

**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, 2006

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

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**OFFICIALS
OSAGE MUNICIPAL UTILITIES**

December 31, 2006

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	Gordon Anderson	December 2006
Trustee	Steve Swenson	December 2008
Trustee	Harlan Bremer	December 2009
Trustee	Royce Tack	December 2009
Trustee	Doug Lang	December 2010
General Manager	Dennis Fannin	Indefinite
Board Secretary	Paula Ross	Indefinite
Cashier	Jane Michels	Indefinite
Treasurer	Beverly Miller	January 2011

T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Osage Municipal Utilities
Osage, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of Osage Municipal Utilities, (a component unit of the City of Osage) as of and for the year ended December 31, 2006, which collectively comprise the Utilities' basic financial statements listed as exhibits in the table of contents of this report. These financial statements are the responsibility of Osage Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Osage Municipal Utilities as of December 31, 2005, were audited by other auditors whose opinion dated January 23, 2006, expressed an unqualified opinion on those statements.

As discussed in Note 12 to the financial statements, certain errors resulting in understatement of previously reported accumulated depreciation and depreciation expense as of December 31, 2005, were discovered by the management of Osage Municipal Utilities during the current year. Accordingly, the 2005 financial statements have been restated to correct the error.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities, each major fund and the aggregate remaining fund information of Osage Municipal Utilities as of December 31, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 18, 2007 on our consideration of Osage Municipal Utilities' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 25 through 26 are not required parts 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Osage Municipal Utilities' basic financial statements. The other supplementary information included in schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1 through 5 have been subjected to the auditing procedures applied in the audits of the afore mentioned financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The other supplementary information included in schedules 6 through 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 6 through 9 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

June 18, 2007

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, 2006. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- ◆ The Utilities' operating revenues increased 6.5%, or approximately \$515,000, from 2005 to 2006.
- ◆ Operating expenses increased 1.7%, or approximately \$127,000, from 2005 to 2006.
- ◆ The Utilities' net assets increased 7%, or approximately \$781,000 during 2006.
- ◆ 2006 investment income grew by more than 112% due to earnings from improved interest rates on higher cash balances.

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 for the year.

The Other Supplementary Information in schedules 1 through 5 provides detailed information about nonmajor enterprise funds and additional detail with respect to the Utilities' revenues and expenses

The Other Supplementary Information in schedules 6 through 9 is unaudited and provides detailed information about the usage levels of each utility.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Fund Financial Statements

Osage Municipal Utilities utilizes one kind of fund:

- 1) Proprietary funds account for the Utilities' enterprise activities. Enterprise funds are used to report business type activities. The Utilities maintain six Enterprise Funds to provide separate information for the light and power, gas, internet, telephony, cable, and wireless funds. The light and power and gas funds are considered to be major funds of the utility.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

The condensed statement of net assets, shown below, shows how assets and liabilities have changed over the past two years. Capital assets, net of depreciation, decreased from 2005 to 2006. This decrease is due to depreciation exceeding capital asset purchases during 2006. Total assets increased by approximately \$442,000 and liabilities decreased by \$339,000 resulting in the increase in net assets of approximately \$781,000 dollars during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2006	2005
Current and other assets	\$ 6,603	\$ 5,608
Capital assets (net of depreciation)	11,983	12,536
Total assets	18,586	18,144
Long-term debt outstanding	4,815	5,165
Other liabilities	1,442	1,431
Total liabilities	6,257	6,596
Net assets:		
Invested in capital assets, net of related debt	7,143	7,396
Restricted	897	761
Unrestricted	4,289	3,391
Total net assets	\$ 12,329	\$ 11,548

INDIVIDUAL MAJOR FUND ANALYSIS

As Osage Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$12.3 million, an increase of more than \$781,000 over last year's total of \$11.5 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 increased 16% from the prior year due to the combined effect of a 2% increase in load growth and 6-7% mid-year increase in retail electric rates. The electric rate increase, our first since 1998, was necessary to offset the cumulative 24% increase in cost of wholesale power that has occurred since 1998.

Total operating expenses for 2006 were higher by almost \$146,000, or 5% more than in 2005. More than half of the increase can be attributed to an 8% increase in the wholesale cost of purchased power.

Gas Utility Results of Operations

Although Gas operating revenues and expenses were relatively unchanged compared to 2005 results, Osage residents and businesses consumed about 3% more natural gas than in the previous year, causing a positive change in net assets of almost \$119,000. More than 28% of 2006 natural gas sales can be attributed to the Utilities' largest industrial customers.

Telecom Utility Results of Operations

The Communications Utility, completing only its fourth full year of operations, ended the year with a gain of \$183,839, a 21% improvement over the previous year's results. Continued growth in number of customers who subscribed to our telephone (+ 3%), cable television (+ 11%), high speed internet (+ 20%), and rural wireless service (+ 30%), as well as a slight reduction in operating expenses, enabled net assets to grow by 47% in 2006.

Despite overall favorable operating results, telephone revenues experienced an 18% decline, largely due to a significant drop in long distance access rates that we are allowed to charge long distance carriers that use our local lines. Disputed charges are trending downward so we expect collections to improve in 2007.

The following analysis focuses on the change in net assets for the combined divisions of Osage Municipal Utilities.

	Changes in Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended December 31,	
	2006	2005
Operating revenues	\$ 8,397	\$ 7,882
Operating expenses	7,612	7,486
Operating income	785	396
Net Non-Operating Revenues (Expenses)	(46)	1
Other financing sources (Uses)	42	6
Change in Net Assets	781	403
Net assets beginning of year	11,548	11,145
Net assets end of year	12,329	\$ 11,548

BUDGETARY HIGHLIGHTS

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

CAPTIAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2006, Osage Municipal Utilities had approximately \$12 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net decrease (including additions and deletions net of depreciation) of approximately \$550,000 or 4 percent under last year.

	Capital Assets of Business Type Activities at Year End	
	(Expressed in Thousands)	
	Year ended December 31,	
	2006	2005
Land and improvements	\$ 100	\$ 100
Buildings and improvements	1,100	1,004
Equipment and vehicles	10,783	11,432
Total	\$ 11,983	\$ 12,536

The largest additions to capital assets were improvements to the plant, transformers, and poles.

Osage Municipal Utilities had depreciation expense of \$811,917 in FY06 and total accumulated depreciation of \$10,954,202 at December 31, 2006.

LONG TERM DEBT/LIABILITIES

At December 31, 2006, Osage Municipal Utilities had \$5,165,000 in revenue bonds outstanding compared to \$5,505,000 at December 31, 2005, as shown below.

	Outstanding debt of Business Type Activities at Year End	
	(Expressed in Thousands)	
	Year ended December 31,	
	2006	2005
Revenue Bonds	\$ 5,165	\$ 5,505

Debt decreased as a result of making the scheduled principal payments.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Osage Municipal Utilities' customer/owners have come to expect nothing but the best in terms of exceptional service and reliability, and delivered at a reasonable price. As a public utility, we have the challenge, as well as the obligation, to provide electricity, natural gas and communication services to our customers by the most cost-efficient means possible.

Once again, our participation in various regional electric and natural gas rate surveys reveals that Osage Municipal Utilities continues to rank very favorably among the region's investor-owned utilities, electric distribution cooperatives and municipal electric and gas utilities. Not only are our retail rates significantly below the national averages, but among Iowa's 137 municipal electric and 49 municipal gas utilities, Osage's rates continue to rank among the lowest 20% and 35%, respectively, in the state.

Although rates for utility services are comparatively low, Osage Municipal Utilities gives back to the community by providing free services, including electricity for street lighting and traffic signals, natural

gas to heat water for the City's swimming pool, tree work and miscellaneous labor for a variety of City projects, as well as an annual cash transfer to the City of Osage's general fund. In 2006 the value of total cash transfers and services-in-kind to the City of Osage amounted to just over \$133,000.

The Osage Municipal Utilities Board of Trustees and management are proud of a long tradition of low electric and natural gas rates. Although no base rate adjustments have been necessary in the Electric and Gas Utilities since 1998 and 2000, respectively, cost increases and creeping inflation required that we conduct an electric cost of service and rate study in early 2006. As a result, retail electric rates increased modestly by less than 8% in mid-2006. For the same reasons, in 2007 retail natural gas rates will likely need to be adjusted, as well.

