

**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, 2007 and 2006

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

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CITY OF INDIANOLA, IOWA
 INDIANOLA MUNICIPAL UTILITIES
 Officials

June 30, 2007

Electric and Water Utility Board of Trustees

Authority: Indianola City Ordinance No. 642

	<u>Term Expires December 31</u>	<u>Amount of Bond</u>
Chris Boone	2007	50,000
David Zwanziger	2008	50,000
Bob Lester	2009	50,000
Pat Reding	2011	50,000
Clark Raney	2012	50,000
	Chairperson	

Indianola Municipal Utilities Management

Todd Kielkopf	General Manager	50,000
Chris Longer	Administrative Assistant	50,000
Bob Miller	Electric Superintendent	50,000
Lou Elbert	Water Superintendent	50,000

Joint City and Utility Employees

Todd Kielkopf	Interim Director of Adm. & Comm. Svcs.	50,000
Roxanne Hunerdosse	Director of Human Resources	50,000
Diana Bowlin	Deputy City Clerk	50,000
Douglas Shull	City Treasurer	50,000
John Hoyman	City Solicitor	50,000

All other city employees are bonded under the Allied Insurance, "Faithful Performance Blanket Position Bond," in the amount of \$50,000.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report

February 1, 2008

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, 2007 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, 2007 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 14,156. 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.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report - Continued

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 in relation to these utilities, 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. A director of administrative & community services 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 position serves as the appointed clerk of the board of trustees and as such 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.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report - Continued

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 an average rate of return of 5.22%.

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, 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 1.87 years with a current yield of 5.35%. 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.

CITY OF INDIANOLA, IOWA
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Board of Trustees Report - Continued

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. They are, however, accounted for in a sub-fund that is separate from other operating funds for budgetary control. Unpaid HRA balances totaled \$101,858 as of June 30, 2007.

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, 2007.

Pat Reding
Board Chairperson

Todd Kielkopf
General Manager

Todd Kielkopf
Interim Director of Administrative
& Community Services

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

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 2006-07 fiscal year.

- **Electric Utility.** The IMU electric department had another very busy and productive year with many important projects completed.

The underground conversion program continued with the largest project to date in the area of Highway 92 north to Franklin Avenue, including a number of streets between Kenwood and “J” Street. It has become the general consensus of staff and the board to begin planning for more extensive projects in the future in order to underground the entire distribution system sooner than the original plans allows for. Staff also began developing a hazard mitigation plan that will hopefully place IMU in a better position to receive grant funding to help offset the expense of these larger projects.

With the completion of the Westside substation, a deficiency in the protective relaying at the East Iowa Substation was discovered. Because the relays at Westside cannot distinguish between 69kV transmission line faults and 13.2kV distribution faults, any fault on the 13.2kV line would cause the circuit breaker on the East Iowa line terminal to trip causing an outage. Breaker-relaying equipment was installed at the E. Iowa substation that now allows the relays at Westside to be set less sensitively to avoid detecting faults on the 13.2kV distribution system.

The decorative street lighting along the Highway 65-69 corridor was extended from Kentucky Avenue north to Hillcrest Avenue as part of the highway-widening project. The project included 25 new light fixtures, cable installation, risers, pedestals and foundations.

IMU participated in several transmission and wind project investments. Financial commitments were made to the Iowa Stored Energy Plant, the IAMU municipal wind farm project and the Capacity Expansion by 2020 (CapX 2020) project.

Economic development contributions were made to Soy Innovations, a division of Triple F who moved their business headquarters to the Industrial Park. An incentive package was also provided to Powdered Metal Products, a new business venture locating on Hillcrest Ave. In-kind contributions were made to the Community Athletic Field in the form of electric and water service installation to the new concession stand and football field, to Habitat for Humanity by waiving building permit fees, to the Park Department in the form of electric and water service installation to the new Pickard Park restroom facility, to the Recreation Department for the sponsorship of the outdoor cinema series and to the Wonderfully Organized Ongoing Fun (WOOF) organization in the form of electric and water materials for improvements at Downey Park.

CITY OF INDIANOLA, IOWA
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Operational Review - Continued

The conversion to radio-read meters continued in FY07 with the goal to have all water meters converted by FY09. This upgrade will improve the accuracy of billing invoices and customers will receive the bills in a timelier manner. A new laptop computer was purchased that has reduced the number of days for collecting readings by half.

