

**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, 2007

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

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**OFFICIALS
OSAGE MUNICIPAL UTILITIES**

December 31, 2007

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	Steve Swenson	December 2008
Trustee	Kevin Palsic	December 2012
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

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, (component units of the City of Osage) as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Utilities' basic financial statements listed in the table of contents. 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.

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, 2007 and 2006, and the respective changes in financial position and cash flows for the years 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 12, 2008 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 13 and 31 through 32 are not required parts of the basic financial statements, but are supplementary

information required by the Governmental Accounting Standards Board. 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended December 31, 2006 and expressed unqualified opinions on those 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 aforementioned 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 12, 2008

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, 2007. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- ◆ The Utilities' operating revenues increased 4.2%, or approximately \$356,000, from 2006 to 2007.
- ◆ Operating expenses increased 5.4%, or approximately \$412,000, from 2006 to 2007.
- ◆ The Utilities' net assets increased 3.2%, or approximately \$400,000 during 2007.
- ◆ 2007 investment income grew by more than 34% 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 non-major 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, increased from 2006 to 2007. This increase is due to capital asset purchases exceeding depreciation during 2007. Total assets increased by approximately \$92,000 and liabilities decreased by \$308,000 resulting in the increase in net assets of approximately \$400,000 dollars during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2007	2006
Current and other assets	\$ 6,558	\$ 6,603
Capital assets (net of depreciation)	12,120	11,983
Total assets	18,678	18,586
Long-term debt outstanding	4,450	4,815
Other liabilities	1,499	1,442
Total liabilities	5,949	6,257
Net assets:		
Invested in capital assets, net of related debt	7,590	7,143
Restricted	663	897
Unrestricted	4,476	4,289
Total net assets	\$12,729	\$ 12,329

INDIVIDUAL MAJOR FUND ANALYSIS

As Osage Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$12.7 million, an increase of more than \$400,000 over last year's total of \$12.3 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 13% from the prior year due to the combined effect of a 2% increase in load growth and a 12.7% full year increase in retail electric rates. The electric rate increase was necessary to offset the cumulative 24% increase in cost of wholesale power that has occurred since 1998.

Total operating expenses for 2007 were higher by almost \$358,000, or 13% more than in 2006. More than half of the increase can be attributed to a doubling in the amount of fuel used for electric generation, and distribution line maintenance expenses that were \$114,000 greater than in 2006. The magnitude of these increases resulted from the need to generate Osage's electricity for 84 consecutive hours during the February 2007 ice storm. Eventually, about 80% of the storm-related costs were

reimbursed by the Federal Emergency Management Agency. Of further significance, purchased power costs in 2007 were about \$80,000 greater than 2006 due to 2.5% more kwh's being purchased at a 4.5% higher average price.

Gas Utility Results of Operations

Consumption of natural gas by Osage residents and businesses declined by slightly more than 1% in 2007 and total operating expenses dropped by more than 4%. Gas operating revenues decreased by 5.8%, resulting in a negative change in net assets of \$120,000. More than 27% of 2007 natural gas sales can be attributed to the Utilities' largest industrial customers.

Telecom Utility Results of Operations

The Communications Utility ended the year with a gain of \$61,000. Although the effect of cellular phone competition has slowed the rate of growth in number of customers who subscribe to our telephone service to less than 1%, the number of cable television, high speed internet, and rural wireless customers grew by 6%, 20% and 13.5%, respectively, over the previous year. The significant growth in number of customers, as well as a 4.2% reduction in operating expenses, enabled net assets to grow by 10.5% in 2007.

A residential rate increase to local phone service customers was implemented at mid-year to cover increasing infrastructure costs and a decline in access revenue. On the bright side, we have identified the cause for the dramatic decrease in access revenue and have taken steps to correct the problem and recover a significant portion of the estimated \$152,000 in lost revenue.

Two rounds of price increases for cable TV service were necessary in 2007 to protect margins against the constant onslaught of increasing programming costs. As stated last year, a package of digital cable channels was added to our line-up of cable TV services in 2007.

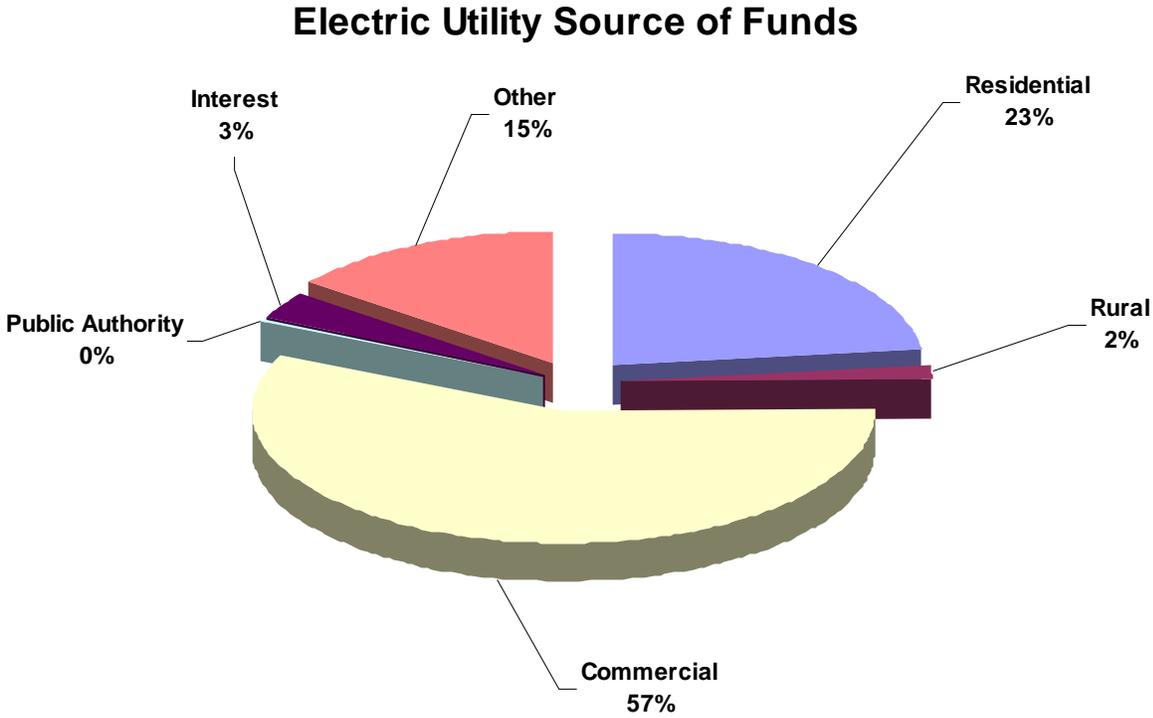
In 2007 we enhanced our cable modem high speed Internet service with a major upgrade that produced increased speed and performance, as well as improved market penetration due to a 20% addition to our customer base.

We believe that Internet access is becoming a necessity for rural farming operations. Consequently, in 2007 we enhanced our wireless infrastructure to accommodate greater bandwidth speeds and to prepare for the likelihood of continued growth of our rural customer base.

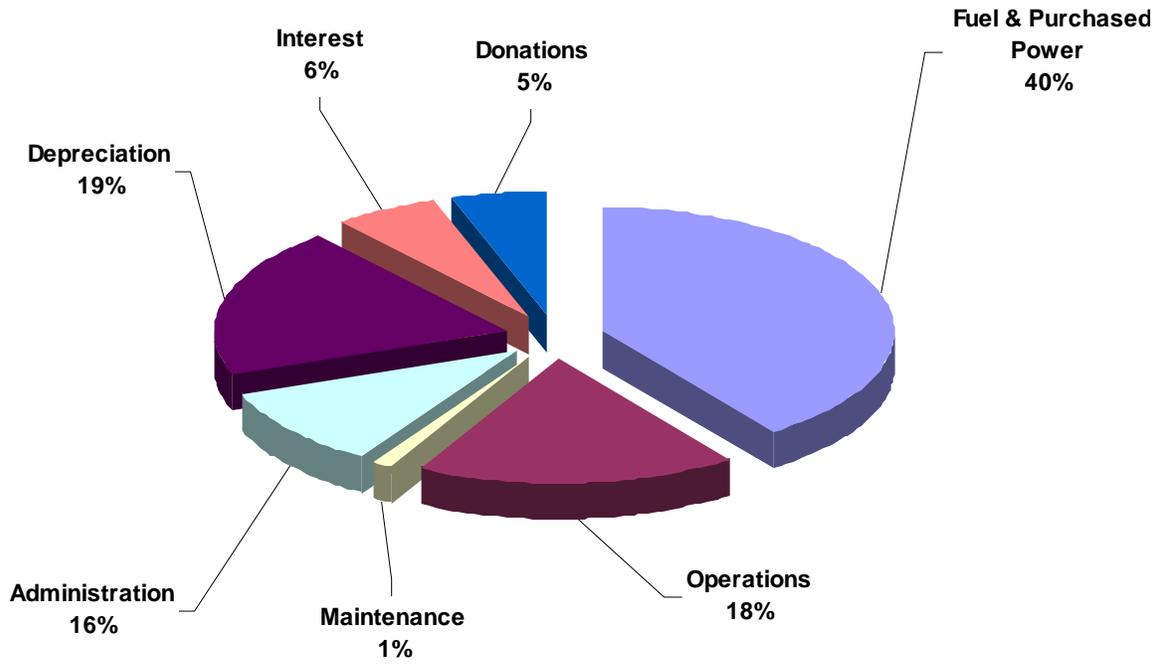
Our presence as a provider of communications services enables all Osage consumers of communications services to continue to benefit from the competitive nature of the Osage marketplace.