For yet one more year, rates for cable television, telephone and internet services remained stable, not changing since they were first offered in 2002. However, increasing debt service requirements, ongoing increases in cable programming costs, and general inflation will necessitate increases in both cable and telephone rates in 2007. We look forward to adding a package of digital cable channels to our line-up of cable services in 2007. Our presence as a provider of communications services allows consumers of all communications services in the Osage area to continue to benefit from the competitive nature of the Osage marketplace.

Osage Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery of the utmost in reliable products and services. We prepare for these ongoing investments by funding designated reserve accounts on a regular basis, to the extent we are capable. Consistent with the need to invest for the future, Osage Municipal Utilities has joined with other Iowa cities and utilities to take the lead in making alternative energy sources commercially viable. Under the direction of the Iowa Stored Energy Park Agency, of which Osage is a founding member, one of Iowa's greatest energy resources, abundant wind, will be transformed into on-demand electricity for Iowa consumers. A site just outside Dallas Center, Iowa has all the necessary geologic features to allow development of the project. The Iowa Stored Energy Park is expected to be fully operational and providing electricity to Iowa and surrounding states by 2012. The goal is simple: use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment.

Lastly, but significantly, the Osage Municipal Utilities Board of Trustees, motivated by the belief that a recreation and fine arts center would provide substantial economic development benefit to the Osage community and surrounding area, took action in 2006 to join with five other local entities to help finance construction of the Cedar River Recreation & Fine Arts Complex. Our \$2 million contribution to support this economic development project will consist of a \$500,000 payment in 2007, followed by an additional \$1,500,000 amortized over 15 years.

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 show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dennis Fannin, General Manager, 720 Chestnut Street, Osage, Iowa.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**STATEMENTS OF NET ASSETS
ENTERPRISE FUNDS**

AS OF DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2006	2005
Capital assets		
Capital assets, net of accumulated depreciation	\$ 11,156,251	\$ 11,657,636
Current assets:		
Cash and cash equivalents	2,167,136	1,642,384
Accounts receivable (net of allowance for doubtful accounts)	393,442	339,053
Unbilled usage	199,353	179,106
Investments	214,900	214,900
Inventory	397,252	381,297
Prepaid expenses	32,668	17,596
Accrued interest receivable	-	8,399
	3,404,751	2,782,735
Other assets:		
Bond discount - net of accumulated amortization	50,421	51,476
Prepaid contract fees - net of accumulated amortization	5,334	9,334
	55,755	60,810
Total assets	\$ 14,616,757	\$ 14,501,181

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ 760,282	\$ 788,900	\$ 66,584	\$ 89,345	\$ 11,983,117	\$ 12,535,881
1,211,581	793,624	705,464	475,188	4,084,181	2,911,196
321,820	442,076	270,034	327,498	985,296	1,108,627
301,547	443,342	4,362	5,191	505,262	627,639
-	-	-	-	214,900	214,900
14,875	15,879	19,680	10,048	431,807	407,224
290,545	233,251	2,191	13,196	325,404	264,043
-	4,837	-	756	-	13,992
<u>2,140,368</u>	<u>1,933,009</u>	<u>1,001,731</u>	<u>831,877</u>	<u>6,546,850</u>	<u>5,547,621</u>
-	-	-	-	50,421	51,476
-	-	-	-	5,334	9,334
-	-	-	-	55,755	60,810
<u>\$ 2,900,650</u>	<u>\$ 2,721,909</u>	<u>\$ 1,068,315</u>	<u>\$ 921,222</u>	<u>\$ 18,585,722</u>	<u>\$ 18,144,312</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**STATEMENTS OF NET ASSETS - continued
ENTERPRISE FUNDS**

AS OF DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2006	2005
Liabilities:		
Current liabilities:		
Accounts payable	\$ 127,268	\$ 190,899
Accounts payable - City of Osage	86,304	82,086
Checks in excess of bank balance	-	-
Customer meter deposits	14,305	12,051
Customer budget billing	(10,300)	2,531
Accrued expenses	41,345	32,812
Accrued interest payable	19,204	20,295
Deferred revenue	-	-
Revenue bonds payable	310,000	300,000
	588,126	640,674
Noncurrent liabilities		
Revenue bonds payable - net of current portion	4,530,000	4,840,000
Total liabilities	5,118,126	5,480,674
Fund net assets		
Invested in capital assets, net of related debt	6,316,251	6,517,636
Restricted - bond covenant	897,269	760,900
Unrestricted (deficit)	2,285,111	1,741,971
Total net assets	\$ 9,498,631	\$ 9,020,507

See notes to the financial statements.

Exhibit A - continued

FUNDS					
GAS		NONMAJOR FUNDS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ 421,248	\$ 404,677	\$ 24,836	\$ 46,445	\$ 573,352	\$ 642,021
-	-	-	-	86,304	82,086
-	-	-	4,119	-	4,119
31,076	26,281	12,786	13,080	58,167	51,412
167,065	134,179	-	-	156,765	136,710
26,821	21,206	16,468	14,072	84,634	68,090
-	-	1,089	1,194	20,293	21,489
-	-	111,823	84,838	111,823	84,838
-	-	40,000	40,000	350,000	340,000
<u>646,210</u>	<u>586,343</u>	<u>207,002</u>	<u>203,748</u>	<u>1,441,338</u>	<u>1,430,765</u>
-	-	285,000	325,000	4,815,000	5,165,000
<u>646,210</u>	<u>586,343</u>	<u>492,002</u>	<u>528,748</u>	<u>6,256,338</u>	<u>6,595,765</u>
760,282	788,900	66,584	89,345	7,143,117	7,395,881
-	-	-	-	897,269	760,900
<u>1,494,158</u>	<u>1,346,666</u>	<u>509,729</u>	<u>303,129</u>	<u>4,288,998</u>	<u>3,391,766</u>
<u>\$ 2,254,440</u>	<u>\$ 2,135,566</u>	<u>\$ 576,313</u>	<u>\$ 392,474</u>	<u>\$ 12,329,384</u>	<u>\$ 11,548,547</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS**

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2006	2005
Operating revenues:		
Charges for service	\$ 3,574,781	\$ 3,085,078
Operating expenses		
Business type activities	3,023,748	2,877,271
Operating income (loss)	551,033	207,807
Non-operating revenues (expenses)		
Interest income	99,732	44,023
Interest expense	(242,532)	(254,742)
Other income	27,555	185,200
Total non-operating revenues (expenses)	(115,245)	(25,519)
Other financing sources (uses)		
Operating transfers in	-	778
Operating transfers (out)	-	-
Gain (loss) on sale of capital assets	42,336	5,856
Total other financing sources (uses)	42,336	6,634
Change in net assets	478,124	188,922
Net assets - beginning of year	9,020,507	8,831,585
Net assets - end of year	\$ 9,498,631	\$ 9,020,507

See notes to the financial statements.

Exhibit B

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ 3,400,060	\$ 3,381,858	\$ 1,422,542	\$ 1,415,397	\$ 8,397,383	\$ 7,882,333
<u>3,334,198</u>	<u>3,350,461</u>	<u>1,254,700</u>	<u>1,258,047</u>	<u>7,612,646</u>	<u>7,485,779</u>
65,862	31,397	167,842	157,350	784,737	396,554
53,234	32,198	29,681	9,623	182,647	85,844
(222)	(192)	(13,684)	(14,757)	(256,438)	(269,691)
-	32	-	-	27,555	185,232
<u>53,012</u>	<u>32,038</u>	<u>15,997</u>	<u>(5,134)</u>	<u>(46,236)</u>	<u>1,385</u>
-	-	15,000	32,000	15,000	32,778
-	-	(15,000)	(32,778)	(15,000)	(32,778)
-	-	-	(46)	42,336	5,810
-	-	-	(824)	42,336	5,810
118,874	63,435	183,839	151,392	780,837	403,749
<u>2,135,566</u>	<u>2,072,131</u>	<u>392,474</u>	<u>241,082</u>	<u>11,548,547</u>	<u>11,144,798</u>
<u>\$ 2,254,440</u>	<u>\$ 2,135,566</u>	<u>\$ 576,313</u>	<u>\$ 392,474</u>	<u>\$ 12,329,384</u>	<u>\$ 11,548,547</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**STATEMENTS OF CASH FLOWS
ENTERPRISE FUNDS**