The IMU rebate programs continued to increase in popularity with an all-time high participation in FY07. IMU's use of Chamber Bucks as rebate compensation for the programs also helps improve the local economy.

- **Water Utility.** The water department also had a busy and productive year. A major highlight was the removal of the downtown water tower.

In July 2006, Indianola's oldest water tower was removed as part of a land purchase agreement. The downtown tower was the first tower constructed in 1932 and served the Indianola community for 75 years. In May 2007 the IMU staff initiated a full water system modeling study that will provide operational scenarios from which various system improvements will be prioritized, as well as selection of a new water tower site.

A new self-healing, redundant alarm system was installed to monitor operations at well sites and water towers. The new system will increase reliability and provide more diagnostics capabilities in the event of a system problem.

The Board implemented a water rate increase effective November 1, 2006.

The conversion to radio-read meters continued in FY07 with the goal to have all water meters converted by FY09. This upgrade will improve the accuracy of billing invoices and customers will receive the bills in a timelier manner. A new laptop computer was purchased that has reduced the number of days for collecting readings by half.

The water department donated over 4.1 million gallons of water to the Community Athletic Facilities irrigation, helping improve the facilities of little league baseball, parks & recreation programs, the soccer tribe and the lower grades football program.

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.

CITY OF INDIANOLA, IOWA
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Operational Review - Continued

- **Communications Utility.** IMU's continued its partnership in the Indianola Communications Agency, with the main focus still being to work with MCG in Phase I to bring a bundled package of high-speed Internet and telephone services to businesses adjacent to the existing IMU fiber network. Over 40 businesses are currently MCG customers via the IMU fiber.

Two fiber trunk extensions were completed in FY07. First, along North 14th Street in the existing Industrial Park area and to the new Industrial Park Plat 2 area. Second, along Highway 65/69 from East Iowa north to Hayes Street.

Phase II is planned to begin in 2009 by bringing a bundled package of high-speed Internet, cable television service and telephone services to each home and business through an expanded fiber optic network. The end result would be significant saving opportunities to Indianola citizens and businesses. And long term, we expect the new partnership to greatly enhance economic development options by being able to offer fiber-to-the-premise (FTTP) technology.

IMU will continue to explore the option of providing an Internet service to the rest of Warren County. With possible connections to other fiber optic trunk lines, we will be able to reach many more potential customers, including Norwalk and Carlisle, who may have limited Internet options in the rural areas. The long-term goal is to develop a three-county coalition that directly links Indianola to Knoxville, Pella, and Oskaloosa via a privately owned fiber optic trunk line. This would also lead to cooperative venture capital funding and technology marketing efforts.

- **Administration.** The IMU Board of Trustees continues to be very supportive of their employees, encouraging involvement in community service and economic development activities. Two new board members were appointed in FY07 as well as a new General Manager of Utilities. It was an exciting and challenging transition, bringing with it new leadership vision and philosophies.

The employees of IMU participated in and completed a third session of training in the National Incident Management System (NIMS). NIMS training was provided by Fire Chief Brian Seymour and is designed to make Indianola more capable and efficient when responding to an emergency situation.

Local participation in FY07 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., the Indianola Development Association and the Greater Des Moines Partnership. Other participation efforts included a food drive for Operation Christmas, installing lighting on the square for the Downtown Lighting Commission and employee volunteer work during the United Way Day of Caring.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review - Continued

IMU welcomed new Board members Clark Raney in January and Bob Lester in March 2007. Clark replaces Brad Butler, who is the first Board member in IMU's history to hold the distinction of serving two consecutive, six-year terms and Bob fills the unexpired term of Gary Ruble who resigned from the board in March.

IMU also welcomed new General Manager, Todd Kielkopf, in June 2007. Todd began serving as interim general manager in March and was permanently hired for the position in June. Todd previously served as the Director of Administrative & Community Services for the City of Indianola.

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, 2007 and 2006 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 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, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2007, 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, contracts and grant agreements and other matters for the year ended June 30, 2007. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. 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.

Management's Discussion and Analysis and budgetary comparison information on pages 13 through 17 and 33 through 34, are not a required part of the basic financial statements, but are supplementary information required by Governmental Accounting Standards Board. We have applied 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.