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

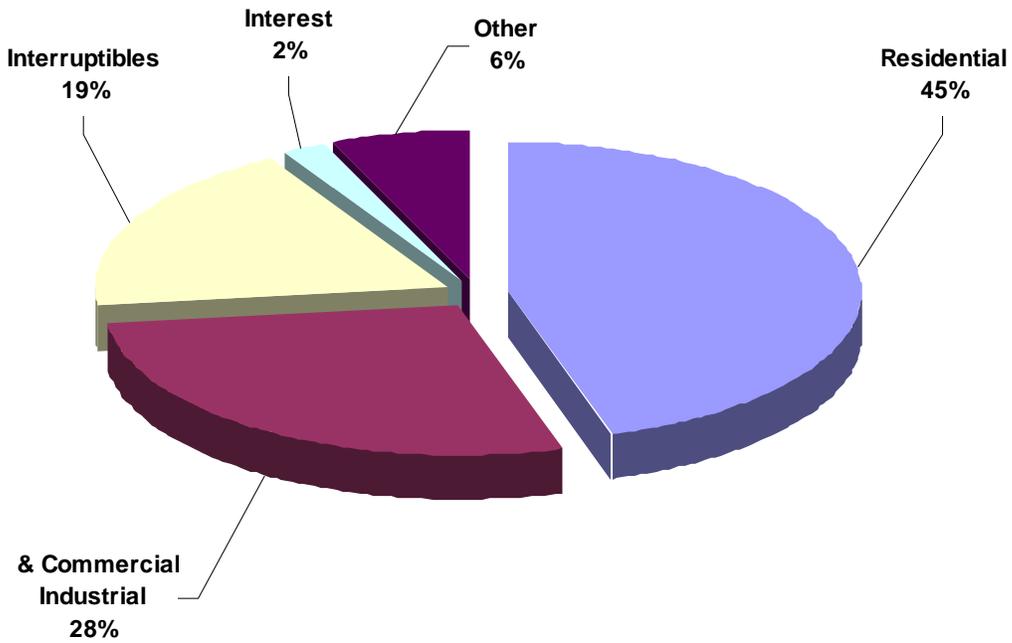
	Year ended December 31,	
	2007	2006
Operating revenues	\$ 8,753	\$ 8,397
Operating expenses	8,024	7,612
Operating income	729	785
Net Non-Operating Revenues (Expenses)	(348)	(46)
Other financing sources (Uses)	18	42
Change in Net Assets	400	781
Net assets beginning of year	12,329	11,548
Net assets end of year	12,729	12,329