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2006	2005
Cash flows from operating activities:		
Cash receipts from customers	\$ 3,368,419	\$ 3,080,333
Cash received from other funds	121,149	121,149
Cash payments to suppliers	(2,001,528)	(1,689,411)
Cash payments to employees	(363,600)	(410,130)
Cash payments to other funds	-	-
Cash payments for contributions	(5,579)	(46,494)
Net cash provided (used) by operating activities	<u>1,118,861</u>	<u>1,055,447</u>
Cash flows from noncapital financing activities		
Transfers in	-	778
Transfers out	-	-
Miscellaneous non-operating revenue	27,555	197,423
Net cash provided (used) by noncapital financing activities	<u>27,555</u>	<u>198,201</u>
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(228,508)	(300,553)
Proceeds from sale of assets	42,336	-
Repayment of revenue bonds	(300,000)	(285,000)
Cash paid for interest	(243,623)	(255,753)
Net cash (used) by capital and related financing activities	<u>(729,795)</u>	<u>(841,306)</u>
Cash flows from investing activities:		
Investment income	108,131	35,693
Net cash provided by investing activities	<u>108,131</u>	<u>35,693</u>
Net increase (decrease) in cash and cash equivalents	524,752	448,035
Cash and cash equivalents-beginning of year	1,642,384	1,194,349
Cash and cash equivalents-end of year	<u>\$ 2,167,136</u>	<u>\$ 1,642,384</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ 551,033	\$ 207,807
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	734,947	745,788
Change in accounts receivable	(54,389)	119,083
Change in meter deposits and unbilled usage	(30,824)	-
Change in prepaid expenses	(15,072)	1,044
Change in inventory	(15,955)	(19,294)
Change in accounts payable and other liabilities	(50,879)	1,019
Net cash provided (used) by noncapital financing activities	<u>\$ 1,118,861</u>	<u>\$ 1,055,447</u>

See notes to the financial statements.

Exhibit C

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ 3,699,792	\$ 3,219,551	\$ 1,445,291	\$ 1,371,764	\$ 8,513,502	\$ 7,671,648
-	-	-	-	121,149	121,149
(2,983,227)	(2,925,852)	(705,161)	(818,115)	(5,689,916)	(5,433,378)
(240,594)	(227,427)	(357,877)	(403,243)	(962,071)	(1,040,800)
-	-	(121,149)	(121,149)	(121,149)	(121,149)
(90,093)	(80,449)	(2,599)	(2,595)	(98,271)	(129,538)
<u>385,878</u>	<u>(14,177)</u>	<u>258,505</u>	<u>26,662</u>	<u>1,763,244</u>	<u>1,067,932</u>
-	-	15,000	32,000	15,000	32,778
-	-	(15,000)	(32,778)	(15,000)	(32,778)
-	32	-	-	27,555	197,455
-	32	-	(778)	27,555	197,455
(25,770)	(41,411)	(4,876)	(19,729)	(259,154)	(361,693)
-	-	-	-	42,336	-
-	-	(40,000)	(35,000)	(340,000)	(320,000)
(222)	(192)	(13,785)	(14,833)	(257,630)	(270,778)
<u>(25,992)</u>	<u>(41,603)</u>	<u>(58,661)</u>	<u>(69,562)</u>	<u>(814,448)</u>	<u>(952,471)</u>
58,071	27,361	30,432	8,868	196,634	71,922
<u>58,071</u>	<u>27,361</u>	<u>30,432</u>	<u>8,868</u>	<u>196,634</u>	<u>71,922</u>
417,957	(28,387)	230,276	(34,810)	1,172,985	384,838
793,624	822,011	475,188	509,998	2,911,196	2,526,358
<u>\$ 1,211,581</u>	<u>\$ 793,624</u>	<u>\$ 705,464</u>	<u>\$ 475,188</u>	<u>\$ 4,084,181</u>	<u>\$ 2,911,196</u>
\$ 65,862	\$ 31,397	\$ 167,842	\$ 157,350	\$ 784,737	\$ 396,554
54,388	57,771	27,637	22,760	816,972	826,319
120,256	(210,203)	57,464	(61,606)	123,331	(152,726)
146,590	-	27,521	(332)	143,287	(332)
(57,294)	(56,139)	11,005	(11,246)	(61,361)	(66,341)
1,004	1,662	(9,632)	2,879	(24,583)	(14,753)
55,072	161,335	(23,332)	(83,143)	(19,139)	79,211
<u>\$ 385,878</u>	<u>\$ (14,177)</u>	<u>\$ 258,505</u>	<u>\$ 26,662</u>	<u>\$ 1,763,244</u>	<u>\$ 1,067,932</u>

**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 are component units 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 are governed by a separate Board of Trustees and operates Osage Municipal Utilities 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 participate 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 ongoing financial interest or responsibility by the participating parties. The General Manager serves on the Upper Midwest Municipal Power Agency.

Osage Municipal Utilities also participate in a jointly governed organization that is currently in the developmental stage. It is anticipated that eventually this organization will provide goods and services to Osage Municipal Utilities. The arrangement does not meet the criteria of a joint venture because there is not an ongoing financial responsibility by the participating parties. The General Manager serves on the board of the Iowa Stored Energy Park Agency.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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 fund financial statements.

Osage Municipal Utilities reports the following major proprietary funds:

Enterprise Funds:

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

The Gas Fund is used to account for delivery of natural gas 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 U.S. generally accepted accounting principals. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

The proprietary funds of Osage Municipal Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principals Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

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 principle 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.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2006, disbursements did not exceed the amounts budgeted.

E. Osage Municipal Utilities Plant and Depreciation

Osage Municipal Utilities' plant is stated at original cost when first devoted to public service. Expenditures for additions and betterments (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 depreciation 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.

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

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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. Cash and Cash Equivalents

For the purpose of the statement of cash flows, Osage Municipal Utilities considers all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

K. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable as of December 31, 2006 and 2005 consisted of approximately 2,240 uncollateralized accounts.

Osage Municipal Utilities use 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. Accumulated penalties included in the accounts receivable balance at December 31, 2006 and 2005 were \$600 and \$650 respectively. The charges originate substantially from the Light and Power fund.

The allowance for uncollectible accounts had balances as of December 31, 2006 and 2005 respectively as follows:

	Light and Power		Gas		Other Nonmajor	
	2006	2005	2006	2005	2006	2005
Allowance for doubtful accounts	\$ -	\$ -	\$ -	\$ -	\$ 63,866	\$ -

NOTE 2 - CASH AND INVESTMENTS

Osage Municipal Utilities' deposits at December 31, 2006 and 2005 (which include certificates of deposit totaling \$1,669,239 and \$1,660,900 respectively) 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 insure there will be no loss of public funds.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS-continued

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 \$268,368 and \$139,661 as of December 31, 2006 and 2005, respectively. This 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) in 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, 2006 and 2005.

Light and Power Fund:

	Bal. 1/1/06	Issued	Repaid	Bal. 12/31/06
Business type activities:				
Revenue bonds – issued December 1996	\$ 590,000	-	\$ 200,000	\$ 390,000
Revenue bonds – issued September 2001	4,550,000	-	100,000	4,450,000
	<u>\$ 5,140,000</u>	<u>-</u>	<u>\$ 300,000</u>	<u>\$ 4,840,000</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – REVENUE BONDS PAYABLE- continued

Telephony Fund:

	Bal. 1/1/06	Issued	Repaid	Bal. 12/31/06
Business type activities:				
Revenue Bonds – issued July 2002	\$ 365,000	-	40,000	\$ 325,000

The proceeds from the revenue bonds as reported by the Telephony Fund were received from the City of Osage as a result of a General Obligation debt issuance by the City. It is classified as revenue bonds herein as Osage Municipal Utilities' ability to pay is reliant on charges to its customers.

