,807,074</u>	<u>6,299,502</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows - Continued
Years Ended June 30, 2004 and 2003

	2004	2003
Reconciliation of income from operations to net cash provided		
by operating activities		
Income from operations	\$ 709,350	1,293,181
Adjustments		
Other nonoperating fees and revenues	145,168	142,914
Depreciation and amortization	1,355,992	1,310,678
(Increase) decrease in accounts receivable - customers	(134,413)	181,814
Decrease in inventories	221,888	147,783
Increase in accounts, wages and benefits, and sales tax payable	335,536	89,451
Decrease in deferred rental fees	(5,076)	(5,074)
Net cash provided by operating activities	\$ 2,628,445	3,160,747
 Noncash capital and related financing activities		
Developer contributions of electric utility plant and equipment	\$ 190,211	56,308
Developer contributions of water utility plant and equipment	138,600	91,620

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2004 and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements present the financial position, changes in financial position and cash flows of the Indianola Municipal Utilities of the City of Indianola, Iowa. The Utilities are governed by a five member board appointed by the City Council and is considered a component unit of the City of Indianola, Iowa. These financial statements are not intended to present the financial position of the City of Indianola, Iowa, and the changes in its financial position and cash flows of its proprietary fund types.

Accounting method - The accounting records of the Utilities are maintained on a cash basis. The accompanying financial statements have been prepared, after giving effect to all material adjustments including amounts due from utility customers and due to suppliers of goods and services, to reflect the account balances and results of operations on the accrual basis.

Inventories - Inventories, which consist of fuel oil and supplies, are stated at the lower of cost (first-in, first-out basis) or net realizable value.

Depreciation - Depreciation expense is computed using the straight-line method and estimated useful lives as follows:

Electric utility	
Power plant building	50 years
Generating units	25 years
Transmission and distribution systems	40 years
Vehicles	10 years
Computer equipment	5 years
Water utility	
Buildings and plant	40 years
Wells and towers	30-50 years
Mains and hydrants	50 years
Meters	20 years
Machinery and equipment	15 years
Vehicles	10 years
Fiber communications utility	
Distribution and connection systems	10 years

Cash and Investments and Interest Income - Cash balances available from each of the funds of the City of Indianola, Iowa are pooled for investment and cash management purposes. Investments purchased by the pool are stated at cost or amortized cost. Interest earned on pooled investments is allocated monthly on the basis of the funds' ending cash and investment balances. Because the cash of Indianola Municipal Utilities is deposited with or withdrawn from the cash and investment pool without restriction the allocated share of the pool has been treated as a cash equivalent in the accompanying statement of cash flows.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2004 and 2003

2. PROMISSORY NOTE RECEIVABLE

In conjunction with a Community Economic Betterment Account agreement between the Iowa Department of Economic Development and the City of Indianola, the Indianola Municipal Utilities issued a \$18,000 loan in April 2001 to a local business to assist in expansion of the business. \$9,000 of the loan is forgivable in the event the business creates 90 new jobs by May 2006. The balance of the loan is receivable in annual installments of \$2,079, including interest at 5% per annum.

3. UTILITY PLANT AND EQUIPMENT

The following is a summary of utility plant and equipment in service as of June 30, 2004 and 2003:

	2004	2003
Electric utility		
Land	\$ 96,060	72,973
Service territory	225,000	225,000
Power plant building	1,285,673	1,260,673
Generating units	15,161,374	15,161,374
Computer equipment	244,312	228,736
Equipment	183,566	169,298
Transmission and distribution systems	15,366,089	14,817,712
Vehicles	809,407	656,234
	\$ 33,371,481	32,592,000
Water utility		
Land	\$ 416,270	416,270
Service territory	255,545	-
Buildings and plant	7,595,528	7,595,528
Wells and towers	3,569,809	2,566,167
Mains, hydrants and meters	7,927,442	7,349,424
Machinery and equipment	433,000	433,000
Vehicles	65,411	49,612
	\$ 20,263,005	18,410,001
Fiber communications utility		
Distribution and connection systems	\$ 653,773	653,773

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2004 and 2003

4. REVENUE BONDS AND NOTES PAYABLE

Water revenue bonds issued in December 1996 to finance the construction of a new water treatment facility and related improvements require the establishment of a revenue bond operation and maintenance, sinking, reserve, and improvement funds and require the accumulation of funds in the accounts and restrict the use of such funds as follows:

Operation and maintenance - Amount that results from the monthly accumulation of current expenses plus one-twelfth of expenses paid on an annual basis. Use of funds is for paying current operating expenses.