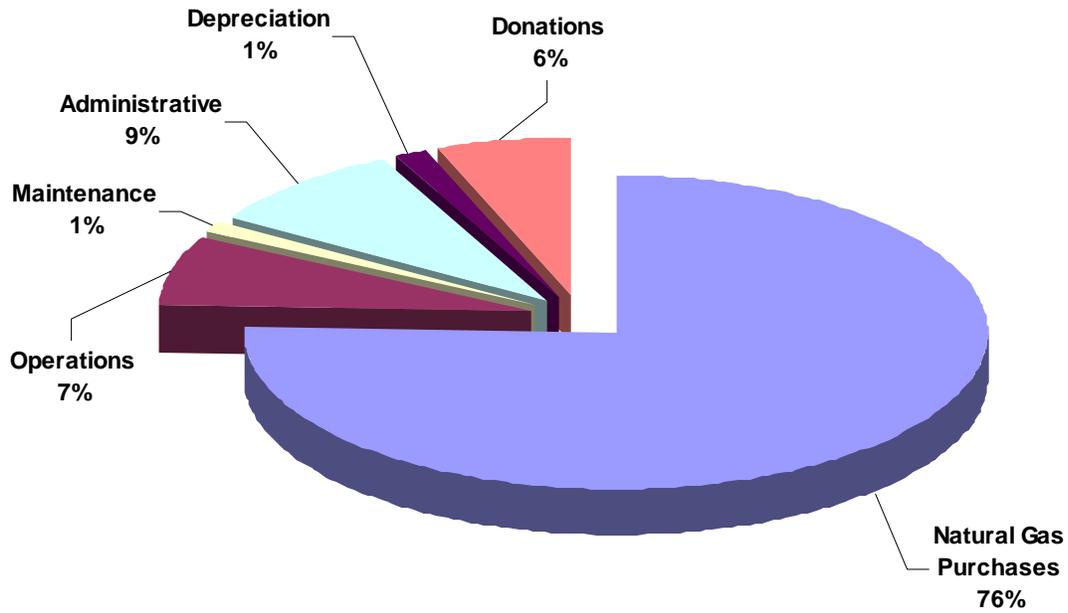
Electric Utility Use of Funds



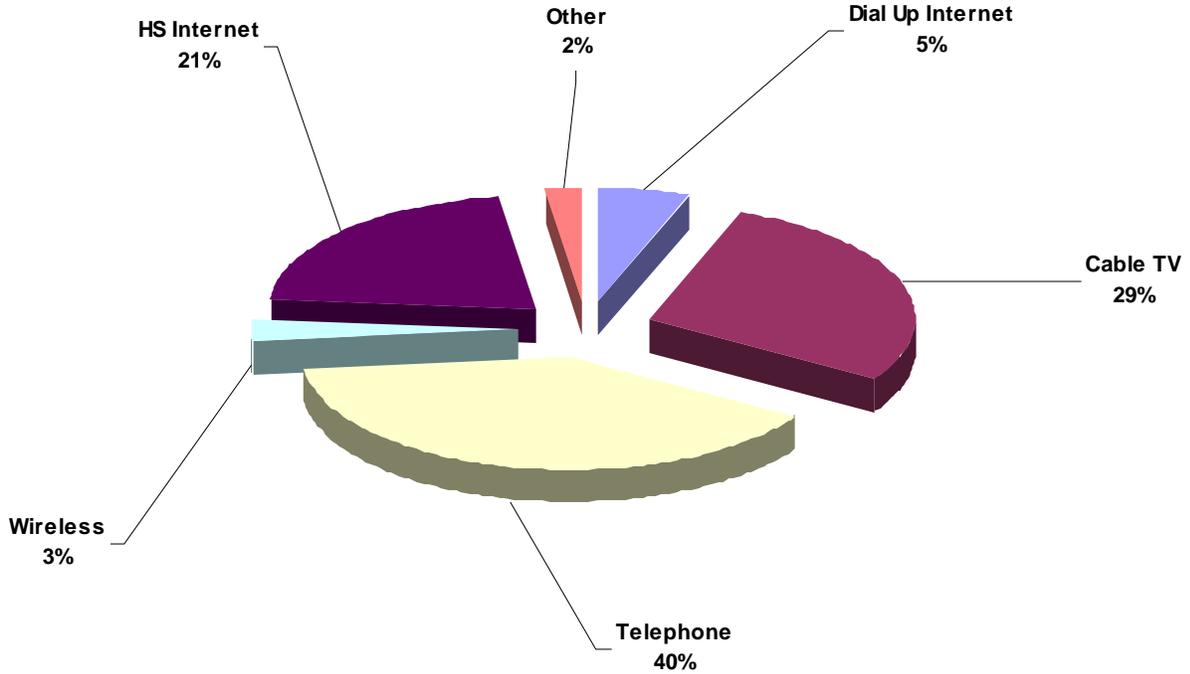
Gas Utility Source of Funds



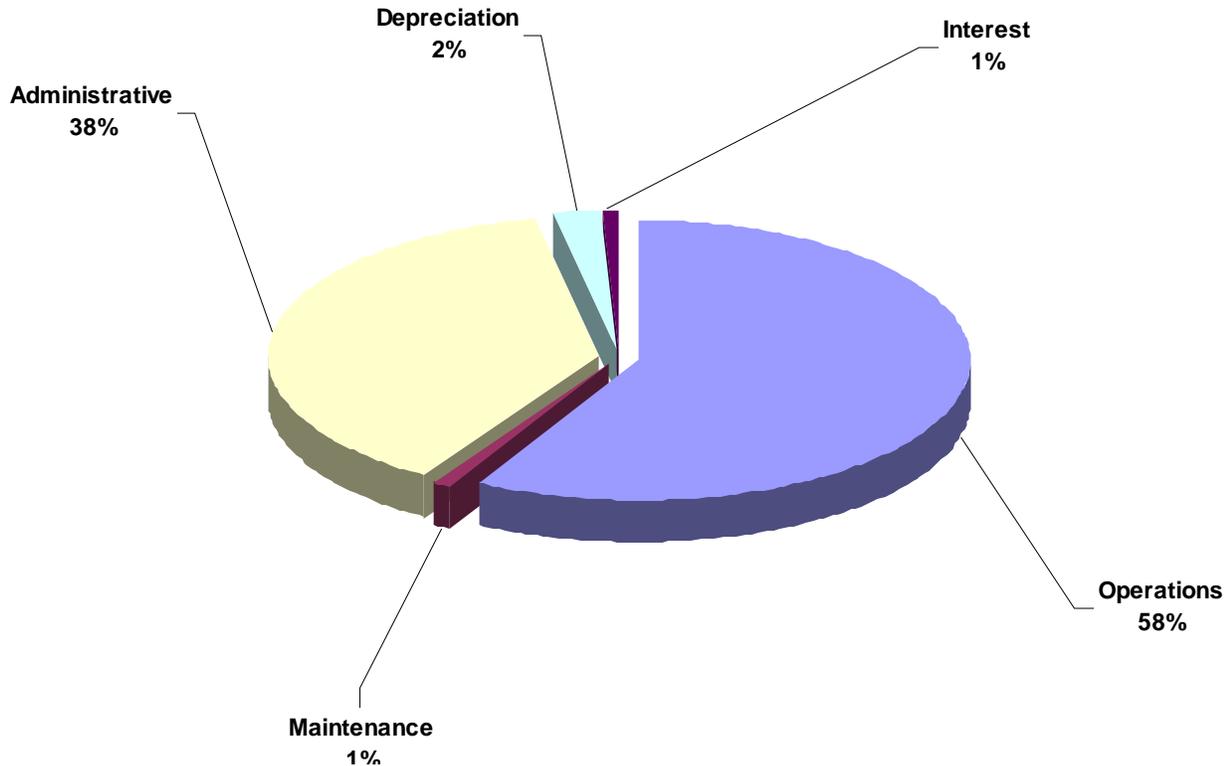
Gas Utility Use of Funds



Communications Utility Source of Funds



Communications Utility Use of Funds



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, 2007, 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 increase (including additions and deletions net of depreciation) of approximately \$137,000 or 1 percent over last year.

Capital Assets of Business Type Activities at Year End
(Expressed in Thousands)

	Year ended December 31,	
	2007	2006
Land and improvements	\$ 48	\$ 48
Buildings and improvements	1,046	1,152
Equipment and vehicles	10,853	10,648
Construction in Progress	128	-
Iowa Stored Energy Project	135	135
Total	\$ 12,120	\$ 11,983

The largest additions to capital assets were investments in electric distribution transformers, poles, and wire.

Osage Municipal Utilities had depreciation expense of \$817,389 in 2007 and total accumulated depreciation of \$11,760,523 at December 31, 2007.

LONG TERM DEBT/LIABILITIES

At December 31, 2007, Osage Municipal Utilities had \$4,815,000 in revenue bonds outstanding compared to \$5,165,000 at December 31, 2006, as shown below.

	Outstanding debt of Business Type Activities at Year End (Expressed in Thousands)	
	Year ended December 31,	
	2007	2006
Revenue Bonds	\$ 4,815	\$ 5,165

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Osage Municipal Utilities' electric customers have experienced exceptionally low rates for the past 10 years. Unfortunately, OMU's long-term power supply contract that enabled such low cost energy expired April 30, 2008. Knowing that many factors would combine and lead to significant cost increases, OMU joined with 15 other municipal electric utilities from Wisconsin, Minnesota and Iowa to maximize our buying power through joint action, and created the Upper Midwest Municipal Power Agency (UMMPA). OMU, through joint action, worked closely with industry professionals to negotiate a new 20-year wholesale power agreement with Dairyland Power Cooperative. The entire process took more than 15 months, culminating in an agreement that represents a fair and mutually beneficial arrangement. Further, we are confident that it is the very best power purchase deal currently available in the market. In spite of the many cost-saving features and other favorable terms in our new long-term power supply contract with Dairyland, OMU's purchase price for electricity will increase by 85% and necessitate a significant retail rate increase at mid-year 2008. Notwithstanding the cost increase, OMU's rates should continue to hold their enviable position relative to other utilities.

Osage Municipal Utilities continues to give 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 2007 the value of total cash transfers and services-in-kind to the City of Osage amounted to just over \$543,000, which included a \$400,000 down payment on a \$2 million multi-year commitment to help finance the construction of the Cedar River Complex. The Cedar River Complex is comprised of a recreation and fine arts center that is projected to provide substantial economic development benefits to the Osage community and surrounding area.

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 (ISEPA), 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. After six years of progressive planning, research and physical testing, ISEPA is about to enter a period of solid preparation for the actual design, financing and construction of this innovative project to enhance the value of wind, improve efficiencies of fossil-fueled generation, and establish biomass as a large scale generation fuel. The U.S. Department of Energy has been very

supportive with annual funding to find a suitable geologic formation in Iowa for the storage of compressed air. 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 still on track to be fully operational, providing electricity to Iowa and surrounding states by 2014. If all funding requests are realized for 2008, two test wells will be drilled to identify the specific characteristics and operability of this formation.

Wind powered electricity is fast becoming a mainstream generation option for electric utilities. The Iowa legislature is expected to establish a renewable portfolio standard requiring use of energy from renewable sources. Now that our new wholesale power contract affords us the flexibility to build a portfolio of energy supply options, OMU is investigating the economic feasibility of locating a wind turbine on its electric distribution system. In preparation for the likelihood of pursuing a local wind project, we applied for and were approved for a \$1.8 million allocation of Clean Renewable Energy Bonds (CREBs) from the U.S. Department of Treasury. The CREB program provides a financial incentive for consumer-owned utilities to invest in new renewable electric generating facilities by providing public power systems with interest-free borrowing.

Since the mid 1970's, OMU's residential load management system has been used to effectively delay the purchase of costly new peaking electric generating equipment and help hold down the cost of electricity. Now, as Osage faces significant new growth with the addition of a multi-million dollar arts and recreation center, a 39-bed assisted living facility and a food processing company, electric loads are expected to increase well beyond the typical 2% annual growth rate. Consequently, our load management system has been upgraded and we have invited more participation to improve the effectiveness of the program, with the intent of once again delaying the need for additional electric generation.

As part of our ongoing efforts to promote and develop a local culture of efficiency, Osage Municipal Utilities purchased a Neighborhood Electric Vehicle (NEV) as our primary mode of transportation for meter reading, as well as for performing many system maintenance procedures. Not only does the NEV cost significantly less to operate than a standard pick-up truck (\$.02/mile compared to \$.27/mile, assuming gas at \$4/gallon), but it also significantly reduces greenhouse gas emissions. Amazingly, the battery-powered NEV operates for approximately 200 miles for the price of a gallon of gas. With results like this, a plan to displace the use of a second gas-hungry pickup will likely result in the purchase of another NEV.

Realizing that there is always more that can be done to help customers reduce energy usage, the Osage Municipal Utilities Board of Trustees adopted a new energy conservation program intended to increase the energy efficiency of homes for OMU's low-income, elderly and disabled customers. The OMU Weatherization Project helps to insure that some of our most vulnerable customers are better protected from the harshness of winter weather and high energy costs. To date, almost 70 qualifying customers have benefited from the application of our energy saving corrective measures.

Another new community service initiative implemented in 2007, called the More Cents Program, was designed to assist local not-for-profit organizations. More Cents funds are made possible through the voluntary rounding up of OMU customers' combined electric and natural gas bills to the next nearest dollar. The accumulated dollars are then made available for distribution to local qualifying organizations. More than 70% of OMU's electric and gas customers participate in this voluntary program. Their extra "cents" have already enabled the distribution of several thousand dollars in support of many worthwhile community causes. Our More Cents Program is believed to be the first such municipal utility program in Iowa.