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

Year Ending December 31,	Light and Power Series 1996 Interest 4.1-4.75%		Light and Power Series 2001 Interest 2.5-5.2%		Telephony July 2002 Interest 3.4-4.4%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 190,000	\$ 18,525	\$ 120,000	\$ 211,896	\$ 40,000	\$12,366	\$ 350,000	\$ 242,787
2008	200,000	9,500	125,000	207,276	40,000	10,956	365,000	227,732
2009	-	-	340,000	202,212	45,000	9,359	385,000	211,571
2010	-	-	355,000	187,932	45,000	7,581	400,000	195,513
2011	-	-	370,000	172,490	50,000	5,620	420,000	178,110
2012	-	-	390,000	156,026	50,000	3,495	440,000	159,521
2013	-	-	405,000	138,086	55,000	1,210	460,000	139,296
2014	-	-	425,000	118,848	-	-	425,000	118,848
2015	-	-	445,000	98,236	-	-	445,000	98,236
2016	-	-	470,000	75,986	-	-	470,000	75,986
2017	-	-	490,000	52,016	-	-	490,000	52,016
2018	-	-	515,000	26,780	-	-	515,000	26,780
	<u>\$ 390,000</u>	<u>\$28,025</u>	<u>\$4,450,000</u>	<u>\$1,647,784</u>	<u>\$325,000</u>	<u>\$50,587</u>	<u>\$5,165,000</u>	<u>\$1,726,396</u>

Bond discount amortization was \$1,055 and \$7,183, respectively for the years ended December 31, 2006 and 2005.

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 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.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – REVENUE BONDS PAYABLE- continued

- D. Sufficient monthly transfers shall be made to an 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, 2006 and 2005.

NOTE 4 – INTEREST COSTS

During the years ended December 31, 2006 and 2005, the interest incurred and expensed by the Light and Power Fund was \$242,532 and \$254,742 respectively.

During the years ended December 31, 2006 and 2005, interest incurred and expensed by the Telephony Fund was \$13,623 and \$14,734 respectively.

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 are required to contribute 3.70% of their annual salary and Osage Municipal Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. Osage Municipal Utilities' contributions to IPERS for the years ended December 31, 2006, 2005 and 2004 were \$53,832, \$50,477 and \$49,688 respectively, equal to the required contributions for each year.

NOTE 6 – RISK MANAGEMENT

Osage Municipal Utilities are 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 assume liability for any deductibles and claims in excess of coverage limitations.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – COMPENSATED ABSENCES

Osage Municipal Utilities’ employees accumulate a limited amount of earned but unused vacation. Osage Municipal Utilities’ approximate liability for earned vacation payments payable to employees at December 31, 2006 and 2005 is as follows:

December 31, 2006	Light and Power	Gas	Non-major	Total
Vacation	\$ 20,839	\$ 14,541	\$ 6,306	\$ 41,686
December 31, 2005	Light and Power	Gas	Non-major	Total
Vacation	\$ 15,040	\$ 10,500	\$ 4,552	\$ 30,092

NOTE 8 – INTERFUND TRANSFERS

Interfund transfers were made during the years ended December 31, 2006 and 2005. The transfers are as detailed below.

Transfers for the year ended December 31, 2006:

Transferred from:	Transferred to:	Amount
Internet	Rural Wireless	\$ 15,000

Transfers for the year ended December 31, 2005:

Transferred from:	Transferred to:	Amount
Internet	Rural Wireless	\$ 32,000
Cable	Light and Power	\$ 389
Telephony	Light and Power	\$ 389

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, requiring annual payments of \$154,380. Future minimum lease payments are as follows:

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – JOINT LEASE AGREEMENT – continued

Year Ending December 31,	Payments
2007	\$ 154,380
2008	154,380
2009	154,380
2010	154,380
2011	154,380
2012-2016	771,900
2017-2021	771,900
2022-2026	771,900
2027-2031	771,900
2032-2035	463,140
Total	\$ 4,322,640

NOTE 10 – CAPITAL ASSETS

The following schedules disclose the major fixed asset additions for the years ended December 31, 2006 and 2005.

Light and Power Fund				
Capital Assets	Balance 12/31/05	Additions	Disposals	Balance 12/31/06
Capital Assets Not Being Depreciated				
Land	\$ 41,029	-	-	\$ 41,029
Iowa Stored Energy Park Agency	42,500	50,000	-	92,500
Capital Assets being Depreciated				
Buildings and improvements	1,128,530	45,978	-	1,174,508
Generating equipment and lines	11,962,831	110,870	-	12,073,701
HFC distribution center	5,645,998	1,520	-	5,647,518
Equipment and vehicles	1,410,299	20,140	-	1,430,439
Broadband room	121,419	-	-	121,419
	20,352,606	228,508	-	20,581,114
Less: Accumulated depreciation	8,694,971	729,892	-	9,424,863
Book Value	\$ 11,657,635			\$ 11,156,251

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – CAPITAL ASSETS-continued

Major additions to the Light and Power Fund capital assets included improvements to the plant, new transformers and generation equipment, new poles, and additional investment in the Iowa Stored Energy Park Agency.

Gas Fund				
Capital Assets	Balance 12/31/05	Additions	Disposals	Balance 12/31/06
Capital Assets Not Being Depreciated				
Land	\$ 7,734	-	-	\$ 7,734
Iowa Stored Energy Park Agency	42,500	-	-	42,500
Capital Assets being Depreciated				
Buildings and improvements	582,838	1,710	-	584,548
Peak shaving plant	232,733	-	-	232,733
Gas plant, lines and meters	829,004	8,228	-	457,152
Equipment and vehicles	441,320	15,832	-	2,161,899
	2,136,129	25,770	-	2,161,899
Less:				
Accumulated depreciation	1,347,229	54,388	-	1,401,617
Book Value	\$ 788,900			\$ 760,282

Major additions to the Gas Fund capital assets included new meters and a new skid loader.

Internet and Wireless Funds (Combined)				
Capital Assets	Balance 12/31/05	Additions	Disposals	Balance 12/31/06
Capital Assets being Depreciated				
Equipment	\$ 148,954	4,876	-	\$ 153,830
Organizational costs	40,476	-	-	40,476
	189,430	4,876	-	194,306
Less:				
Accumulated depreciation	100,085	27,637	-	127,722
Book Value	\$ 89,345			\$ 66,584

Major additions to the Internet and Wireless Funds' capital assets included new equipment to enhance the wireless internet.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – RESTRICTED ASSETS

As required by bond resolution, the Light and Power Fund of Osage Municipal Utilities has set aside the following reserve funds for the years ended December 31, 2006 and 2005:

December 31, 2006

	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	\$ 546,025	\$ 114,875	\$ 100,000	\$ 760,900
Deposits	140,325	-	-	140,325
Withdrawals	-	(3,956)	-	(3,956)
Balance, end of year	<u>\$ 686,350</u>	<u>\$ 110,919</u>	<u>\$ 100,000</u>	<u>\$ 897,269</u>

December 31, 2005

	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	\$ 215,000	\$ 148,022	\$ 100,000	\$ 463,022
Deposits	331,025	-	-	331,025
Withdrawals	-	(33,147)	-	(33,147)
Balance, end of year	<u>\$ 546,025</u>	<u>\$ 114,875</u>	<u>\$ 100,000</u>	<u>\$ 760,900</u>

NOTE 12 – CORRECTION OF ERROR

An error was detected in accumulated depreciation and depreciation expense as reported in prior periods for Osage Municipal Utilities. The error resulted from failing to calculate depreciation expense on certain Osage Municipal Utilities' assets in the Light and Power Fund. The following financial statement line items as reported in the December 31, 2005, have been restated as follows.

	12/31/05 As previously reported	Correction	12/31/05 As corrected
Light & Power Fund Capital Assets,			
Net of Depreciation	11,944,770	(287,134)	11,657,636
Total Assets	14,788,315	(287,134)	14,501,181
Light & Power Fund Net Assets			
Invested in Capital Assets Net of Related			
Depreciation	6,804,770	(287,134)	6,517,636
Light & Power Fund Total Net Assets	9,307,641	(287,134)	9,020,507
Light & Power Fund Operating Expenses			
Business Type Activities	2,851,167	26,104	2,877,271
Operating Income	233,911	(26,104)	207,807
Changes in Net Assets	215,026	(26,104)	188,922
Net Assets Beginning of the Year	9,092,615	(261,030)	8,831,585
Net Assets End of the Year	9,307,641	(287,134)	9,020,507

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

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 contribution is anticipated to be \$500,000 in the year 2007 and \$100,000 per year for 15 years starting in 2008 for a total of \$2,000,000. The contributions may only come from surpluses generated by Osage Municipal Utilities and are to spur additional economic activity in the region.