Sinking - Amount that results from the monthly accumulation of one-sixth of the next semi-annual interest payment, plus one-twelfth of the next annual principal payment. Use of funds is restricted to paying current principal and interest on bonds.

Reserve - Amount that results from 25% of the amount required to be deposited in the sinking account. However, after a reserve amount equal to the maximum amount of principal and interest coming due in any succeeding year, no further deposits are required. Use of funds is restricted to funding any deficit in the sinking account.

Improvement - Amount that results from an initial deposit of \$50,000, then the monthly accumulation of \$2,000 until \$75,000 has been accumulated. Use of funds is restricted to funding any deficit in the sinking and reserve accounts or paying the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, payments of rentals on any part of the system, and for capital improvements to the system.

The revenue bonds mature in annual installments of \$70,000 to \$305,000 through December 2016 and bear interest at rates of 4.900% to 5.125% payable semiannually. Debt service requirements were as follows as of June 30, 2004:

Year ending June 30,	Principal	Interest	Total
2005	\$ 145,000	140,761	285,761
2006	160,000	133,288	293,288
2007	175,000	125,081	300,081
2008	185,000	116,261	301,261
2009	195,000	106,951	301,951
Thereafter	<u>2,005,000</u>	<u>440,719</u>	<u>2,445,719</u>
	<u>\$ 2,865,000</u>	<u>1,063,061</u>	<u>3,928,061</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2004 and 2003

4. REVENUE BONDS AND NOTES PAYABLE - Continued

In August 2004 the City issued \$2,485,000 of Water Revenue Refunding Capital Loan Notes to provide resources to purchase state and local government series securities that were placed in an irrevocable trust for the purpose of generating resources to pay all future debt service requirements on \$2,385,000 of refunded debt representing the June 2008 through June 2017 maturities of the capital loan note issue of December 1, 1996. As a result the refunded bonds are considered to be defeased.

5. GENERAL OBLIGATION BONDS PAYABLE

In October 2003 the City of Indianola issued \$2,410,000 General Obligation Bonds, a portion of which was transferred to the Municipal Water Utility to finance a portion of the costs of constructing water system improvements. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest as payments come due, it is the intention of the Trustees and the City Council that the payments of \$1,275,000 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds are reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in amounts of \$10,000 to \$115,000 from June 1, 2004 through June 1, 2018. Interest on the notes at rates of 2.25% to 3.9% (a weighted average rate of 3.4%) per annum is due semiannually beginning June 1, 2004.

The Municipal Water Utility portion of general obligation bond debt service requirements are as follows as of June 30, 2004:

Year ending June 30,	Principal	Interest	Total
2005	\$ 75,000	43,132	118,132
2006	75,000	41,445	116,445
2007	75,000	39,758	114,758
2008	80,000	37,882	117,882
2009	80,000	35,883	115,883
Thereafter	<u>880,000</u>	<u>184,745</u>	<u>1,064,745</u>
	<u>\$ 1,265,000</u>	<u>382,845</u>	<u>1,647,845</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2004 and 2003

6. COMPENSATED ABSENCES

Indianola Municipal Utilities employees accumulate vacation hours, compensating time off and sick leave for subsequent use. Unused vacation hours and compensating time off are payable upon termination, retirement or death. These amounts are included in wages and benefits payable as of June 30, 2004 and 2003. Accrued sick leave benefits as of June 30, 2004 of approximately \$130,376 (2003 - \$120,534) are payable only when used and have not been accrued.

7. PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual covered salary and Indianola Municipal Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. Indianola Municipal Utilities contribution to IPERS for the year ended June 30, 2004 was \$56,682 (2003 - \$59,862), equal to the required contribution for the year.

8. LOCAL GOVERNMENT RISK POOL

The City of Indianola is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler and machinery. There have been no reductions in insurance coverage from prior years.

