



Cedar Falls Utilities

**Financial Statements of the Municipal
Electric, Gas, Water, and Communications Utilities
of the City of Cedar Falls, Iowa**

Including Independent Auditors' Reports

**For The Years Ended
December 31, 2008 and 2007**

MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA

(Component Units of the City of Cedar Falls, Iowa)

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CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Cedar Falls Utilities – Municipal Electric Utility

We have audited the accompanying balance sheets of the Municipal Electric Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2009, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

The management's discussion and analysis on pages 1 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

May 4, 2009
Dubuque, Iowa

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MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

The following discussion and analysis of the Municipal Electric Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the year ended December 31, 2008 and 2007. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

- The Utility's net assets increased as a result of this year's operating income and non-operating revenues. Total assets at year-end were \$154,155,141 and total liabilities were \$58,527,157 resulting in net assets of \$95,627,984. In 2007, total assets were \$140,290,817 and total liabilities were \$55,971,653 resulting in net assets of \$84,319,164.
- In 2008, operating revenues increased 13.8% to \$39,390,063 from \$34,598,982, while operating expenses increased 22.6% to \$34,956,886 from \$28,522,764.
- In 2008, the Utility had operating income of \$4,433,177 compared to \$6,076,218 in 2007.
- The Utility delivered approximately 450,760,000 kilowatt hours (kWh) of electricity to its retail customers in 2008 as compared to approximately 447,325,000 kWh in 2007.
- On June 10, 2008, Cedar Falls Utilities was hit by a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, building furnishings and equipment, meters, switches, relays, tools and rendered the Streeter Station power plant units 6 and 7 and coal handling systems inoperable and in need of major repair. The Utilities began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2008, Utility administrative facilities and generation facilities were still not completely repaired and operational. As of December 31, 2008, the Electric Utility has spent \$3,682,418 in operational expense for flood recovery and \$4,534,766 in asset repair and replacement. The Utility has recognized \$3,418,700 in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$4,507,778 in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2008, the Utility recognized a receivable of \$7,160,336 for FEMA flood disaster reimbursement. The Utility has received \$5,428,495 in FEMA reimbursements between January 1, 2009 and March 31, 2009 with the remainder due upon completion of the review by the State of Iowa.

Overview of the Financial Statements

Management's discussion and analysis (MDA) serves as an introduction to the financial statements, and the MDA represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

The statements of revenues, expenses and changes in net assets present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail rates to purchase electricity are based on rates established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. A fundamental objective of this rate model is to provide adequate revenue to cover all expenses.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Balance Sheet Information

	2008	2007
Current assets	\$ 47,424,381	\$ 40,016,680
Capital assets, net	102,633,879	92,127,766
Other noncurrent assets	4,096,881	8,146,371
Total assets	\$154,155,141	\$140,290,817
Current liabilities	\$ 7,865,707	\$ 5,379,075
Noncurrent liabilities	2,989,913	1,457,887
Long-term debt	47,671,537	49,134,691
Total liabilities	\$ 58,527,157	\$ 55,971,653
Invested in capital assets, net of related debt	\$ 59,428,620	\$ 55,265,234
Restricted	5,698,829	5,650,205
Unrestricted	30,500,535	23,403,725
Total net assets	\$ 95,627,984	\$ 84,319,164

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

Condensed Revenues, Expenses and Changes in Net Assets

	2008	2007
Sales of electricity	\$33,258,403	\$31,874,887
Other	6,131,660	2,724,095
Total operating revenues	39,390,063	34,598,982
Fuel and Purchased Power	12,263,862	11,238,080
Operation and maintenance	7,520,945	7,186,091
Depreciation and amortization	3,829,474	3,081,507
Services and administrative	11,342,605	7,017,086
Total operating expenses	34,956,886	28,522,764
Operating Income	4,433,177	6,076,218
Interest income	1,252,687	1,379,228
Other, net	5,622,956	(384,752)
Total non-operating revenues (expenses)	6,875,643	994,476
Change in net assets	11,308,820	7,070,694
Net assets, beginning of year	84,319,164	77,248,470
Net assets, end of year	\$95,627,984	\$84,319,164

Financial Analysis

Current assets increased 18.6% in 2008. Customer accounts receivable, less allowance for doubtful accounts, decreased in 2008 by 3.4%. Fuel inventory increased \$260,753, (5.9%), during 2008 due to a decrease in Streeter Station inventories of \$528,725 over 2007 for coal and allowances offset by increases in inventories for Walter Scott Generating Station Unit 4 (WS4) of \$62,950, for Walter Scott Generating Station Unit 3 (WS3) of \$108,793 and George Neal Unit 4 (Neal 4) of \$617,735. The Streeter Station average cost per ton increased \$14.20 in 2008. Other current assets increased \$6,970,246 (534.6%) primarily due to miscellaneous receivable for FEMA assistance for the flood disaster of 2008 of \$7,160,336.