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 ACUTAL
ALL ENTERPRISE FUNDS**

DECEMBER 31:

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
Receipts:			
Charges for service	\$ 8,397,383	8,945,910	(548,527)
Interest earnings	182,647	66,820	115,827
Miscellaneous	69,891	134,724	(64,833)
	<u>8,649,921</u>	<u>9,147,454</u>	<u>(497,533)</u>
Disbursements:			
Program			
Business type activities	7,869,084	9,058,205	1,189,121
	<u>7,869,084</u>	<u>9,058,205</u>	<u>1,189,121</u>
Net income	780,837	89,249	<u><u>691,588</u></u>
Balance beginning of year	<u>11,548,547</u>	<u>11,842,564</u>	
Balance end of year	<u><u>\$ 12,329,384</u></u>	<u><u>\$ 11,931,813</u></u>	

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2006

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 ten major classes of disbursements known as functions, 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 all 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.

For the year ended December 31, 2006, Osage Municipal Utilities did not exceed budgeted expenditures.

Other Supplementary Information

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**COMBINING STATEMENTS OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS**

AS OF DECEMBER 31:

	Internet		Cable	
	2006	2005	2006	2005
Capital Assets				
Capital assets, net of accumulated depreciation	\$ 1,969	\$ 2,637	\$ -	\$ -
Current Assets:				
Cash and cash equivalents	109,986	50,679	248,948	153,693
Accounts receivable (net of allowance for doubtful accounts)	3,380	5,063	67,740	56,889
Unbilled usage	1,989	2,819	-	-
Inventory	-	-	-	4,586
Prepaid expenses	155	167	922	25
Accrued interest receivable	-	-	-	-
	<u>115,510</u>	<u>58,728</u>	<u>317,610</u>	<u>216,093</u>
Total assets	<u>\$ 117,479</u>	<u>\$ 61,365</u>	<u>\$ 317,610</u>	<u>\$ 216,093</u>
Liabilities:				
Current liabilities:				
Accounts payable	\$ 303	\$ 969	\$ 5,704	\$ 21,449
Checks in excess of bank balance	-	-	-	-
Customer meter deposits	-	-	6,958	6,764
Accrued expenses	4,316	5,304	5,280	2,875
Accrued interest payable	-	-	-	-
Deferred revenue	-	-	67,085	56,421
Revenue bonds payable	-	-	-	-
	<u>4,619</u>	<u>6,273</u>	<u>85,027</u>	<u>87,509</u>
Noncurrent liabilities				
Revenue bonds payable - net of current portion	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>4,619</u>	<u>6,273</u>	<u>85,027</u>	<u>87,509</u>
Fund Net Assets				
Invested in capital assets, net of related debt	1,969	2,637	-	-
Unrestricted (deficit)	110,891	52,455	232,583	128,584
Total Net Assets	<u>\$ 112,860</u>	<u>\$ 55,092</u>	<u>\$ 232,583</u>	<u>\$ 128,584</u>

See accompanying independent auditor's report.

Schedule 1

Telephony		Wireless		Total	
2006	2005	2006	2005	2006	2005
\$ -	\$ -	\$ 64,615	\$ 86,708	\$ 66,584	\$ 89,345
330,440	270,816	16,090	-	705,464	475,188
194,552	262,462	4,362	3,084	270,034	327,498
2,373	2,372	-	-	4,362	5,191
19,680	5,462	-	-	19,680	10,048
1,114	12,104	-	-	2,191	13,196
-	756	-	-	-	756
<u>548,159</u>	<u>553,972</u>	<u>20,452</u>	<u>3,084</u>	<u>1,001,731</u>	<u>831,877</u>
<u>\$ 548,159</u>	<u>\$ 553,972</u>	<u>\$ 85,067</u>	<u>\$ 89,792</u>	<u>\$ 1,068,315</u>	<u>\$ 921,222</u>
\$ 18,330	\$ 19,876	\$ 499	\$ 4,151	\$ 24,836	\$ 46,445
-	-	-	4,119	-	4,119
3,128	3,916	2,700	2,400	12,786	13,080
6,872	5,893	-	-	16,468	14,072
1,089	1,194	-	-	1,089	1,194
40,375	25,333	4,363	3,084	111,823	84,838
40,000	40,000	-	-	40,000	40,000
<u>109,794</u>	<u>96,212</u>	<u>7,562</u>	<u>13,754</u>	<u>207,002</u>	<u>203,748</u>
<u>285,000</u>	<u>325,000</u>	<u>-</u>	<u>-</u>	<u>285,000</u>	<u>325,000</u>
<u>394,794</u>	<u>421,212</u>	<u>7,562</u>	<u>13,754</u>	<u>492,002</u>	<u>528,748</u>
-	-	64,615	86,708	66,584	89,345
153,365	132,760	12,890	(10,670)	509,729	303,129
<u>\$ 153,365</u>	<u>\$ 132,760</u>	<u>\$ 77,505</u>	<u>\$ 76,038</u>	<u>\$ 576,313</u>	<u>\$ 392,474</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**COMBINING STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS – NONMAJOR ENTERPRISE FUNDS**

YEARS ENDED DECEMBER 31:

	Internet		Cable	
	2006	2005	2006	2005
Operating revenues:				
Charges for service	\$ 109,419	\$ 83,870	\$ 630,732	\$ 600,061
Operating expenses				
Business type activities	39,392	50,772	536,642	569,406
Operating Income (loss)	70,027	33,098	94,090	30,655
Non-operating revenues (expenses)				
Interest income	2,741	469	9,970	2,814
Interest expense	-	-	(61)	(23)
Total non-operating revenues (expenses)	2,741	469	9,909	2,791
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers (out)	(15,000)	(32,000)	-	(389)
Gain (loss) on sale of capital assets	-	-	-	-
Total other financing sources (uses)	(15,000)	(32,000)	-	(389)
Change in net assets	57,768	1,567	103,999	33,057
Net assets - beginning of year	55,092	53,525	128,584	95,527
Net assets - end of year	\$ 112,860	\$ 55,092	\$ 232,583	\$ 128,584

See accompanying independent auditor's report.

Schedule 2

Telephony		Rural Wireless		TOTAL	
2006	2005	2006	2005	2006	2005
\$ 637,528	\$ 703,451	\$ 44,863	\$ 28,015	\$ 1,422,542	\$ 1,415,397
<u>620,270</u>	<u>572,727</u>	<u>58,396</u>	<u>65,142</u>	<u>1,254,700</u>	<u>1,258,047</u>
17,258	130,724	(13,533)	(37,127)	167,842	157,350
16,970	6,312	-	28	29,681	9,623
<u>(13,623)</u>	<u>(14,734)</u>	<u>-</u>	<u>-</u>	<u>(13,684)</u>	<u>(14,757)</u>
3,347	(8,422)	-	28	15,997	(5,134)
-	-	15,000	32,000	15,000	32,000
-	(389)	-	-	(15,000)	(32,778)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(46)</u>	<u>-</u>	<u>(46)</u>
-	(389)	15,000	31,954	-	(824)
20,605	121,913	1,467	(5,145)	183,839	151,392
<u>132,760</u>	<u>10,847</u>	<u>76,038</u>	<u>81,183</u>	<u>392,474</u>	<u>241,082</u>
<u>\$ 153,365</u>	<u>\$ 132,760</u>	<u>\$ 77,505</u>	<u>\$ 76,038</u>	<u>\$ 576,313</u>	<u>\$ 392,474</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**COMBINING STATEMENTS OF CASH FLOWS –
NONMAJOR ENTERPRISE FUNDS**

YEARS ENDED DECEMBER 31:

	Internet		Cable	
	2006	2005	2006	2005
Cash flows from operating activities:				
Cash receipts from customers	\$ 111,932	\$ 87,425	\$ 630,739	\$ 606,042
Cash payments to suppliers	(25,046)	(40,546)	(332,957)	(302,979)
Cash payments to employees	(1,366)	(2,276)	(162,601)	(187,672)
Cash Payments to other funds	(11,355)	(6,756)	(49,835)	(82,212)
Cash Payments for contributions	(2,599)	(2,595)	-	-
Net cash provided (used) by operating activities	71,566	35,252	85,346	33,179
Cash flows from non-capital financing activities				
Transfers	-	-	-	-
Transfers	(15,000)	(32,000)	-	(389)
Miscellaneous non-operating revenue	-	-	-	-
Net cash provided (used) by noncapital financing activities	(15,000)	(32,000)	-	(389)
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	-	-	-	-
Repayment of revenue bonds	-	-	-	-
Proceeds from bond issuances	-	-	-	-
Cash paid for interest	-	-	(61)	(23)
Net cash (used) by capital and related financing activities	-	-	(61)	(23)
Cash flows from investing activities:				
Investment income	2,741	469	9,970	2,815
Net cash provided by investing activities	2,741	469	9,970	2,815
Net increase (decrease) in cash and cash equivalents	59,307	3,721	95,255	35,582
Cash and cash equivalents-beginning of year	50,679	46,958	153,693	118,111
Cash and cash equivalents-end of year	\$ 109,986	\$50,679	\$ 248,948	\$153,693
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Income (loss) from operations	\$ 70,027	\$ 33,098	\$ 94,090	\$ 30,655
Adjustments to reconcile operating income to				
Depreciation and amortization	668	667	-	-
Change in accounts receivable	1,683	3,555	(10,851)	(6,384)
Change in meter deposits and unbilled usage	830	-	10,858	(332)
Change in prepaid expenses	12	(112)	3	(72)
Change in inventory	-	-	4,586	-
Change in accounts payable & accrued expenses	(1,654)	(1,956)	(13,340)	9,312
	\$ 71,566	\$ 35,252	\$ 85,346	\$ 33,179

See accompanying independent auditor's report.

Telephony		Rural Wireless		TOTAL	
2006	2005	2006	2005	2006	2005
\$ 657,456	\$ 647,918	\$ 45,164	\$ 30,379	\$ 1,445,291	\$ 1,371,764
(338,493)	(459,481)	(8,665)	(15,109)	(705,161)	(818,115)
(165,568)	(193,350)	(28,342)	(19,945)	(357,877)	(403,243)
(57,768)	(24,557)	(2,191)	(7,624)	(121,149)	(121,149)
-	-	-	-	(2,599)	(2,595)
<u>95,627</u>	<u>(29,470)</u>	<u>5,966</u>	<u>(12,299)</u>	<u>258,505</u>	<u>26,662</u>
-	-	15,000	32,000	15,000	32,000
-	(389)	-	-	(15,000)	(32,778)
-	-	-	-	-	-
<u>-</u>	<u>(389)</u>	<u>15,000</u>	<u>32,000</u>	<u>-</u>	<u>(778)</u>
-	-	(4,876)	(19,729)	(4,876)	(19,729)
(40,000)	(35,000)	-	-	(40,000)	(35,000)
-	-	-	-	-	-
(13,724)	(14,810)	-	-	(13,785)	(14,833)
<u>(53,724)</u>	<u>(49,810)</u>	<u>(4,876)</u>	<u>(19,729)</u>	<u>(58,661)</u>	<u>(69,562)</u>
17,721	5,556	-	28	30,432	8,868
<u>17,721</u>	<u>5,556</u>	<u>-</u>	<u>28</u>	<u>30,432</u>	<u>8,868</u>
59,624	(74,113)	16,090	-	230,276	(34,810)
270,816	344,929	-	-	475,188	509,998
<u>\$ 330,440</u>	<u>\$ 270,816</u>	<u>\$ 16,090</u>	<u>\$ -</u>	<u>\$ 705,464</u>	<u>\$ 475,188</u>
\$ 17,258	\$130,724	\$ (13,533)	\$(37,127)	\$ 167,842	\$ 157,350
-	-	26,969	22,093	27,637	22,760
67,910	(57,479)	(1,278)	(1,298)	57,464	(61,606)
14,254	-	1,579	-	27,521	(332)
10,990	(11,087)	-	25	11,005	(11,246)
(14,218)	2,879	-	-	(9,632)	2,879
(567)	(94,507)	(7,771)	4,008	(23,332)	(83,143)
<u>\$ 95,627</u>	<u>\$(29,470)</u>	<u>\$ 5,966</u>	<u>\$(12,299)</u>	<u>\$ 258,505</u>	<u>\$ 26,662</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

**COMBINING SCHEDULES OF OPERATING REVENUES
ENTERPRISE FUNDS**

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2006	2005
Operating revenues:		
Rural	\$ 65,508	\$ 60,548
Residential sales	908,320	826,028
Commercial and industrial	2,281,029	2,007,852
Public buildings	14,025	14,390
Interruptibles	-	-
Line payments, net	-	-
Bookkeeping fee - City of Osage	9,000	9,000
Other operating fees	296,899	167,260
	\$3,574,781	\$ 3,085,078

See accompanying independent auditor's report.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ -	\$ -	\$ -	\$ -	\$ 65,508	\$ 60,548
1,494,438	1,486,811	1,413,266	1,392,576	3,816,024	3,705,415
982,516	956,469	-	-	3,263,545	2,964,321
-	-	-	-	14,025	14,390
806,079	815,147	-	-	806,079	815,147
3,638	6,587	-	-	3,638	6,587
9,000	9,000	-	-	18,000	18,000
<u>104,389</u>	<u>107,844</u>	<u>9,276</u>	<u>22,821</u>	<u>410,564</u>	<u>297,925</u>
<u><u>\$3,400,060</u></u>	<u><u>\$ 3,381,858</u></u>	<u><u>\$1,422,542</u></u>	<u><u>\$ 1,415,397</u></u>	<u><u>\$8,397,383</u></u>	<u><u>\$7,882,333</u></u>

**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	
	2006	2005
Operating expenses:		
Plant Expenses		
Supervision and labor	\$ 101,425	\$ 50,519
Payroll taxes	19,093	17,759
Fuel	126,017	82,662
Load management expense	3,073	4,449
Engine expense	28,378	21,042
Insurance	38,517	33,010
Supplies	14,142	14,056
Power purchased	1,234,943	1,143,703
Communication expense	582	583
School and travel	262	696
Uniforms	3,781	3,971
Maintenance and materials	12,327	11,533
Total plant expense	1,582,540	1,383,983
Distribution Expenses		
Supervision and labor	223,568	189,449
Payroll taxes	24,453	23,903
Insurance	49,323	48,254
Truck expense	18,661	19,143
Tree removal expense	1,748	1,272
Supplies	61,903	101,408
Maintenance, repairs and labor	7,939	1,522
Natural gas purchase	-	-
Propane purchases	-	-
School and travel	-	-
Uniforms	-	-
Safety	-	-
Communication expense	195	195
Internet, cable and phone	-	-
Local lines	-	-
Utilities	-	-
Miscellaneous	14,275	10,385
Total distribution expense	402,065	395,531

See accompanying independent auditor's report.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ -	\$ -	\$ -	\$ -	\$ 101,425	\$ 50,519
-	-	-	-	19,093	17,759
-	-	-	-	126,017	82,662
-	-	-	-	3,073	4,449
-	-	-	-	28,378	21,042
-	-	-	-	38,517	33,010
-	-	-	-	14,142	14,056
-	-	-	-	1,234,943	1,143,703
-	-	-	-	582	583
-	-	-	-	262	696
-	-	-	-	3,781	3,971
-	-	-	-	12,327	11,533
-	-	-	-	1,582,540	1,383,983
138,862	116,551	138,814	161,223	501,244	467,223
15,886	16,612	19,372	15,465	59,711	55,980
39,506	47,281	36,191	39,812	125,020	135,347
6,821	5,793	6,489	5,029	31,971	29,965
-	900	-	-	1,748	2,172
9,807	7,572	41,628	62,709	113,338	171,689
14,696	26,543	20,424	49,889	43,059	77,954
2,756,645	2,794,091	-	-	2,756,645	2,794,091
1,004	1,662	-	-	1,004	1,662
4,076	2,507	50	895	4,126	3,402
4,089	3,973	2,602	2,626	6,691	6,599
1,589	1,575	2,351	627	3,940	2,202
195	195	-	-	390	390
-	-	405,688	423,022	405,688	423,022
-	-	291	267	291	267
-	-	15,254	13,687	15,254	13,687
-	-	14,745	887	29,020	11,272
2,993,176	3,025,255	703,899	776,138	4,099,140	4,196,924