Thanks to the diligence of our very competent workforce and their commitment to maintain high reliability standards, our customers can be assured that their Electric, Gas and Communications Utility services will continue to be delivered with exceptional reliability.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Osage Municipal Utilities' finances and to provide accountability for the money the Utilities receive. If you have questions about this report or need additional financial information, contact 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	
	2007	2006
Capital assets:		
Capital assets, net of accumulated depreciation	\$ 11,304,133	\$ 11,156,251
Current assets:		
Cash and cash equivalents	2,263,034	2,167,136
Accounts receivable (net of allowance for doubtful accounts)	384,983	393,442
Unbilled usage	218,957	199,353
Investments	214,900	214,900
Inventory	407,608	397,252
Prepaid expenses	19,216	32,668
	3,508,698	3,404,751
Other assets:		
Bond discount - net of accumulated amortization	49,942	50,421
Prepaid contract fees - net of accumulated amortization	1,334	5,334
	51,276	55,755
Total assets	\$ 14,864,107	\$ 14,616,757

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 752,260	\$ 760,282	\$ 63,542	\$ 66,584	\$ 12,119,935	\$ 11,983,117
1,032,502	1,211,581	855,507	705,464	4,151,043	4,084,181
291,207	321,820	167,905	270,034	844,095	985,296
363,280	301,547	4,362	4,362	586,599	505,262
-	-	-	-	214,900	214,900
14,338	14,875	23,751	19,680	445,697	431,807
242,973	290,545	1,932	2,191	264,121	325,404
<u>1,944,300</u>	<u>2,140,368</u>	<u>1,053,457</u>	<u>1,001,731</u>	<u>6,506,455</u>	<u>6,546,850</u>
-	-	-	-	49,942	50,421
-	-	-	-	1,334	5,334
-	-	-	-	51,276	55,755
<u>\$ 2,696,560</u>	<u>\$ 2,900,650</u>	<u>\$ 1,116,999</u>	<u>\$ 1,068,315</u>	<u>\$ 18,677,666</u>	<u>\$ 18,585,722</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	
	2007	2006
Liabilities:		
Current liabilities:		
Accounts payable	\$ 223,596	127,268
Accounts payable - City of Osage	82,971	86,304
Checks in excess of bank balance	-	-
Customer meter deposits	13,541	14,305
Customer budget billing	(9,717)	(10,300)
Accrued expenses	48,494	41,345
Accrued interest payable	18,065	19,204
Deferred revenue	-	-
Revenue bonds payable	325,000	310,000
	701,950	588,126
Noncurrent liabilities:		
Revenue bonds payable - net of current portion	4,205,000	4,530,000
	4,906,950	5,118,126
Fund net assets:		
Invested in capital assets, net of related debt	6,774,133	6,316,251
Restricted - bond covenant	662,587	897,269
Unrestricted (deficit)	2,520,437	2,285,111
Total net assets	9,957,157	9,498,631

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 368,520	\$ 421,248	\$ 33,329	\$ 24,836	\$ 625,445	\$ 573,352
-	-	-	-	82,971	86,304
-	-	-	-	-	-
29,645	31,076	16,330	12,786	59,516	58,167
133,112	167,065	-	-	123,395	156,765
31,023	26,821	16,735	16,468	96,252	84,634
-	-	974	1,089	19,039	20,293
-	-	127,413	111,823	127,413	111,823
-	-	40,000	40,000	365,000	350,000
<u>562,300</u>	<u>646,210</u>	<u>234,781</u>	<u>207,002</u>	<u>1,499,031</u>	<u>1,441,338</u>
-	-	245,000	285,000	4,450,000	4,815,000
<u>562,300</u>	<u>646,210</u>	<u>479,781</u>	<u>492,002</u>	<u>5,949,031</u>	<u>6,256,338</u>
752,260	760,282	63,542	66,584	7,589,935	7,143,117
-	-	-	-	662,587	897,269
<u>1,382,000</u>	<u>1,494,158</u>	<u>573,676</u>	<u>509,729</u>	<u>4,476,113</u>	<u>4,288,998</u>
<u>2,134,260</u>	<u>2,254,440</u>	<u>637,218</u>	<u>576,313</u>	<u>12,728,635</u>	<u>\$ 12,329,384</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	
	2007	2006
Operating revenues:		
Charges for service	\$ 4,029,304	\$ 3,574,781
Operating expenses:		
Business type activities	3,408,761	3,023,748
Operating income (loss)	620,543	551,033
Non-operating revenues (expenses):		
Interest income	140,185	99,732
Interest expense	(229,405)	(242,532)
Other income	49,716	27,555
Donations	(200,500)	-
Total non-operating revenues (expenses)	(240,004)	(115,245)
Other financing sources (uses):		
Operating transfers in	61,249	-
Operating transfers (out)	-	-
Gain (loss) on sale of capital assets	16,738	42,336
Total other financing sources (uses)	77,987	42,336
Change in net assets	458,526	478,124
Net assets - beginning of year	9,498,631	9,020,507
Net assets - end of year	\$ 9,957,157	\$ 9,498,631

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 3,202,996	\$ 3,400,060	\$ 1,520,389	\$ 1,422,542	\$ 8,752,689	\$ 8,397,383
<u>3,193,868</u>	<u>3,334,198</u>	<u>1,420,663</u>	<u>1,254,700</u>	<u>8,023,292</u>	<u>7,612,646</u>
<u>9,128</u>	<u>65,862</u>	<u>99,726</u>	<u>167,842</u>	<u>729,397</u>	<u>784,737</u>
69,444	53,234	35,741	29,681	245,370	182,647
(270)	(222)	(12,313)	(13,684)	(241,988)	(256,438)
-	-	-	-	49,716	27,555
<u>(200,000)</u>	<u>-</u>	<u>(1,000)</u>	<u>-</u>	<u>(401,500)</u>	<u>-</u>
<u>(130,826)</u>	<u>53,012</u>	<u>22,428</u>	<u>15,997</u>	<u>(348,402)</u>	<u>(46,236)</u>
-	-	20,771	15,000	82,020	15,000
-	-	(82,020)	(15,000)	(82,020)	(15,000)
<u>1,518</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,256</u>	<u>42,336</u>
<u>1,518</u>	<u>-</u>	<u>(61,249)</u>	<u>-</u>	<u>18,256</u>	<u>42,336</u>
(120,180)	118,874	60,905	183,839	399,251	780,837
<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>
<u>\$ 2,134,260</u>	<u>\$ 2,254,440</u>	<u>\$ 637,218</u>	<u>\$ 576,313</u>	<u>\$ 12,728,635</u>	<u>\$ 12,329,384</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	
	2007	2006
Cash flows from operating activities:		
Cash receipts from customers	\$ 3,896,829	\$ 3,368,419
Cash received from other funds	121,149	121,149
Cash payments to suppliers	(1,898,092)	(2,001,528)
Cash payments to employees	(410,208)	(363,600)
Cash payments to other funds	-	-
Cash payments for contributions	(254,240)	(5,579)
Net cash provided (used) by operating activities	<u>1,455,438</u>	<u>1,118,861</u>
Cash flows from noncapital financing activities:		
Transfers in	61,249	-
Transfers out	-	-
Miscellaneous non-operating revenue	49,716	27,555
Donations	(200,500)	-
Net cash provided (used) by noncapital financing activities	<u>(89,535)</u>	<u>27,555</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(886,384)	(228,508)
Proceeds from sale of assets	16,738	42,336
Repayment of revenue bonds	(310,000)	(300,000)
Cash paid for interest	(230,544)	(243,623)
Net cash (used) by capital and related financing activities	<u>(1,410,190)</u>	<u>(729,795)</u>
Cash flows from investing activities:		
Investment income	140,185	108,131
Net cash provided by investing activities	<u>140,185</u>	<u>108,131</u>
Net increase (decrease) in cash and cash equivalents	95,898	524,752
Cash and cash equivalents-beginning of year	2,167,136	1,642,384
Cash and cash equivalents-end of year	<u>\$ 2,263,034</u>	<u>\$ 2,167,136</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ 620,543	\$ 551,033
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	742,981	734,947
Change in accounts receivable	8,459	(54,389)
Change in meter deposits and unbilled usage	(19,785)	(30,824)
Change in prepaid expenses	13,452	(15,072)
Change in inventory	(10,356)	(15,955)
Change in accounts payable and other liabilities	100,144	(50,879)
Net cash provided (used) by noncapital financing activities	<u>\$ 1,455,438</u>	<u>\$ 1,118,861</u>