Other noncurrent assets decreased 49.7% in 2008 primarily due to \$3,918,860 of long-term restricted investments from the 2007 bonds issued becoming current. Other noncurrent assets also includes the long-term note receivable from the Municipal Communication Utility. The total noncurrent outstanding balance on this note at December 31, 2008 was \$1,543,090, a decrease of 16.7% over 2007.

Current liabilities increased 46.2% in 2008 primarily as a result of an increase in the current portion of long term debt to \$1,535,000 in 2008 from \$1,075,000 in 2007 and an increase of \$1,979,956 in accounts payable due to the costs associated with recovery from the devastating 2008 flood.

Retail kWh sales increased in 2008 by .77% (3,435,404 kWh). Retail revenue increased 4.3% in 2008 primarily due to a 2% retail rate increase for all customers and an increase of 28.8% (\$0.0017 per kWh) in the energy cost adjustment (ECA) passed through to customers attributable to Streeter Station being inoperable due to the flood and the Electric Utility purchasing more power through the market, especially when prices were higher. Sales for resale decreased \$114,659 or 3.9% due to the Utility being unable to generate power due to the flood to sell to the wholesale market when the price was favorable.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Management Discussion and Analysis
December 31, 2008 and 2007

Other operating revenues increased 125.1% in 2008 primarily as a result of the Utility recognizing \$3,418,700 in FEMA grant revenue due to reimbursable expenditures made to repair operational flood damage.

Purchased Power costs increased 55.1% due to the Utility buying more electricity from the wholesale market for native load to substitute for being unable to generate from Streeter Station due to flood damage. Fuel costs decreased approximately 14.3% due also to major flood damage to Streeter Station rendering Units 6 and 7 inoperable after June 10, 2008.

Operation and maintenance expenses increased 4.7% (\$334,854) in 2008. This is due to a 2.1% (\$87,561) increase in production maintenance due to increased boiler maintenance in the western generating units and coal facility maintenance at Streeter, a 5% (\$62,737) increase in transmission by others due to the increase in cost related to the Hancock Wind Farm, and an increase of 10.1% (\$184,556) increase in distribution maintenance expenses.

Services and administrative expenses increased by 61.6% in 2008. The Utility began its House Call energy efficiency program in 2008 offering customer's rebates and no interest loans for selected energy efficiency measures. This program increased Customer Service and Informational expenses by 9.0% or \$39,764. Sales expense decreased by 54.6% (\$50,007) due to a decrease in advertising expenses. Administrative and general expenses increased 82.0% in 2008 primarily due to an increase of \$3,742,146 due to flood-related operational expenses and a 23.1% (\$305,530) increase in employee insurance and benefits expenses. Other Taxes increased 36.3% in 2008 due to the inclusion of Streeter Station generation in the calculation of generation tax.

Interest Income decreased 9.2% primarily due to a reduction in investments of \$6,212,500 in order to make cash available for flood expenses and the drop in rates of interest earned.

Other, net increased \$6,007,708 in 2008 primarily due to \$4,507,778 in FEMA grant revenue for its expenditures for restoring and/or replacing capital assets due to the 2008 500-year flood event. The Utility received \$1,924,581 more in Tax Incremental Financing (TIF) monies for certified infrastructure construction completed in identified TIF districts from the City of Cedar Falls in 2008 than in 2007.