October 25, 2007

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

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, 2007. 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.

2007 Financial Highlights

- Indianola Municipal Utilities has ending cash balances totaling \$4,195,012 to meet the utility's ongoing obligations to citizens, creditors, for capital reinvestment in utility operations, and for emergency repairs.
- The utility annually uses prior years' positive cash flow and balances to reinvest in capital assets, as detailed in the "Long term financial planning" section of this MD&A.
- As reported on the Statement of Cash Flows, total cash balances decreased by \$162,994. Cash provided by operating activities was \$997,254; however, it was primarily used for capital investments in the electric utility at \$781,810, water utility at \$223,951, and communications utility at \$28,397.
- At the end of the current fiscal year, unrestricted and undesignated net assets totaled \$6,272,840, which increased by \$105,823 over the prior year.
- The utility's total liabilities decreased by \$2,423,145 during the current fiscal year. Water revenue bonds were refunded in the amount of \$2.56 million.

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 present 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.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

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 the 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,	
	2007	2006
Assets:		
Current	\$ 7,821,716	\$ 7,467,128
Restricted	963,300	3,304,811
Other	33,271	49,810
Capital – Net of Depr.	<u>37,445,497</u>	<u>37,705,842</u>
Total Assets	<u>\$ 46,263,784</u>	<u>\$ 48,527,591</u>
Liabilities:		
Current	\$ 1,919,508	\$ 1,537,994
Long Term	<u>4,443,824</u>	<u>7,248,483</u>
Total Liabilities	<u>\$ 6,363,332</u>	<u>\$ 8,786,477</u>
Net Assets:		
Invested Capital Assets	\$ 32,921,673	\$ 32,852,659
Restricted	574,190	590,104
Designated	131,749	131,334
Unrestricted & Undesignated	<u>6,272,840</u>	<u>6,167,017</u>
Total Net Assets	<u>\$ 39,900,452</u>	<u>\$ 39,752,729</u>

CITY OF INDIANOLA, IOWA
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Management Discussion and Analysis (MD&A) - Continued

As shown above, total utility assets and liabilities decreased by approximately \$2.264 million due to the advanced refunding of water revenue notes in FY 2006.

Net Income	Year ended June 30,	
	2007	2006
Operating revenues:		
Sales of electricity	\$ 7,947,344	\$ 7,993,699
Electrical capacity contract fees	96,115	63,200
Sales of water	1,809,096	1,685,565
Fiber communications rental fees	66,939	39,143
Other	338,120	229,296
Total operating revenue	\$ 10,257,614	\$ 10,010,903
Operating expenses:		
Electric utility	\$ 7,685,846	\$ 6,925,111
Water utility	1,073,267	1,043,512
Fiber communications utility	98,996	91,545
Administrative and general	1,287,653	1,256,925
Transfer to city for Clerk's operations	259,100	252,800
Transfer to city in lieu of property taxes	444,575	416,000
Total operating expenses	\$ 10,849,437	\$ 9,985,893
Income (loss) from operations:	\$ (591,823)	\$ 25,010
Nonoperating revenue (expenses):		
Revenue	\$ 669,131	\$ 562,087
Expenses	(267,907)	(295,829)
Net Income (loss)	\$ (190,599)	\$ 291,268

Net income was a negative \$190,599 and decreased by \$381,198 compared to the previous year. Electric Utility expenses were \$760,735 higher due to increased wholesale energy costs, streetlight replacements and plant repairs.

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.

CITY OF INDIANOLA, IOWA
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Management Discussion and Analysis (MD&A) - Continued

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 \$105,864 more than budgeted, primarily due to the increase in the cost of energy adjustment passed on to customers and unanticipated charges to customers.
- Disbursements were slightly less than budgeted due to the timing of the fiscal year in which capital projects were planned versus completed.

Capital Asset and Debt Administration

The utility added \$1.29 million in debt in FY 2006, with proceeds used for an advanced refunding of water revenue bonds. The city's overall bond rating including that of the utility remained at A2.