**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	
	2006	2005
Office and Administration Expenses		
Office salaries	\$ 108,717	\$ 113,428
Payroll taxes	15,395	15,275
Use tax	7,254	7,481
Property taxes	5,082	2,453
Trustee fees	1,420	1,200
Professional fees	7,829	7,547
New building supplies	5,524	2,075
Office and administration	10,639	15,281
Publication and advertising	2,051	3,367
Utilities	598	140
Insurance	78,143	75,648
Global warming fee	3,500	3,318
Engineering service	3,026	14,422
Office supplies and postage	15,435	10,758
Janitorial services	10,305	7,640
Office equipment expense	1,174	1,985
Uniform expense	1,976	1,873
Dues	8,637	9,891
Contributions in lieu of taxes	5,579	46,494
Safety expense	652	744
Energy efficiency	3,698	3,304
Bad debts	4,942	5,537
Joint lease expense	-	-
Miscellaneous	2,620	2,108
	304,196	351,969
Other Expenses		
Depreciation	729,892	734,605
Amortization	5,055	11,183
	734,947	745,788
Total operating expenses	\$ 3,023,748	\$ 2,877,271

See accompanying independent auditor's report.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ 70,922	\$ 73,513	\$ 175,872	\$ 160,074	\$ 355,511	\$ 347,015
20,469	20,184	8,729	7,652	44,593	43,111
698	524	5,395	(360)	13,347	7,645
-	-	19,312	17,331	24,394	19,784
600	1,200	2,840	2,400	4,860	4,800
11,102	5,977	11,591	11,505	30,522	25,029
5,962	3,145	64	-	11,550	5,220
5,464	1,398	44,311	58,418	60,414	75,097
2,653	3,761	18,188	23,412	22,892	30,540
598	140	-	-	1,196	280
30,014	34,108	29,177	29,645	137,334	139,401
3,451	2,709	-	-	6,951	6,027
-	1,620	86	484	3,112	16,526
15,999	11,017	12,730	14,024	44,164	35,799
7,226	4,661	-	-	17,531	12,301
1,175	1,794	1,386	824	3,735	4,603
1,976	1,873	-	-	3,952	3,746
7,224	11,012	3,581	4,162	19,442	25,065
90,093	80,449	2,599	2,595	98,271	129,538
965	468	-	-	1,617	1,212
4,386	3,862	-	-	8,084	7,166
5,656	4,020	62,236	-	72,834	9,557
-	-	121,150	121,149	121,150	121,149
1	-	3,917	5,834	6,538	7,942
286,634	267,435	523,164	459,149	1,113,994	1,078,553
54,388	57,771	27,637	22,760	811,917	815,136
-	-	-	-	5,055	11,183
54,388	57,771	27,637	22,760	816,972	826,319
<u>\$ 3,334,198</u>	<u>\$ 3,350,461</u>	<u>\$ 1,254,700</u>	<u>\$ 1,258,047</u>	<u>\$ 7,612,646</u>	<u>\$ 7,485,779</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

Schedule 6

**COMPARATIVE SCHEDULE OF KILOWATT HOURS
UNAUDITED**

Light and Power Division

For the Years ended December 31, 1990 through 2006

Year Ended December 31,	Kilowatt Hours Generated	Kilowatt Hours Purchased	Total Kilowatt Hours	Annual Kilowatt Hours Increase (Decrease)	Percent of Increase (Decrease)
1990	195,800	34,914,806	35,110,606	1,628,843	4.86
1991	610,800	35,807,244	36,418,044	1,307,438	3.72
1992	335,400	35,384,218	35,719,618	(698,426)	(1.92)
1993	333,800	37,725,285	38,059,085	2,339,467	6.55
1994	497,500	40,560,924	41,058,424	2,999,339	7.88
1995	875,500	43,360,285	44,235,785	3,177,361	7.74
1996	800,250	44,184,580	44,984,830	749,045	1.69
1997	549,520	45,186,175	45,735,695	750,865	1.67
1998	894,890	46,596,929	47,491,819	1,756,124	3.84
1999	1,535,101	46,692,000	48,227,101	735,282	1.55
2000	1,818,897	48,355,200	50,174,097	1,946,996	4.04
2001	2,296,623	48,501,131	50,797,754	623,657	1.24
2002	781,178	49,953,600	50,734,778	(62,976)	(0.12)
2003	999,120	50,807,677	51,806,797	1,072,019	2.11
2004	731,018	52,793,581	53,524,599	1,717,802	3.32
2005	614,150	54,234,617	54,848,767	1,324,168	2.47
2006	968,520	54,668,395	55,636,915	778,148	1.43

See accompanying independent auditor's report.

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

Schedule 7

COMPARATIVE OPERATING STATISTICS
UNAUDITED

Gas Division

For the Years ended December 31, 1990 through 2006

Year ended December 31:	Consumer Data			
	Heating Consumers		Total Consumers	
	Residential	Nonresidential	Residential	Nonresidential
1990	1,389	196	1,403	203
1991	1,424	192	1,439	198
1992	1,428	200	1,443	209
1993	1,444	199	1,458	209
1994	1,446	202	1,459	212
1995	1,457	200	1,468	210
1996	1,471	204	1,481	214
1997	1,481	211	1,492	221
1998	1,493	214	1,503	224
1999	1,506	216	1,512	225
2000	1,515	217	1,526	226
2001	1,523	222	1,534	230
2002	1,537	221	1,548	229
2003	1,544	225	1,555	242
2004	1,553	233	1,565	250
2005	1,565	240	1,578	256
2006	1,570	234	1,583	242

Year Ended December 31:	Billing Data					
	Residential		Commercial		Standby	
	Amount	MCF (1)	Amount	MCF (1)	Amount	MCF (1)
1990	\$678,942	155,167	\$281,574	67,512	\$270,861	81,660
1991	713,609	167,090	300,575	74,119	288,276	86,160
1992	593,936	153,933	249,691	68,061	281,595	94,587
1993	690,925	171,566	336,158	88,407	231,796	74,664
1994	733,788	163,399	362,972	86,487	203,753	58,589
1995	704,277	167,318	345,864	86,840	300,109	96,177
1996	763,742	179,473	346,428	85,189	333,220	100,551
1997	850,400	167,041	395,344	80,844	386,724	98,835
1998	643,333	140,178	313,188	71,325	294,678	83,203
1999	\$650,939	143,900	\$328,910	76,751	\$298,119	81,389

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

Schedule 7 - continued

**COMPARATIVE OPERATING STATISTICS
UNAUDITED**

Gas Division

For the Years ended December 31, 1990 through 2006

Year Ended	Billing Data - Continued					
	Residential		Commercial		Standby	
	December 31:	Amount	MCF (1)	Amount	MCF (1)	Amount
2000	\$ 811,621	144,775	\$ 426,606	79,081	\$386,495	71,704
2001	1,434,837	154,619	746,438	82,203	533,385	79,082
2002	1,077,415	147,528	562,619	80,392	442,895	77,903
2003	1,157,292	151,024	588,351	79,744	493,646	78,281
2004	1,219,129	142,242	612,513	73,933	760,702	101,179
2005	1,454,893	140,364	923,304	89,974	844,526	80,914
2006	\$1,562,040	134,268	\$1,024,777	92,028	\$829,359	85,568

(1)= MCF-1,000 cubic feet

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

Schedule 8

**DISTRIBUTION OF ENERGY
UNAUDITED**

Light and Power Division

For the Year ended December 31, 2006

	Meters	Kilowatt Hours
Rural	93	1,028,686
Residential	1,690	13,727,906
Commercial	314	38,316,104
Public Authority	19	186,409
Rural Security Lighting on Flat Rate per Month, Unmetered	162	124,804
	2,278	53,383,909
 Kilowatt Hours Used for Free Street Lighting		 307,379
Kilowatt Hours Used at Plant		968,520
Kilowatt Hours Used at Municipal Building and Donated		172,342
Kilowatt Hours Lost and Unaccounted For		804,765
		55,636,915
 Kilowatt Hours Purchased		 54,668,395
Kilowatt Hours Generated		968,520
		55,636,915