Capital Assets and Debt Administration

Net capital assets represent 66.6% of total assets for the Utility. Net capital assets increased 11.4% from the prior year due to transmission system upgrades additions and WS3 environmental and upgrade projects. Additional detail on the change in capital assets can be found in Note 4.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets
December 31, 2008 and 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 158,642,184	\$ 152,173,962
Less accumulated depreciation	66,820,398	67,026,911
Capital assets, net (note 8)	<u>91,821,786</u>	<u>85,147,051</u>
Construction work in progress	10,812,093	6,980,715
Total capital assets, net	<u>102,633,879</u>	<u>92,127,766</u>
Noncurrent assets:		
Investments - Restricted (note 2 and 3)	1,992,511	5,911,371
Note receivable (note 9)	1,543,090	1,853,090
Loans receivable	212,452	-
Total noncurrent assets	<u>3,748,053</u>	<u>7,764,461</u>
Current assets:		
Cash and cash equivalents (note 3)	14,745,857	5,914,721
Cash - Restricted (note 2 and 3)	1,304,628	2,529,812
Investments - Unrestricted (note 3)	2,691,624	8,212,500
Investments - Restricted (note 2 and 3)	10,361,517	12,230,429
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$36,150 in 2008 and \$43,545 in 2007	3,625,808	3,754,720
Loans receivable	44,870	-
Interest (note 9)	245,646	387,878
Current installment of note receivable (note 9)	310,000	310,000
Government grants - FEMA (12)	7,160,336	-
Other	832,502	915,982
Inventories:		
Fuel	4,653,214	4,392,461
Material and supplies	1,213,252	1,149,866
Prepayments and other	235,127	218,311
Total current assets	<u>47,424,381</u>	<u>40,016,680</u>
Deferred costs	<u>348,828</u>	<u>381,910</u>
Total assets	<u>\$ 154,155,141</u>	<u>\$ 140,290,817</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets
December 31, 2008 and 2007

<u>Liabilities</u>	<u>2008</u>	<u>2007</u>
Long-term debt, less current installments (note 5)	\$ 47,671,537	\$ 49,134,691
Current liabilities:		
Accounts payable	3,817,666	1,837,709
Reserve for surplus declaration (note 9)	1,450,000	1,400,000
Accrued wages and vacations	590,348	538,770
Accrued interest	181,382	205,562
Other accrued expenses	291,311	322,034
Current installments of long-term debt (note 5)	1,535,000	1,075,000
Total current liabilities	<u>7,865,707</u>	<u>5,379,075</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	1,312,926	440,894
Other liabilities (note 5 and 11)	1,676,987	1,016,993
Total noncurrent liabilities	<u>2,989,913</u>	<u>1,457,887</u>
 Total liabilities	 <u>58,527,157</u>	 <u>55,971,653</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	59,428,620	55,265,234
Restricted - bond indentures (note 2)	5,698,829	5,650,205
Unrestricted	30,500,535	23,403,725
Total net assets	<u>95,627,984</u>	<u>84,319,164</u>
 Total liabilities and net assets	 <u>\$ 154,155,141</u>	 <u>\$ 140,290,817</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Revenues, Expenses and Changes in Net Assets
Years ended December 31, 2008, and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Sales of electricity:		
Residential	\$ 12,720,435	\$ 12,206,314
Large industrial & commercial	2,026,858	2,185,569
Small industrial & commercial	12,456,015	11,478,625
Governmental (note 9)	3,078,546	2,917,804
Sales for resale	2,789,254	2,903,913
Interdepartmental	187,295	182,662
Total sales of electricity	33,258,403	31,874,887
Other operating revenues (note 12)	6,131,660	2,724,095
Total operating revenues	39,390,063	34,598,982
 Operating expenses:		
Production and generation:		
Fuel	6,375,042	7,441,986
Purchased power	5,888,820	3,796,094
Other	4,192,991	4,105,430
Transmission	1,316,581	1,253,844
Distribution	2,011,373	1,826,817
Depreciation and amortization	3,829,474	3,081,507
Customer accounts	727,693	736,423
Customer service and information expenses	536,583	492,432
Sales	41,565	91,568
Administrative and general (note 9)	9,049,227	4,971,900
Taxes other than income taxes	987,537	724,763
Total operating expenses	34,956,886	28,522,764
 Operating income	4,433,177	6,076,218
 Non-operating revenues (expenses):		
Interest income (note 9)	1,252,687	1,379,228
Net increase (decrease) in the fair value of investments	36,307	289,202
Miscellaneous revenue (expense), net (note 9)	2,815,037	(680,657)
Intergovernmental grant funds (note 12)	4,722,787	1,216,434
Interest expense on long-term debt	(2,258,539)	(1,785,140)
AFUDC (note 1)	311,621	578,954
Interest income (expense) on security deposits	(4,257)	(3,545)
Total nonoperating revenues (expenses)	6,875,643	994,476
 Change in net assets	11,308,820	7,070,694
 Net assets, beginning of year	84,319,164	77,248,470
 Net assets, end of year	\$ 95,627,984	\$ 84,319,164