	Outstanding Debt at Year ended June 30,	
	2007	2006
Electric utility:		
Revenue bonds	\$ 1,395,000	\$ 1,525,000
Water utility:		
Revenue bonds	\$ -	\$ 2,560,000
Refunding notes	2,485,000	2,485,000
General Obligation bonds (issued by city)	1,040,000	1,115,000
Fiber communications utility:	\$ -	\$ -
Total	\$ 4,920,000	\$ 7,685,000
Internal loan from Electric utility to to Water utility	\$ 3,696,639	\$ 3,835,427

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 17% from the 2005 special 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.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

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:

- Electric underground conversion construction averaging \$510,000 per year in each of the next 5 years.
- Replacement of the downtown water tower at a cost of \$2.1 million within the next 5 years.
- Construction of additional fiber optic trunk lines within the next 5 years (amount dependent upon opportunities to obtain adequate financial returns on investment).

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 and a new wholesale electric contract took effect in January 2007. An electric rate study is planned in FY 2008. Water rates increased \$.75/1,000 gallons in FY 2007.

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 Director of Administrative & Community Services, who serves as the Clerk of the Board of Trustees. The office is located at 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, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current assets		
Cash and investments	\$ 4,195,012	4,412,577
Accounts receivable - customers	1,597,073	1,419,110
Other accounts receivable	60,465	53,911
Accrued interest receivable	43,026	36,607
Inventories	<u>1,926,140</u>	<u>1,544,923</u>
Total current assets	<u>7,821,716</u>	<u>7,467,128</u>
Restricted assets - cash and investments		
Electric revenue note and interest sinking fund	39,400	34,790
Electric revenue note debt service reserve fund	152,500	117,710
Electric revenue note improvement fund	207,691	207,691
Water revenue bond and interest sinking fund	168,009	152,838
Water revenue bond debt service reserve fund	320,700	320,700
Water revenue bond water improvement fund	75,000	75,000
U.S. Treasury securities on deposit with escrow agent	<u>-</u>	<u>2,396,082</u>
	<u>963,300</u>	<u>3,304,811</u>
Electric utility plant and equipment, net of accumulated depreciation of \$17,296,827 (2006 - \$16,271,769)	22,206,548	22,311,574
Water utility plant and equipment, net of accumulated depreciation of \$6,929,806 (2006 - \$6,443,757)	14,911,376	15,016,318
Fiber communications utility plant and equipment, net of accumulated depreciation of \$505,830 (2006 - \$427,056)	<u>327,573</u>	<u>377,950</u>
	<u>37,445,497</u>	<u>37,705,842</u>
Bond and note issue costs, net of accumulated amortization of \$7,710 (2006 - \$15,819)	<u>33,271</u>	<u>49,810</u>
	<u>\$ 46,263,784</u>	<u>48,527,591</u>

See accompanying notes to financial statements.

LIABILITIES	2007	2006
Current liabilities		
Accounts payable	\$ 1,307,095	968,601
Wages and benefits payable	96,384	96,896
Sales tax payable	12,182	10,308
Deferred rental fees	34,737	39,812
General obligation bonds payable within one year	80,000	75,000
Total current liabilities	1,530,398	1,190,617
Current liabilities payable from restricted assets		
Accrued interest payable	19,110	42,377
Electric revenue capital loan notes payable within one year	155,000	130,000
Water revenue bonds payable within one year	-	175,000
Water revenue refunding capital loan notes payable within one year	215,000	-
Current liabilities payable from restricted assets	389,110	347,377
Electric revenue capital loan notes payable after one year (net of unamortized discount of \$9,339 (2006 - \$13,725))	1,230,661	1,381,275
General obligation bonds payable after one year (net of unamortized discount of \$9,509 (2006 - \$10,422))	950,491	1,029,578
Water revenue bonds payable after one year (net of unamortized discount of \$17,670)	-	2,367,330
Water revenue refunding capital loan notes payable after one year (net of unamortized discount of \$7,328 (2006 - \$14,700))	2,262,672	2,470,300
Total liabilities	\$ 6,363,332	8,786,477
NET ASSETS		
Invested in capital assets, net of related debt	\$ 32,921,673	32,852,659
Restricted for debt service	291,499	307,413
Restricted for electric utility improvements	207,691	207,691
Restricted for water utility improvements	75,000	75,000
Unrestricted		
Designated for payment of insurance coverage deductibles	18,344	24,922
Designated for economic development revolving loan fund	113,405	106,412
Undesignated	6,272,840	6,167,017
Total unrestricted	6,404,589	6,298,351
Total net assets	\$ 39,900,452	39,741,114