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 3,136,492	\$ 3,699,792	\$ 1,572,401	\$ 1,445,291	\$ 8,605,722	\$ 8,513,502
-	-	-	-	121,149	121,149
(2,614,340)	(2,983,227)	(792,292)	(705,161)	(5,304,724)	(5,689,916)
(243,445)	(240,594)	(399,171)	(357,877)	(1,052,824)	(962,071)
-	-	(121,149)	(121,149)	(121,149)	(121,149)
<u>(287,477)</u>	<u>(90,093)</u>	<u>(3,988)</u>	<u>(2,599)</u>	<u>(545,705)</u>	<u>(98,271)</u>
<u>(8,770)</u>	<u>385,878</u>	<u>255,801</u>	<u>258,505</u>	<u>1,702,469</u>	<u>1,763,244</u>
-	-	20,771	15,000	82,020	15,000
-	-	(82,020)	(15,000)	(82,020)	(15,000)
-	-	-	-	49,716	27,555
<u>(200,000)</u>	<u>-</u>	<u>(1,000)</u>	<u>-</u>	<u>(401,500)</u>	<u>-</u>
<u>(200,000)</u>	<u>-</u>	<u>(62,249)</u>	<u>-</u>	<u>(351,784)</u>	<u>27,555</u>
(41,001)	(25,770)	(26,822)	(4,876)	(954,207)	(259,154)
1,518	-	-	-	18,256	42,336
-	-	(40,000)	(40,000)	(350,000)	(340,000)
<u>(270)</u>	<u>(222)</u>	<u>(12,428)</u>	<u>(13,785)</u>	<u>(243,242)</u>	<u>(257,630)</u>
<u>(39,753)</u>	<u>(25,992)</u>	<u>(79,250)</u>	<u>(58,661)</u>	<u>(1,529,193)</u>	<u>(814,448)</u>
<u>69,444</u>	<u>58,071</u>	<u>35,741</u>	<u>30,432</u>	<u>245,370</u>	<u>196,634</u>
<u>69,444</u>	<u>58,071</u>	<u>35,741</u>	<u>30,432</u>	<u>245,370</u>	<u>196,634</u>
(179,079)	417,957	150,043	230,276	66,862	1,172,985
<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>
<u>\$ 1,032,502</u>	<u>\$ 1,211,581</u>	<u>\$ 855,507</u>	<u>\$ 705,464</u>	<u>4,151,043</u>	<u>4,084,181</u>
\$ 9,128	\$ 65,862	\$ 99,726	\$ 167,842	\$ 729,397	\$ 784,737
49,023	54,388	29,864	27,637	821,868	816,972
30,613	120,256	102,131	57,464	141,203	123,331
(63,164)	146,590	19,134	27,521	(63,815)	143,287
47,572	(57,294)	259	11,005	61,283	(61,361)
537	1,004	(4,072)	(9,632)	(13,891)	(24,583)
<u>(82,479)</u>	<u>55,072</u>	<u>8,759</u>	<u>(23,332)</u>	<u>26,424</u>	<u>(19,139)</u>
<u>\$ (8,770)</u>	<u>\$ 385,878</u>	<u>\$ 255,801</u>	<u>\$ 258,505</u>	<u>\$ 1,702,469</u>	<u>\$ 1,763,244</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 operate Osage Municipal Utilities under the authority of Chapter 388 of the Code of Iowa. Osage Municipal Utilities provide 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, 2007, 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, 2007 and 2006 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, 2007 and 2006 amounted to less than \$1,000. The charges originate substantially from the Light and Power fund.

The allowance for uncollectible accounts had balances as of December 31, 2007 and 2006 respectively as follows:

	Light and Power		Gas		Other Non-Major	
	2007	2006	2007	2006	2007	2006
Allowance for doubtful accounts	\$ -	\$ -	\$ -	\$ -	\$128,450	\$ 63,866

NOTE 2 - CASH AND INVESTMENTS

Osage Municipal Utilities' deposits at December 31, 2007 and 2006 (which include certificates of deposit totaling \$1,377,694 and \$1,669,239 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 \$181,391 and \$268,368 as of December 31, 2007 and 2006, 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, 2007 and 2006.

Light and Power Fund:

	Bal. 1/1/07	Issued	Repaid	Bal. 12/31/07
Business type activities:				
Revenue bonds – issued December 1996	\$ 390,000	-	190,000	\$ 200,000
Revenue bonds – issued September 2001	4,450,000	-	120,000	4,330,000
	<u>\$ 4,840,000</u>	<u>-</u>	<u>310,000</u>	<u>\$ 4,530,000</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – REVENUE BONDS PAYABLE- continued

	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>

Telephony Fund:

	Bal. 1/1/07	Issued	Repaid	Bal. 12/31/07
Business type activities:				
Revenue bonds – issued July 2002	\$ 325,000	-	40,000	\$ 285,000

	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
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>\$ 200,000</u>	<u>\$ 9,500</u>	<u>\$4,330,000</u>	<u>\$1,435,888</u>	<u>\$285,000</u>	<u>\$38,221</u>	<u>\$4,815,000</u>	<u>\$1,483,609</u>

Bond discount amortization was \$479 and \$1,055, respectively for the years ended December 31, 2007 and 2006.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – REVENUE BONDS PAYABLE- continued

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.
- 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, 2007 and 2006.

NOTE 4 – INTEREST COSTS

During the years ended December 31, 2007 and 2006, the interest incurred and expensed by the Light and Power Fund was \$229,405 and \$242,532 respectively.

During the years ended December 31, 2007 and 2006, interest incurred and expensed by the Telephony Fund was \$12,272 and \$13,623 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.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - PENSION AND RETIREMENT BENEFITS –continued

Plan members were required to contribute 3.70% of their salary and Osage Municipal Utilities was required to contribute 5.75% of covered payroll through June 30, 2007. As of July 1, 2007 plan members are required to contribute 3.90% of their salary and Osage Municipal Utilities is required to contribute 6.05% of cover payroll. Contribution requirements are established by State statute. Osage Municipal Utilities' contributions to IPERS for the years ended December 31, 2007, 2006 and 2005 were \$61,870, \$53,832 and \$50,477 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.

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, 2007 and 2006 is as follows:

December 31, 2007	Light and Power	Gas	Non-major	Total
Vacation	<u>\$ 27,757</u>	<u>\$ 15,479</u>	<u>\$ 6,382</u>	<u>\$ 49,618</u>
December 31, 2006	Light and Power	Gas	Non-major	Total
Vacation	<u>\$ 20,839</u>	<u>\$ 14,541</u>	<u>\$ 6,306</u>	<u>\$ 41,686</u>

NOTE 8 – INTERFUND TRANSFERS

Interfund transfers were made during the years ended December 31, 2007 and 2006. The transfers are as detailed below.

Transfers for the year ended December 31, 2007:		
Transferred from:	Transferred to:	Amount
Internet	Rural Wireless	<u>\$ 20,771</u>
Cable	Light and Power	<u>\$ 60,744</u>
Telephony	Light and Power	<u>\$ 505</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – INTERFUND TRANSFERS –continued

Transfers for the year ended December 31, 2006:		
Transferred from:	Transferred to:	Amount
Internet	Rural Wireless	<u>\$ 15,000</u>

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 \$121,149. Future minimum lease payments are as follows:

Year Ending December 31,	Payments
2008	121,149
2009	121,149
2010	121,149
2011	121,149
2012	121,149
2013-2017	605,745
2018-2022	605,745
2023-2027	605,745
2027-2032	605,745
2033-2035	363,447
Total	<u>\$ 3,392,172</u>

NOTE 10 – CAPITAL ASSETS

The following schedules disclose the major fixed asset additions for the years ended December 31, 2007 and 2006.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – CAPITAL ASSETS – continued

Light and Power Fund – 2007

Capital Assets	Balance 12/31/06	Additions	Disposals	Balance 12/31/07
Capital assets not being depreciated				
Land	\$ 41,029	-	-	\$ 41,029
Iowa Stored Energy Park Agency	92,500	-	-	92,500
Construction in progress	-	127,990	-	127,990
Capital assets being depreciated				
Buildings and improvements	1,174,508	16,865	-	1,191,373
Generating equipment and lines	12,073,701	605,600	-	12,679,301
HFC distribution center	5,647,518	8,870	-	5,656,388
Equipment and vehicles	1,430,439	66,315	2,028	1,494,726
Broadband room	121,419	-	-	121,419
Digital cable	-	60,744	-	60,744
	20,581,114	886,384	2,028	21,465,470
Less:				
Accumulated depreciation	9,424,863	738,502	2,028	10,161,337
	<u>\$ 11,156,251</u>			<u>11,304,133</u>

Major additions to the Light and Power Fund capital assets included new transformers and generation equipment.

Gas Fund-2007

Capital Assets	Balance 12/31/06	Additions	Disposals	Balance 12/31/07
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	584,548	2,419	-	586,967
Peak shaving plant	232,733	1,031	-	233,764
Gas plant, lines and meters	837,232	5,744	-	842,976
Equipment and vehicles	457,152	31,807	9,039	479,920
	2,161,899	41,001	9,039	2,193,861
Less:				
Accumulated depreciation	1,401,617	49,023	9,039	1,441,601
	<u>\$ 760,282</u>			<u>\$ 752,260</u>

**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 Gas Fund capital assets included an infrared scanner and a copier.

Internet and Wireless Funds (Combined) – 2007

Capital Assets	Balance 12/31/06	Additions	Disposals	Balance 12/31/07
Capital assets being depreciated				
Equipment	\$ 153,830	26,821	-	\$ 180,651
Organizational costs	<u>40,476</u>	<u>-</u>	<u>-</u>	<u>40,476</u>
	194,306	26,821	-	221,127
Less:				
Accumulated depreciation	<u>127,722</u>	<u>29,863</u>	<u>-</u>	<u>157,585</u>
Book value	<u>\$ 66,584</u>			<u>\$63,542</u>

Major additions to the Internet and Wireless Funds' capital assets consisted mainly of Access Point Equipment.