See accompanying notes to financial statements.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 38,359,898	\$ 32,971,585
Intergovernmental grants	977,658	74,378
Cash paid to suppliers	(23,386,309)	(24,446,261)
Cash paid to employees	(3,564,383)	(3,223,722)
Payment in lieu of taxes to the City of Cedar Falls	(1,400,000)	(1,200,000)
Property tax paid	(423,306)	(344,591)
	10,563,558	3,831,389
Cash flows from noncapital financing activities:		
Intergovernmental grants	-	914,934
Interest paid on customer deposits	(4,276)	(2,374)
Net cash provided by (used in) noncapital financing activities	(4,276)	912,560
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue bonds	-	17,825,000
Premium on issuance of revenue bonds	-	137,352
Discount on issuance of revenue bonds	-	(271,343)
Cost of issuance of revenue bonds	-	(73,559)
Principal payments on long-term debt	(1,075,000)	(1,460,000)
Recall of 1999 Series A and B revenue bonds	-	(3,750,000)
Interest paid	(2,183,331)	(1,622,036)
Proceeds from customer advances for construction	1,001,232	188,644
Refunds of customer advances for construction	(129,200)	(177,900)
Acquisition, construction and removal cost of capital assets	(14,536,324)	(12,444,443)
Proceeds from sale of capital assets	53,040	79,304
Reimbursement of utility construction costs	862,885	775,224
Intergovernmental grants	3,493	301,500
	(16,003,205)	(492,257)
Cash flows from investing activities:		
Proceeds from repayment of loan by associated utility	310,000	310,000
Proceeds from maturities of investment securities	26,806,330	35,532,292
Purchase of investment securities	(15,461,374)	(34,781,611)
Interest received	1,394,919	1,506,264
	13,049,875	2,566,945
Net increase in cash and cash equivalents	7,605,952	6,818,637
Cash and cash equivalents, beginning of year	8,444,533	1,625,896
Cash and cash equivalents, end of year (note 1)	\$ 16,050,485	\$ 8,444,533

See accompanying notes to financial statements.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows, Continued
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 4,433,177	\$ 6,076,218
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of capital assets	3,829,474	3,081,507
Other Income (expense), net	2,411,470	(864,988)
(Increase) decrease in accounts receivable	212,392	(769,058)
(Increase) decrease in loans receivable	(257,322)	-
(Increase) decrease in intergovernmental grants	(2,441,043)	-
(Increase) decrease in inventories	(324,139)	1,133,416
(Increase) decrease in prepayments and other	(16,816)	62,757
(Increase) decrease in other assets	-	38,268
Increase (decrease) in accounts payable	1,979,957	(5,243,203)
Increase (decrease) in reserve for surplus declaration	50,000	200,000
Increase (decrease) in accrued wages and vacation	51,578	51,664
Increase (decrease) in other accrued expenses	(25,164)	137,297
Increase (decrease) in other liabilities	659,994	(72,489)
Net cash provided by operating activities	\$ 10,563,558	\$ 3,831,389

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

The Municipal Electric Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls, Iowa. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility's present capacity consists of one wholly owned and three jointly owned coal-fired plants with a combined generating capacity of 105 megawatts. The Utility owns two combustion turbines with a generating capacity of 53 megawatts. The Utility also owns 1.5 megawatts of generating capacity in a jointly owned wind turbine facility. The Utility owns a total of 159.5 megawatts of generating capacity.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 18-Conservation of Power and Water Resources, Chapter I-Federal Energy Regulatory Commission, Department of Energy.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Utility applies only Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989.

(b) Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 4.63% in 2008 and 2007. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets.

The range of estimated service lives for the classes of capital assets are as follows: land improvements - 30 years, infrastructure - 10 to 150 years, buildings and improvements - 20 to 55 years, and equipment - 5 to 25 years. The depreciation provisions were equivalent to an overall composite rate of 2.3% of depreciable assets for 2008 and 3.0% for 2007.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

(c) Cash and Investments

Investments are stated at their fair value on the balance sheets. The Utility's investments stated at fair value reflect quoted market prices at the balance sheet date, for U.S. Treasury and government agency debt securities. The cost of certificates of deposit approximates fair value.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

(c) Cash and Investments, Continued

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December 31, 2008 was \$500,000 for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

(d) Inventories

Coal and oil inventories are valued at average cost. Materials and supplies are valued at average cost. Inventories are recorded as an expenditure at the time individual inventory items are consumed.