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	2007	2006
Operating revenues		
Sales of electricity	\$ 7,947,344	7,993,699
Sales of water	1,809,096	1,685,565
Fiber communications rental fees	66,939	39,143
Capacity contract fees	96,115	63,200
Other	338,120	229,296
Total operating revenues	10,257,614	10,010,903
Operating expenses		
Electric utility		
Purchased energy	4,717,638	4,309,308
Plant operation and maintenance	1,128,334	1,013,329
Distribution operation and maintenance	802,585	636,234
Depreciation and amortization	1,037,289	966,240
Water utility		
Plant operation and maintenance	363,151	368,150
Distribution operation and maintenance	209,664	206,684
Depreciation and amortization	500,452	468,678
Fiber communications utility		
Operation and maintenance	20,222	20,180
Depreciation and amortization	78,774	71,365
Administrative and general	1,287,653	1,256,925
Transfer to city for Clerk's operations	259,100	252,800
Transfer to city in lieu of property taxes	444,575	416,000
Total operating expenses	10,849,437	9,985,893
Income (loss) from operations	(591,823)	25,010

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets - Continued
Years Ended June 30, 2007 and 2006

Nonoperating revenues (expenses)		
Investment income	315,357	312,377
Connection fees	45,423	44,734
Gain on sale of capital assets	150,259	-
Other	158,092	204,976
Interest expense	<u>(267,907)</u>	<u>(295,829)</u>
	<u>401,224</u>	<u>266,258</u>
Net income (loss)	(190,599)	291,268
Capital contributions from developers	305,473	250,149
Capital contributions from tax increment financing revenues	<u>44,464</u>	<u>-</u>
Change in net assets	159,338	541,417
Net assets, beginning of year	<u>39,741,114</u>	<u>39,199,697</u>
Net assets, end of year	<u>\$ 39,900,452</u>	<u>39,741,114</u>

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Cash received from customers	\$10,023,167	9,845,138
Cash paid to suppliers	(7,715,579)	(7,834,728)
Cash paid to employees	(1,513,849)	(1,620,918)
Other nonoperating fees and revenues received	<u>203,515</u>	<u>249,710</u>
Net cash provided by operating activities	<u>997,254</u>	<u>639,202</u>
Cash flows from capital and related financing activities		
Purchases and construction of electric utility plant and equipment	(781,810)	(3,771,944)
Purchases and construction of water utility plant and equipment	(223,951)	(499,351)
Purchases and construction of fiber communications utility plant and equipment	(28,397)	(151,233)
Proceeds from sale of capital assets	150,259	-
Tax increment financing revenues received	44,464	-
Proceeds from electric revenue capital loan notes	-	1,511,275
Bond issue costs paid	-	(22,069)
General obligation bond principal paid	(75,000)	(75,000)
General obligation bond interest paid	(39,800)	(41,400)
Electric revenue capital loan notes principal paid	(130,000)	-
Electric revenue capital loan notes interest paid	(67,060)	-
Water revenue bond principal paid	(2,560,000)	(160,000)
Water revenue bond interest paid	(64,684)	(133,282)
Water revenue refunding capital loan notes interest paid	<u>(89,290)</u>	<u>(89,290)</u>
Net cash used by capital and related financing activities	<u>(3,865,269)</u>	<u>(3,432,294)</u>
Cash flows from investing activities		
Promissory note principal received	-	3,865
Proceeds from sale of U.S. Treasury securities	2,396,083	19,665
Investment income received	<u>308,938</u>	<u>341,941</u>
Net cash provided by investing activities	<u>2,705,021</u>	<u>365,471</u>
Net increase (decrease) in cash and investments	(162,994)	(2,427,621)
Cash and investments, beginning of year	<u>5,321,306</u>	<u>7,748,927</u>
Cash and investments, end of year	<u>\$ 5,158,312</u>	<u>5,321,306</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows - Continued
Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of income (loss) from operations to net cash provided		
by operating activities		
Income (loss) from operations	\$ (591,823)	25,010
Adjustments		
Other nonoperating fees and revenues	203,515	249,710
Depreciation and amortization	1,616,515	1,506,283
Forgiveness of promissory note receivable	-	9,000
Increase in accounts receivable - customers	(184,517)	(117,192)
Increase in inventories	(381,217)	(639,906)
Increase (decrease) in accounts, wages and benefits, and sales tax payable	339,856	(388,632)
Decrease in deferred rental fees	(5,075)	(5,071)
Net cash provided by operating activities	\$ 997,254	639,202
Noncash capital and related financing and investing activities		
Developer contributions of electric utility plant and equipment	\$ 148,317	125,061
Developer contributions of water utility plant and equipment	157,156	125,088

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2007 and 2006

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.