Light and Power Fund – 2006

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	<u>121,419</u>	<u>-</u>	<u>-</u>	<u>121,419</u>
	20,352,606	228,508	-	20,581,114
Less:				
Accumulated depreciation	<u>8,694,971</u>	<u>729,892</u>	<u>-</u>	<u>9,424,863</u>
Book value	<u>\$ 11,657,635</u>			<u>\$ 11,156,251</u>

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.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – CAPITAL ASSETS-continued

Gas Fund – 2006				
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, 2007 and 2006:

December 31, 2007				
	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	\$ 686,350	\$ 110,919	\$ 100,000	\$ 897,269
Deposits	-	-	-	-
Withdrawals	(181,706)	(52,976)	-	(234,682)
Balance, end of year	<u>\$ 504,644</u>	<u>\$ 57,943</u>	<u>\$ 100,000</u>	<u>\$ 662,587</u>

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>

NOTE 12 - 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 was \$401,500 in the year 2007 and is anticipated to be \$100,000 per year for the next 15 years. The contributions may only come from surpluses generated by Osage Municipal Utilities and are expected to attract economic activity to the region.

NOTE 13 – 69KV PROJECT

Osage Municipal Utilities' Light and Power Fund has undertaken a project to upgrade its interconnect with the transmission lines delivering electricity to Osage. The project (69kV conversion project) has an estimated cost of \$1,000,000 of which, approximately \$750,000 had yet to be completed at December 31, 2007. This project which was needed to replace aging infrastructure is expected to be complete in the summer of 2008.

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, 2007

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
Receipts:			
Charges for service	\$ 8,752,689	\$ 8,865,239	\$ (112,550)
Interest earnings	245,370	135,100	110,270
Miscellaneous	67,972	134,349	(66,377)
	<u>9,066,031</u>	<u>9,134,688</u>	<u>(68,657)</u>
Disbursements:			
Program:			
Business type activities	8,666,780	8,919,680	252,900
	<u>8,666,780</u>	<u>8,919,680</u>	<u>252,900</u>
Net income	399,251	215,008	<u>\$ 184,243</u>
Balance beginning of year	<u>12,329,384</u>	<u>12,660,315</u>	
Balance end of year	<u>\$ 12,728,635</u>	<u>\$ 12,875,323</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, 2007

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, 2007, 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
NON-MAJOR ENTERPRISE FUNDS**

YEARS ENDED DECEMBER 31:

	INTERNET		CABLE	
	2007	2006	2007	2006
Capital assets:				
Capital assets, net of accumulated depreciation	\$ 1,301	\$ 1,969	\$ -	\$ -
Current assets:				
Cash and cash equivalents	141,822	109,986	251,300	248,948
Accounts receivable (net of allowance for doubtful accounts)	2,371	3,380	75,787	67,740
Unbilled usage	1,989	1,989	-	-
Inventory	-	-	-	-
Prepaid expenses	-	155	860	922
Accrued interest receivable	-	-	-	-
	146,182	115,510	327,947	317,610
Total assets	\$ 147,483	\$ 117,479	\$ 327,947	\$ 317,610
Liabilities:				
Current liabilities:				
Accounts payable	\$ 294	\$ 303	\$ 5,760	\$ 5,704
Checks in excess of bank balance	-	-	-	-
Customer meter deposits	-	-	10,420	6,958
Accrued expenses	4,869	4,316	4,907	5,280
Accrued interest payable	-	-	-	-
Deferred revenue	-	-	67,910	67,085
Revenue bonds payable	-	-	-	-
	5,163	4,619	88,997	85,027
Noncurrent liabilities:				
Revenue bonds payable - net of current portion	-	-	-	-
Total liabilities	5,163	4,619	88,997	85,027
Fund net assets:				
Invested in capital assets, net of related debt	1,301	1,969	-	-
Unrestricted (deficit)	141,019	110,891	238,950	232,583
Total Net Assets	\$ 142,320	\$ 112,860	\$ 238,950	\$ 232,583

See notes to the financial statements.

TELEPHONY		RURAL WIRELESS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ -	\$ -	\$ 62,241	\$ 64,615	\$ 63,542	\$ 66,584
444,164	330,440	18,221	16,090	855,507	705,464
84,749	194,552	4,998	4,362	167,905	270,034
2,373	2,373	-	-	4,362	4,362
23,751	19,680	-	-	23,751	19,680
1,072	1,114	-	-	1,932	2,191
-	-	-	-	-	-
<u>556,109</u>	<u>548,159</u>	<u>23,219</u>	<u>20,452</u>	<u>1,053,457</u>	<u>1,001,731</u>
<u>\$ 556,109</u>	<u>\$ 548,159</u>	<u>\$ 85,460</u>	<u>\$ 85,067</u>	<u>\$ 1,116,999</u>	<u>\$ 1,068,315</u>
\$ 26,726	\$ 18,330	\$ 549	\$ 499	\$ 33,329	\$ 24,836
-	-	-	-	-	-
3,510	3,128	2,400	2,700	16,330	12,786
6,959	6,872	-	-	16,735	16,468
974	1,089	-	-	974	1,089
54,432	40,375	5,071	4,363	127,413	111,823
40,000	40,000	-	-	40,000	40,000
<u>132,601</u>	<u>109,794</u>	<u>8,020</u>	<u>7,562</u>	<u>234,781</u>	<u>207,002</u>
<u>245,000</u>	<u>285,000</u>	<u>-</u>	<u>-</u>	<u>245,000</u>	<u>285,000</u>
<u>377,601</u>	<u>394,794</u>	<u>8,020</u>	<u>7,562</u>	<u>479,781</u>	<u>492,002</u>
-	-	62,241	64,615	63,542	66,584
178,508	153,365	15,199	12,890	573,676	509,729
<u>\$ 178,508</u>	<u>\$ 153,365</u>	<u>\$ 77,440</u>	<u>\$ 77,505</u>	<u>\$ 637,218</u>	<u>\$ 576,313</u>

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

**COMBINING STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - NON-MAJOR ENTERPRISE FUNDS**

YEARS ENDED DECEMBER 31:

	INTERNET		CABLE	
	2007	2006	2007	2006
Operating revenues:				
Charges for service	\$ 84,579	\$ 109,419	\$ 772,195	\$ 630,732
Operating expenses:				
Business type activities	39,051	39,392	716,065	536,642
Operating Income (loss)	45,528	70,027	56,130	94,090
Non-operating revenues (expenses):				
Interest income	4,703	2,741	11,522	9,970
Interest expense	-	-	(41)	(61)
Donations	-	-	(500)	-
Total non-operating revenues (expenses)	4,703	2,741	10,981	9,909
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	(20,771)	(15,000)	(60,744)	-
Gain (loss) on sale of capital assets	-	-	-	-
Total other financing sources (uses)	(20,771)	(15,000)	(60,744)	-
Change in net assets	29,460	57,768	6,367	103,999
Net assets - beginning of year	112,860	55,092	232,583	128,584
Net assets - end of year	\$ 142,320	\$ 112,860	\$ 238,950	\$ 232,583

See notes to the financial statements.

TELEPHONY		RURAL WIRELESS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 613,758	\$ 637,528	\$ 49,857	\$ 44,863	\$ 1,520,389	\$ 1,422,542
<u>594,854</u>	<u>620,270</u>	<u>70,693</u>	<u>58,396</u>	<u>1,420,663</u>	<u>1,254,700</u>
<u>18,904</u>	<u>17,258</u>	<u>(20,836)</u>	<u>(13,533)</u>	<u>99,726</u>	<u>167,842</u>
19,516	16,970	-	-	35,741	29,681
(12,272)	(13,623)	-	-	(12,313)	(13,684)
(500)	-	-	-	(1,000)	-
<u>6,744</u>	<u>3,347</u>	<u>-</u>	<u>-</u>	<u>22,428</u>	<u>15,997</u>
-	-	20,771	15,000	20,771	15,000
(505)	-	-	-	(82,020)	(15,000)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(505)</u>	<u>-</u>	<u>20,771</u>	<u>15,000</u>	<u>(61,249)</u>	<u>-</u>
25,143	20,605	(65)	1,467	60,905	183,839
<u>153,365</u>	<u>132,760</u>	<u>77,505</u>	<u>76,038</u>	<u>576,313</u>	<u>392,474</u>
<u>\$ 178,508</u>	<u>\$ 153,365</u>	<u>\$ 77,440</u>	<u>\$ 77,505</u>	<u>\$ 637,218</u>	<u>\$ 576,313</u>

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

**COMBINING STATEMENTS OF CASH FLOWS -
NON-MAJOR ENTERPRISE FUNDS**

YEARS ENDED DECEMBER 31:

	INTERNET		CABLE	
	2007	2006	2007	2006
Cash flows from operating activities:				
Cash receipts from customers	\$ 85,588	\$ 111,932	\$ 764,149	\$ 630,739
Cash payments to suppliers	(21,948)	(25,046)	(449,009)	(332,957)
Cash payments to employees	(2,411)	(1,366)	(210,750)	(162,601)
Cash Payments to other funds	(10,337)	(11,355)	(51,775)	(49,835)
Cash Payments for contributions	(2,988)	(2,599)	(500)	-
Net cash provided (used) by operating activities	47,904	71,566	52,115	85,346
Cash flows from non-capital financing activities:				
Transfers in	-	-	-	-
Transfers out	(20,771)	(15,000)	(60,744)	-
Miscellaneous non-operating revenue	-	-	-	-
Donations	-	-	(500)	-
Net cash provided (used) by noncapital financing activities	(20,771)	(15,000)	(61,244)	-
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	-	-	(41)	(61)
Net cash (used) by capital and related financing activities	-	-	(41)	(61)
Cash flows from investing activities:				
Investment income	4,703	2,741	11,522	9,970
Net cash provided by investing activities	4,703	2,741	11,522	9,970
Net increase (decrease) in cash and cash equivalents	31,836	59,307	2,352	95,255
Cash and cash equivalents-beginning of year	109,986	50,679	248,948	153,693
Cash and cash equivalents-end of year	\$ 141,822	\$ 109,986	\$ 251,300	\$ 248,948
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Income (loss) from operations	\$ 45,528	\$ 70,027	\$ 56,130	\$ 94,090
Adjustments to reconcile operating income to				
Depreciation and amortization	668	668	-	-
Change in accounts receivable	1,009	1,683	(8,046)	(10,851)
Change in meter deposits and unbilled usage	-	830	4,287	10,858
Change in prepaid expenses	155	12	62	3
Change in inventory	-	-	-	4,586
Change in accounts payable & accrued expenses	544	(1,654)	(318)	(13,340)
	\$ 47,904	\$ 71,566	\$ 52,115	\$ 85,346

See notes to the financial statements.

TELEPHONY		RURAL WIRELESS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 673,035	\$ 657,456	\$ 49,629	\$ 45,164	\$ 1,572,401	\$ 1,445,291
(294,493)	(338,493)	(26,842)	(8,665)	(792,292)	(705,161)
(174,411)	(165,568)	(11,599)	(28,342)	(399,171)	(357,877)
(56,031)	(57,768)	(3,006)	(2,191)	(121,149)	(121,149)
(500)	-	-	-	(3,988)	(2,599)
<u>147,600</u>	<u>95,627</u>	<u>8,182</u>	<u>5,966</u>	<u>255,801</u>	<u>258,505</u>
-	-	20,771	15,000	20,771	15,000
(505)	-	-	-	(82,020)	(15,000)
-	-	-	-	-	-
(500)	-	-	-	(1,000)	-
<u>(1,005)</u>	<u>-</u>	<u>20,771</u>	<u>15,000</u>	<u>(62,249)</u>	<u>-</u>
-	-	(26,822)	(4,876)	(26,822)	(4,876)
(40,000)	(40,000)	-	-	(40,000)	(40,000)
-	-	-	-	-	-
(12,387)	(13,724)	-	-	(12,428)	(13,785)
<u>(52,387)</u>	<u>(53,724)</u>	<u>(26,822)</u>	<u>(4,876)</u>	<u>(79,250)</u>	<u>(58,661)</u>
<u>19,516</u>	<u>17,721</u>	<u>-</u>	<u>-</u>	<u>35,741</u>	<u>30,432</u>
<u>19,516</u>	<u>17,721</u>	<u>-</u>	<u>-</u>	<u>35,741</u>	<u>30,432</u>
113,724	59,624	2,131	16,090	150,043	230,276
<u>330,440</u>	<u>270,816</u>	<u>16,090</u>	<u>-</u>	<u>705,464</u>	<u>475,188</u>
<u>\$ 444,164</u>	<u>\$ 330,440</u>	<u>\$ 18,221</u>	<u>\$ 16,090</u>	<u>\$ 855,507</u>	<u>\$ 705,464</u>
\$ 18,904	\$ 17,258	\$ (20,836)	\$ (13,533)	\$ 99,726	\$ 167,842
-	-	29,196	26,969	29,864	27,637
109,804	67,910	(636)	(1,278)	102,131	57,464
14,439	14,254	408	1,579	19,134	27,521
42	10,990	-	-	259	11,005
(4,072)	(14,218)	-	-	(4,072)	(9,632)
<u>8,483</u>	<u>(567)</u>	<u>50</u>	<u>(7,771)</u>	<u>8,759</u>	<u>(23,332)</u>
<u>\$ 147,600</u>	<u>\$ 95,627</u>	<u>\$ 8,182</u>	<u>\$ 5,966</u>	<u>\$ 255,801</u>	<u>\$ 258,505</u>

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

**COMBINED SCHEDULES OF OPERATING REVENUES
ENTERPRISE FUNDS**

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2007	2006
Operating revenues:		
Rural	\$ 72,662	\$ 65,508
Residential sales	993,722	908,320
Commercial and industrial	2,450,606	2,281,029
Public buildings	13,769	14,025
Interruptibles	-	-
Line payments, net	-	-
Bookkeeping fee - City of Osage	9,000	9,000
Other operating fees	489,545	296,899
	\$ 4,029,304	\$ 3,574,781

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ -	\$ -	\$ -	\$ -	\$ 72,662	\$ 65,508
1,483,174	1,494,438	1,510,934	1,413,266	3,987,830	3,816,024
906,213	982,516	-	-	3,356,819	3,263,545
-	-	-	-	13,769	14,025
609,942	806,079	-	-	609,942	806,079
3,224	3,638	-	-	3,224	3,638
9,000	9,000	-	-	18,000	18,000
<u>191,443</u>	<u>104,389</u>	<u>9,455</u>	<u>9,276</u>	<u>690,443</u>	<u>410,564</u>
<u>\$ 3,202,996</u>	<u>\$ 3,400,060</u>	<u>\$ 1,520,389</u>	<u>\$ 1,422,542</u>	<u>\$ 8,752,689</u>	<u>\$ 8,397,383</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	
	2007	2006
Operating expenses:		
Plant expenses:		
Supervision and labor	\$ 123,166	\$ 101,425
Payroll taxes	21,977	19,093
Fuel	221,758	126,017
Load management expense	1,089	3,073
Engine expense	29,819	28,378
Insurance	43,344	38,517
Supplies	14,033	14,142
Power purchased	1,315,101	1,234,943
Communication expense	2,068	582
School and travel	1,078	262
Uniforms	3,228	3,781
Maintenance and materials	17,285	12,327
Total plant expenses	1,793,946	1,582,540
Distribution expenses:		
Supervision and labor	176,102	223,568
Payroll taxes	24,958	24,453
Insurance	41,306	49,323
Truck expense	23,270	18,661
Tree removal expense	703	1,748
Supplies	153,173	61,903
Maintenance, repairs and labor	30,923	7,939
Natural gas purchases	-	-
Propane purchases	-	-
School and travel	-	-
Uniforms	-	-
Safety	-	-
Communication expense	312	195
Internet, cable and phone	-	-
Local lines	-	-
Utilities	-	-
Miscellaneous	19,110	14,275
Total distribution expenses	469,857	402,065

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ -	\$ -	\$ -	\$ -	\$ 123,166	\$ 101,425
-	-	-	-	21,977	19,093
-	-	-	-	221,758	126,017
-	-	-	-	1,089	3,073
-	-	-	-	29,819	28,378
-	-	-	-	43,344	38,517
-	-	-	-	14,033	14,142
-	-	-	-	1,315,101	1,234,943
-	-	-	-	2,068	582
-	-	-	-	1,078	262
-	-	-	-	3,228	3,781
-	-	-	-	17,285	12,327
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,793,946</u>	<u>1,582,540</u>
161,466	138,862	163,674	138,814	501,242	501,244
17,615	15,886	22,901	19,372	65,474	59,711
43,397	39,506	53,987	36,191	138,690	125,020
9,429	6,821	5,411	6,489	38,110	31,971
-	-	-	-	703	1,748
6,907	9,807	44,256	41,628	204,336	113,338
29,758	14,696	11,060	20,424	71,741	43,059
2,564,271	2,756,645	-	-	2,564,271	2,756,645
-	1,004	-	-	-	1,004
2,248	4,076	200	50	2,448	4,126
3,590	4,089	3,435	2,602	7,025	6,691
3,336	1,589	4,246	2,351	7,582	3,940
366	195	-	-	678	390
-	-	516,240	405,688	516,240	405,688
-	-	310	291	310	291
-	-	16,716	15,254	16,716	15,254
-	-	906	14,745	20,016	29,020
<u>2,842,383</u>	<u>2,993,176</u>	<u>843,342</u>	<u>703,899</u>	<u>4,155,582</u>	<u>4,099,140</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	
	2007	2006
Office and administration expenses:		
Office salaries	\$ 118,089	\$ 108,717
Payroll taxes	17,947	15,395
Use tax	12,389	7,254
Property taxes	2,572	5,082
Trustee fees	1,640	1,420
Professional fees	7,214	7,829
New building supplies	3,795	5,524
Office and administration	14,499	10,639
Publication and advertising	4,485	2,051
Utilities	1,031	598
Insurance	97,570	78,143
Global warming fee	3,773	3,500
Engineering service	5,705	3,026
Office supplies and postage	13,785	15,435
Janitorial services	10,418	10,305
Office equipment expense	2,653	1,174
Uniform expense	1,804	1,976
Dues	11,232	8,637
Contributions in lieu of taxes	53,740	5,579
Safety expense	728	652
Energy efficiency	3,245	3,698
Bad debts	10,775	4,942
Joint lease expense	-	-
Miscellaneous	2,888	2,620
Total office and administration expenses	<u>401,977</u>	<u>304,196</u>
Other expenses:		
Depreciation	738,502	729,892
Amortization	4,479	5,055
Total depreciation and amortization	<u>742,981</u>	<u>734,947</u>
Total operating expenses	<u>\$ 3,408,761</u>	<u>\$ 3,023,748</u>