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

Schedule 8 - continued

**DISTRIBUTION OF ENERGY
UNAUDITED**

Light and Power Division

For the Year ended December 31, 2005

	Meters	Kilowatt Hours
Rural	89	1,040,590
Residential	1,692	13,670,325
Commercial	312	37,216,396
Public Authority	21	211,928
Rural Security Lighting on Flat Rate per Month, Unmetered	162	124,398
	2,276	52,263,637
 Kilowatt Hours Used for Free Street Lighting		301,375
Kilowatt Hours Used at Plant		614,150
Kilowatt Hours Used at Municipal Building and Donated		177,674
Kilowatt Hours Lost and Unaccounted For		1,491,931
		54,848,617
 Kilowatt Hours Purchased		54,234,617
Kilowatt Hours Generated		614,150
		54,848,767

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

Schedule 9

**INFORMATION REQUIRED BY BOND RESOLUTION
UNAUDITED**

The following insurance policies were in force at December 31, 2006:

Insurer: Employers Mutual Casualty Company

Coverage		Amount
Property, including buildings, generating equipment and other contents, 90% coinsurance #1 Blanket Limit \$3,524,915	4/1/06 – 4/1/07	\$ 3,524,915
Property, including buildings, generating equipment and other contents, 90% coinsurance #2 Blanket Limit \$613,750	4/1/06 - 4/1/07	613,750
Property, including buildings, generating equipment and other contents, 90% coinsurance #3 Blanket Limit \$15,482,814	4/1/06 - 4/1/07	15,482,814
General Liability		
Aggregate limit	4/1/06 – 4/1/07	2,000,000
Operations limit	4/1/06 – 4/1/07	2,000,000
Personal injury	4/1/06 – 4/1/07	1,000,000
Each occurrence	4/1/06 – 4/1/07	1,000,000
Fire damage limit	4/1/06 – 4/1/07	100,000
Medical insurance	4/1/06 – 4/1/07	5,000
Contractors equipment	4/1/06 – 4/1/07	107,210
EDP equipment	4/1/06 – 4/1/07	163,995
Miscellaneous property	4/1/06 – 4/1/07	80,210
Theft		
Indoor	4/1/06 – 4/1/07	13,000
Outdoor	4/1/06 – 4/1/07	13,000
Automobile		
Liability	4/1/06 – 4/1/07	1,000,000
Uninsured motorist	4/1/06 – 4/1/07	50,000
Underinsured motorist	4/1/06 – 4/1/07	50,000

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

Schedule 9 - continued

**INFORMATION REQUIRED BY BOND RESOLUTION
UNAUDITED**

Coverage		Amount
Worker's Compensation		
Injury by accident (employee)	4/1/06 – 4/1/07	500,000
Injury by disease (employee)	4/1/06 – 4/1/07	500,000
Injury by disease (limit)	4/1/06 – 4/1/07	500,000
Commercial Umbrella		
Retained limit	4/1/06 – 4/1/07	10,000
Occurrence limit	4/1/06 – 4/1/07	5,000,000
Aggregate limit	4/1/06 – 4/1/07	5,000,000
Linebacker		
Each loss	4/1/06 – 4/1/07	1,000,000
Aggregate	4/1/06 – 4/1/07	1,000,000
Deductible	4/1/06 – 4/1/07	2,500
 Insurer : Cincinnati Insurance Company		
Boiler and Machinery		
Comprehensive limit	4/1/06 – 4/1/07	15,500,000
 Insurer: State Auto		
Surety Bond		
Employee theft	3/25/06 – 3/25/07	150,000
Deductible	3/25/06 – 3/25/07	500

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

Schedule 9 - continued

**INFORMATION REQUIRED BY BOND RESOLUTION
UNAUDITED**

Electric Rates in effect at December 31, 2006:

Residential	Residential Rate Schedule is available to any consumer for domestic purpose only. Monthly service charge: \$4.50 per month All kilowatt hours per month	5.82c/kwh
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Small General Service	Small General Service is available to any customer for single or three phase service supplies through one meter, where no more than two monthly 15 minute demands of 20 kilowatts or more shall have occurred in the previous twelve months. Monthly service charge: \$5.50 per month. First 1,000 kilowatt hours per month Excess kilowatt hours per month	7.07c/kwh 6.45c/kwh
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Large General Service	Large General Service is available to any customer where two or more monthly 15 minute demands over the previous twelve month period shall have been 20 kilowatts or more. Demand – Maximum 15 minute demand during the billing period, but not less than 75% of the highest demand occurring during the preceding eleven months Minimum - Demand Billing, but not less than for 20 kilowatts per month, or 75% of highest 15 minute demand recorded in the preceding eleven months, whichever is the greater. Demand Charge: All kilowatts \$4.00 per month. Energy charge First 20,000 kilowatt hours per month Excess kilowatt hours per month	4.60c/kwh 4.42c/kwh
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Nonprofit Organizations
Certified nonprofit organizations; churches, service clubs, etc., will be billed for electrical service under the Small General Service or Large General Service. User classification will be determined by usage criteria.

See accompanying independent auditor's report.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

Schedule 9 - continued

**INFORMATION REQUIRED BY BOND RESOLUTION
UNAUDITED**

December 31, 2006

2006 Payments	\$ 542,532
2006 Net Revenues – Light and Power	\$1,285,980
Ratio of Debt Payments to Net Revenues*	56.7%

December 31, 2005

2005 Payments	\$ 540,753
2005 Net Revenues – Light and Power	\$ 953,595
Ratio of Debt Payments to Net Revenues	56.7%

December 31, 2004

2004 Payments	\$ 542,100
2004 Net Revenues – Light and Power	\$ 988,732
Ratio of Debt Payments to Net Revenues	54.8%

December 31, 2003

2003 Payments	\$ 537,837
2003 Net Revenues – Light and Power	\$ 940,535
Ratio of Debt Payments to Net Revenues	57.2%

December 31, 2002

2002 Payments	\$ 538,037
2002 Net Revenues – Light and Power	\$ 731,489
Ratio of Debt Payments to Net Revenues	73.6%

* As defined by bond resolution, net revenues consist of operating income, excluding depreciation and amortization.

See accompanying independent auditor's report.

T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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HUMBOLDT, IOWA 50548

515-332-3466

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 the financial statements of Osage Municipal Utilities, component units of the City of Osage, Iowa, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 18, 2007. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Planning

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency and a material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Osage Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is note than a remote likelihood that a misstatement of the entity's financial statements that is note than inconsequential will not be prevented or detected by Osage Municipal Utilities' internal control. We consider the deficiency described in 06-II-A of the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Osage Municipal Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the deficiency described in 06-II-A of the accompanying schedule of findings is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Osage Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 Osage Municipal Utilities' operations for the year ended December 31, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Osage Municipal 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.

Osage Municipal Utilities' response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the response and accordingly we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of management, the Board of Trustees, others within Osage Municipal Utilities, and other parties to whom the Utilities may report including federal awarding agencies and pass-thru entities. The report is not intended and should not be used by anyone other than these parties.

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

June 18, 2007

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

SCHEDULE OF FINDINGS

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A significant control deficiency in the internal control over financial reporting was disclosed by the audit of the financial statements. The control deficiency was considered to be a material weakness.
- (c) The audit did not disclose any non-compliance, which is material to the financial statements.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

SCHEDULE OF FINDINGS

Part II: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT CONTROL DEFICIENCIES:

06-II-A Capital Asset Depreciation: We noted that the Utilities' management does not review depreciation schedules after completion and prior to completion of the Utilities' financial statements.

Recommendation: We understand that professionals have been used to compile the depreciation schedules to increase accuracy however, we feel that management should take the completed schedules, compare them to the general ledger, and provide the final approval of their use.

Response: We will provide oversight of the depreciation schedules in the future.

Conclusion: Response accepted.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE**

SCHEDULE OF FINDINGS

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Official Depositories – A resolution naming official depositories has been approved by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2006.
- III-B-06 Certified Budget - Disbursements during the year ended December 31, 2006 were within the budgeted limits.
- III-C-06 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-D-06 Travel Expense – No disbursements of the Utilities’ money for travel expenses of spouses of Utilities’ officials or employees’ were noted.
- III-E-06 Business Transactions – No business transactions between the Utilities and the Utilities’ officials or employees were noted.
- III-F-06 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-G-06 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.
- III-H-06 Revenue Bonds – No violations of revenue bond resolution requirements were noted.
- III-I-06 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-J-06 Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.