The Utilities report their financial activity in accordance with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

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

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 was forgiven when the business created 90 new jobs by May 2006. The balance of the loan was received in annual installments of \$2,079, including interest at 5% per annum.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2007 and 2006

3. UTILITY PLANT AND EQUIPMENT

The following is a summary of utility plant and equipment in service as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Electric utility		
Land	\$ 359,207	336,120
Service territory	225,000	225,000
Generating units	15,161,374	15,161,374
Transmission and distribution systems	20,627,821	20,032,899
Power plant building	1,355,546	1,300,673
Computer equipment	270,769	244,312
Equipment	687,847	457,059
Vehicles	815,811	825,906
	<u>\$ 39,503,375</u>	<u>38,583,343</u>
 Water utility		
Land	\$ 416,270	416,270
Service territory	255,545	255,545
Buildings and plant	7,595,528	7,595,528
Wells and towers	3,782,151	3,729,025
Mains, hydrants and meters	9,220,024	8,948,796
Machinery and equipment	506,253	449,500
Vehicles	65,411	65,411
	<u>\$ 21,841,182</u>	<u>21,460,075</u>
 Fiber communications utility		
Distribution and connection systems	\$ 833,403	<u>805,006</u>

4. REVENUE BONDS AND NOTES PAYABLE

In February 2006 the Utility issued \$1,525,000 Electric Revenue Capital Loan Notes. The proceeds from the notes were used for improvements and extensions to the Municipal Electric Utility. Principal payments in increasing amounts are due annually beginning in May 2007. Interest on the notes at rates of 3.30% to 4.00% (a weighted average rate of 3.74%) per annum is due semi-annually beginning November 1, 2006. Final maturity of the notes is May 1, 2016.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2007 and 2006

4. REVENUE BONDS AND NOTES PAYABLE - Continued

The Electric Revenue Capital Loan Note resolution requires the establishment of revenue bond operation and maintenance, sinking, reserve fund 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 the monthly accumulation of \$3,500 until \$200,000 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.

Revenue capital loan note debt service requirements are as follows as of June 30, 2007:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 155,000	51,073	206,073
2009	155,000	45,880	200,880
2010	155,000	40,610	195,610
2011	155,000	35,185	190,185
2012	155,000	29,605	184,605
2013-2016	620,000	60,295	680,295
	<u>\$ 1,395,000</u>	<u>262,648</u>	<u>1,657,648</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2007 and 2006

4. REVENUE BONDS AND NOTES PAYABLE - Continued

In August 2004 the City issued \$2,485,000 of Water Revenue Refunding Capital Loan Notes, with interest rates ranging from 2.55% to 4.20%, for a crossover refunding of a portion of the revenue bonds issued December 1996. The Utilities entered in to an escrow agreement whereby the proceeds were converted into U.S. Treasury securities. These securities were placed in an escrow account for the express purpose of paying the \$2,385,000 principal on the refunded revenue bonds when they became callable on December 1, 2006 and the interest from August 15, 2004 to and including December 1, 2006 on the refunding capital loan notes. On December 1, 2006 the remaining principal and interest on the outstanding December 1996 revenue bonds were paid.