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 86,181	\$ 70,922	\$ 203,420	\$ 175,872	\$ 407,690	\$ 355,511
25,488	20,469	9,359	8,729	52,794	44,593
1,933	698	1,965	5,395	16,287	13,347
-	-	10,088	19,312	12,660	24,394
680	600	3,280	2,840	5,600	4,860
5,948	11,102	3,684	11,591	16,846	30,522
5,205	5,962	1,445	64	10,445	11,550
2,104	5,464	50,020	44,311	66,623	60,414
4,061	2,653	23,163	18,188	31,709	22,892
1,031	598	-	-	2,062	1,196
31,295	30,014	31,266	29,177	160,131	137,334
3,391	3,451	-	-	7,164	6,951
-	-	-	86	5,705	3,112
13,882	15,999	13,004	12,730	40,671	44,164
7,339	7,226	-	-	17,757	17,531
1,882	1,175	328	1,386	4,863	3,735
1,804	1,976	-	-	3,608	3,952
10,005	7,224	3,079	3,581	24,316	19,442
87,477	90,093	2,988	2,599	144,205	98,271
993	965	-	-	1,721	1,617
4,586	4,386	-	-	7,831	8,084
7,177	5,656	64,011	62,236	81,963	72,834
-	-	121,149	121,150	121,149	121,150
-	1	5,208	3,917	8,096	6,538
<u>302,462</u>	<u>286,634</u>	<u>547,457</u>	<u>523,164</u>	<u>1,251,896</u>	<u>1,113,994</u>
49,023	54,388	29,864	27,637	817,389	811,917
-	-	-	-	4,479	5,055
<u>49,023</u>	<u>54,388</u>	<u>29,864</u>	<u>27,637</u>	<u>821,868</u>	<u>816,972</u>
<u>\$ 3,193,868</u>	<u>\$ 3,334,198</u>	<u>\$ 1,420,663</u>	<u>\$ 1,254,700</u>	<u>\$ 8,023,292</u>	<u>\$ 7,612,646</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 2007

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
2007	1,926,827	55,106,967	57,033,794	1,396,879	2.51

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 2007

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
2007	1,575	233	1,588	241

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 2007

Year Ended December 31:	Billing Data - Continued					
	Residential		Commercial		Standby	
	Amount	MCF (1)	Amount	MCF (1)	Amount	MCF (1)
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
2007	\$1,442,619	136,913	\$ 878,695	87,117	\$603,850	83,917

(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, 2007

	Meters	Kilowatt Hours
Rural	93	1,052,956
Residential	1,693	14,133,945
Commercial	322	38,889,940
Public Authority	18	169,241
Rural Security Lighting on Flat Rate per Month, Unmetered	162	124,884
	2,288	54,370,966
Kilowatt Hours Used for Free Street Lighting		301,121
Kilowatt Hours Used at Plant		506,600
Kilowatt Hours Used at Municipal Building and Donated		170,387
Kilowatt Hours Lost and Unaccounted For		1,684,720
		57,033,794
Kilowatt Hours Purchased		55,106,967
Kilowatt Hours Generated		1,926,827
		57,033,794
Lost and unaccounted for as a percentage of Kilowatts purchased and generated		2.95%

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, 2007:

Insurer: Employers Mutual Casualty Company

Coverage		Amount
Property, including buildings, generating equipment and other contents, 90% coinsurance	4/1/07 – 4/1/08	\$ 4,365,541
Property, including buildings, generating equipment and other contents, 90% coinsurance	4/1/07 - 4/1/08	1,319,000
Property, including buildings, generating equipment and other contents, 90% coinsurance	4/1/07 - 4/1/08	15,792,471
General Liability		
Aggregate limit	4/1/07 – 4/1/08	2,000,000
Operations limit	4/1/07 – 4/1/08	2,000,000
Personal injury	4/1/07 – 4/1/08	1,000,000
Each occurrence	4/1/07 – 4/1/08	1,000,000
Fire damage limit	4/1/07 – 4/1/08	100,000
Medical insurance	4/1/07 – 4/1/08	5,000
Contractors equipment	4/1/07 – 4/1/08	93,741
EDP equipment	4/1/07 – 4/1/08	181,741
Miscellaneous property	4/1/07 – 4/1/08	80,210
Theft		
Indoor	4/1/07 – 4/1/08	13,000
Outdoor	4/1/07 – 4/1/08	13,000
Automobile		
Liability	4/1/07 – 4/1/08	1,000,000
Uninsured motorist	4/1/07 – 4/1/08	50,000
Underinsured motorist	4/1/07 – 4/1/08	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)	4/1/07 – 4/1/08	500,000
Injury by disease (employee)	4/1/07 – 4/1/08	500,000
Injury by disease (limit)	4/1/07 – 4/1/08	500,000
Commercial Umbrella		
Retained limit	4/1/07 – 4/1/08	10,000
Occurrence limit	4/1/07 – 4/1/08	5,000,000
Aggregate limit	4/1/07 – 4/1/08	5,000,000
Linebacker		
Each loss	4/1/07 – 4/1/08	1,000,000
Aggregate	4/1/07 – 4/1/08	1,000,000
Deductible	4/1/07 – 4/1/08	2,500
 Insurer : Cincinnati Insurance Company		
Boiler and Machinery		
Comprehensive limit	4/1/07 – 4/1/08	15,500,000
 Insurer: State Auto		
Surety Bond		
Employee theft	3/25/07 – 3/25/08	150,000
Deductible	3/25/07 – 3/25/08	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, 2007:

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. Monthly service charge: \$8.50 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, 2007

2007 Payments	\$ 539,405
2007 Net Revenues – Light and Power	\$1,163,024
Ratio of Debt Payments to Net Revenues*	46.4%

December 31, 2006

2006 Payments	\$ 542,532
2006 Net Revenues – Light and Power	\$1,285,980
Ratio of Debt Payments to Net Revenues	42.2%

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of the
Osage Municipal Utilities:

We have audited the accompanying financial statements of the business type activities, each major fund, and the aggregate remaining fund information of Osage Municipal Utilities, component units of the City of Osage, Iowa, as of and for the year ended December 31, 2007, which collectively comprise the Utilities' basic financial statements listed in the table of contents and have issued our report thereon dated June 12, 2008. Our report expressed unqualified opinions on the financial statements. 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 Reporting

In planning and performing our audit, we considered Osage Municipal Utilities' internal control over financial reporting as a basis for designing 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. The prior year finding has been resolved.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 more than a remote likelihood that a misstatement of the Utilities' financial statements that is more than inconsequential will not be prevented or detected by Osage Municipal Utilities' internal control.

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.

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 the Utilities' 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, 2007, 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.

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.

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

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

June 12, 2008

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

SCHEDULE OF FINDINGS

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) 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:

No matters were noted.

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

SCHEDULE OF FINDINGS

Part III: Other Findings Related to Statutory Reporting:

- III-A-07 Certified Budget - Disbursements during the year ended December 31, 2007 were within the budgeted limits.
- III-B-07 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-07 Travel Expense – No disbursements of the Utilities’ money for travel expenses of spouses of Utilities’ officials or employees’ were noted.
- III-D-07 Business Transactions – No business transactions between the Utilities and the Utilities’ officials or employees were noted.
- III-E-07 Bond Coverage – Surety bond coverage of the Utilities’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-07 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.
- III-G-07 Revenue Bonds – No violations of revenue bond resolution requirements were noted.
- III-H-07 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policy.
- III-I-07 Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.