Each members' annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basic rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2004 and 2003

8. LOCAL GOVERNMENT RISK POOL (CONTINUED)

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Indianola Municipal Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utilities' annual contributions to the Pool for the year ended June 30, 2004 were \$99,728 (2003 - \$88,187).

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utilities do not report a liability for losses in excess of reinsurance or excess risk - sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, as of June 30, 2004 no liability has been recorded in the Utilities' financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. After the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one year period following withdrawal.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2004 and 2003

8. LOCAL GOVERNMENT RISK POOL (CONTINUED)

Indianola Municipal Utilities is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. Indianola Municipal Utilities has executed a Worker's Compensation Coverage Agreement with the Association which extends through June 30, 2004 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2004, Indianola Municipal Utilities paid workers' compensation insurance premiums of \$33,186 (2003 - \$20,619) to the Association.

9. COMMITMENTS

The Indianola Municipal Utilities has entered into contracts for \$1,572,684 for a water main installation, construction of a new well, and underground conversion projects. The remaining commitment on these contracts at June 30, 2004 is \$465,397.

10. ACCOUNTING CHANGE AND RESTATEMENT

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the Utilities’ financial activities.

In conjunction with implementing these standards Indianola Municipal Utilities retroactively changed its capitalization policy for capital assets. The change resulted in restatement of previously reported 2003 amounts as follows:

Net electric utility plant and equipment decreased	\$ 11,896
Net water utility plant and equipment decreased	18,316
Electric utility distribution operation and maintenance expense increased	3,773
Electric utilities depreciation expense decreased	6,480
Water utility distribution operation and maintenance expense increased	4,839
Water utility depreciation expense decreased	2,674

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Budgetary Comparison Schedule of Receipts, Disbursements
And Changes in Balances – Budget and Actual (Cash Basis)
Year Ended June 30, 2004

	Actual	Budget Amounts Original and Final	Final to Actual Variance
Receipts			
Use of money and property	\$ 256,199	195,400	60,799
Charges for service	8,941,796	8,535,600	406,196
Special assessments	787	5,100	(4,313)
Miscellaneous	74,312	5,600	68,712
Total receipts	<u>9,273,094</u>	<u>8,741,700</u>	<u>531,394</u>
Disbursements			
Business type activities	<u>8,547,941</u>	<u>9,974,100</u>	<u>(1,426,159)</u>
Excess of receipts over (under) disbursements	725,153	(1,232,400)	1,957,553
Other financing sources (uses)			
Bond proceeds	1,262,219	1,400,000	(137,781)
Sale of capital assets	5,500	500	5,000
Operating transfers out	<u>(485,300)</u>	<u>(473,300)</u>	<u>(12,000)</u>
Total other financing sources (uses)	782,419	927,200	(144,781)
Excess of receipts and other financing sources over (under) disbursements and other financing uses	1,507,572	(305,200)	1,812,772
Balances, beginning of year	<u>6,299,502</u>	<u>6,299,502</u>	<u>-</u>
Balances, end of year	<u>\$ 7,807,074</u>	<u>5,994,302</u>	<u>1,812,772</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Required Supplementary Information –
Budgetary Reporting
Year Ended June 30, 2004

In accordance with the code of Iowa, the Board of Trustees with the approval of the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, for the City of Indianola as a whole, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited the financial statements of Indianola Municipal Utilities of the City of Indianola, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated September 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about Indianola Municipal Utilities' operations for the year ended June 30, 2004 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. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Indianola Municipal Utilities' control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of Indianola Municipal Utilities and other parties to whom the Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

September 21, 2004

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings

Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (A) An unqualified opinion was issued on the financial statements.
- (B) The audit did not disclose any material weaknesses in internal control over financial reporting.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

Part II: Findings Related to the Financial Statements:

None

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

- 04-IV-A Official Depositories - A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- 04-IV-B Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed amounts budgeted.
- 04-IV-C Questionable Expenditures - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings - Continued

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

- 04-IV-D Travel Expense - No expenditures of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- 04-IV-E Business Transactions – No business transactions between the Indianola Municipal Utilities officials or employees were noted.
- 04-IV-F Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- 04-IV-G Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- 04-IV-H Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- 04-IV-I Revenue Bonds and Notes –The requirements of the water revenue bond resolution were met during the year ended June 30, 2004.