The capital loan notes require the establishment of revenue note 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.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2007 and 2006

4. REVENUE BONDS AND NOTES PAYABLE - Continued

The revenue capital loan notes mature in annual installments of \$215,000 to \$290,000 through December 2016 and bear interest at rates of 2.55% to 4.20% payable semiannually. Debt service requirements were as follows as of June 30, 2007:

Year ending June 30,	Principal	Interest	Total
2008	\$ 215,000	86,549	301,549
2009	220,000	80,617	300,617
2010	225,000	73,884	298,884
2011	235,000	66,345	301,345
2012	240,000	58,030	298,030
2013-2017	<u>1,350,000</u>	<u>141,355</u>	<u>1,491,355</u>
	<u>\$2,485,000</u>	<u>506,780</u>	<u>2,991,780</u>

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.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2007 and 2006

5. GENERAL OBLIGATION BONDS PAYABLE - Continued

The Municipal Water Utility portion of general obligation bond debt service requirements are as follows as of June 30, 2007:

Year ending June 30,	Principal	Interest	Total
2008	\$ 80,000	37,882	117,882
2009	80,000	35,883	115,883
2010	85,000	33,563	118,563
2011	85,000	30,927	115,927
2012	90,000	28,122	118,122
2013-2017	505,000	87,245	592,245
2018	115,000	4,888	119,888
	<u>\$ 1,040,000</u>	<u>258,510</u>	<u>1,298,510</u>

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, 2007 and 2006. Accrued sick leave benefits as of June 30, 2007 of approximately \$140,911 (2006 - \$174,256) 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.

Most regular 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 salary. Contribution requirements are established by state statute. Indianola Municipal Utilities contribution to IPERS for the year ended June 30, 2007 was \$61,898 (2006 - \$64,220), equal to the required contribution for the year.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2007 and 2006

8. RISK MANAGEMENT

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 556 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 member's 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.

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, 2007 were \$111,237 (2006 - \$102,119).

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2007 and 2006

8. RISK MANAGEMENT - Continued

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, at June 30, 2007, no liability has been recorded in the Utilities financial statements. As of June 30, 2007, 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. If a member withdraws 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.

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, 2007 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2007, Indianola Municipal Utilities paid workers' compensation insurance premiums of \$28,910 (2006 - \$38,828) to the Association.

9. COMMITMENTS

The Indianola Municipal Utilities have entered into contracts for electric underground conversion and substation breaker relaying projects totaling approximately \$1,523,507. The remaining commitment on these contracts at June 30, 2007 is \$901,851.

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, 2007

	Actual	Budget Amounts		Final to Actual Variance
		Original	Final	
Receipts				
Use of money and property	\$ 320,542	295,200	295,200	25,342
Charges for service	10,506,936	10,612,800	10,612,800	(105,864)
Special assessments	2,409	-	-	2,409
Miscellaneous	28,182	-	-	28,182
Total receipts	10,858,069	10,908,000	10,908,000	(49,931)
Disbursements				
Business type activities	10,498,554	10,682,500	10,682,500	183,946
Excess of receipts over (under) disbursements	359,515	225,500	225,500	134,015
Other financing sources (uses)				
Sale of assets	195,627	-	-	195,627
Operating transfers out	(718,136)	(762,600)	(762,600)	44,464
Total other financing sources (uses)	(522,509)	(762,600)	(762,600)	240,091
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(162,994)	(537,100)	(537,100)	374,106
Balances, beginning of year	5,321,306	5,321,306	5,321,306	-
Balances, end of year	\$ 5,158,312	4,784,206	4,784,206	374,106

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Required Supplementary Information –
Budgetary Reporting
Year Ended June 30, 2007

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

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 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

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, 2007, and have issued our report thereon dated October 25, 2007. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Indianola Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Indianola 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.

A control deficiency exists when the design or operation of the 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 the Indianola Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the Indianola Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Indianola Municipal Utilities' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Indianola 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 necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We identified no deficiencies in internal control that we consider to be significant deficiencies or material weaknesses in internal control over financial reporting.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. 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.

The Indianola Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utility's responses, we did not audit the Indianola Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the 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 the 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.

October 25, 2007

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings

Year ended June 30, 2007

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:

- 07-IV-A Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed amounts budgeted.
- 07-IV-B Questionable Disbursements - No disbursements 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.
- 07-IV-C Travel Expense - No expenditures of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- 07-IV-D Business Transactions – No business transactions between the Indianola Municipal Utilities officials or employees were noted.

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

Year ended June 30, 2007

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

- 07-IV-E 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.
- 07-IV-F Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- 07-IV-G 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.
- 07-IV-H Revenue Bonds and Notes -The requirements of the water revenue bonds and notes resolutions were met during the year ended June 30, 2007.