(e) Operating Revenues and Expenses

Operating revenues include revenues resulting from the sale of electricity, service revenues and sales of capacity. Operating expenses include expenses for power production, transmission, distribution, depreciation, customer accounts, customer service and information, sales, and administrative and general. Non-operating revenues and expenses include those derived from capital and related financing activities, non-capital financing activities and investing activities.

Revenues from the sale of electricity are based on billing rates, which are applied to customers' consumption of electricity. The Utility records estimated unbilled revenue, including amounts to be billed under a fuel adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2008 and 2007, were \$1,400,442, and \$1,244,906 respectively, and are recorded in customer accounts receivable. The Utility uses a fuel adjustment clause whereby increases or decreases in fuel costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

(f) Bond Issue Costs

Unamortized bond issue costs are amortized over the life of the bonds using the effective interest method.

(g) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent debt proceeds of this capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of government entities.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

(h) Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

(i) Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based on the total of all four utilities as a whole. Due to a devastating June 2008 flood that significantly damaged much utility property and related unexpected recovery expenditures, a budget amendment identifying these additional expenditures was filed with the state of Iowa.

(j) Reclassifications

Reclassifications of prior year's amounts have been made for comparability.

(2) Restricted Assets

The composition of restricted assets as of December 31, 2008 and 2007 was as follows:

	2008		
	Cash	Investments	Total
Current Assets - Restricted			
Bond Reserve	\$ 218,163	\$ 4,352,750	\$ 4,570,913
Bond and Interest	296,603		296,603
Streeter Landfill	79,345	500,000	579,345
Self Insured Medical and Dental	710,517	500,000	1,210,517
Construction		4,008,767	4,008,767
Improvement and Extension		1,000,000	1,000,000
Total Current Assets - Restricted	<u>1,304,628</u>	<u>10,361,517</u>	<u>11,666,145</u>
Noncurrent Assets - Restricted			
Construction	-	1,992,511	1,992,511
Total Noncurrent Assets - Restricted	<u>-</u>	<u>1,992,511</u>	<u>1,992,511</u>
 Total restricted assets	 <u>\$1,304,628</u>	 <u>\$12,354,028</u>	 <u>\$13,658,656</u>

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Notes to Financial Statements
December 31, 2008 and 2007

(2) Restricted Assets, Continued

	2007		Total
	Cash	Investments	
Current Assets - Restricted			
Bond Reserve	\$1,453,163	\$ 3,117,750	\$ 4,570,913
Bond and Interest	271,472		271,472
Streeter Landfill	57,139	500,000	557,139
Self Insured Medical and Dental	424,928	500,000	924,928
Construction	323,110	7,112,679	7,435,789
Improvement and Extension	-	1,000,000	1,000,000
Total Current Assets - Restricted	<u>2,529,812</u>	<u>12,230,429</u>	<u>14,760,241</u>
Noncurrent Assets - Restricted			
Construction	-	5,911,371	5,911,371
Total Noncurrent Assets - Restricted	<u>-</u>	<u>5,911,371</u>	<u>5,911,371</u>
 Total restricted assets	 <u>\$2,529,812</u>	 <u>\$18,141,800</u>	 <u>\$20,671,612</u>

The monies deposited into the various funds have been invested in interest-bearing securities as required by the bond resolutions or legal requirement. Amounts deposited in the bond reserve, bond interest, construction, and improvement and extension funds may only be used for the purpose of paying principal and interest on the bonds when due or such other purposes as set forth in the bond resolutions and as a result are classified as restricted. Amounts deposited in the Streeter Landfill fund may only be used to cover costs related to the closure of the ash landfill. Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

(3) Cash on Hand, Deposits, and Investments

Cash on Hand. Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2008 was \$345 and 2007 was \$345.

Deposits. At December 31, 2008, the Utility's carrying amount of deposits, including \$9,044,375 of certificates of deposits was \$24,594,514. At December 31, 2007, the Utility's carrying amount of deposits, including \$12,337,750 of certificates of deposits and \$130,669 of money market accounts, was \$20,281,938.

Investments. The utility is authorized by statute to invest public funds not currently needed for operating expenses 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; and warrants or improvement certificates of a drainage district.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(3) Cash on Hand, Deposits, and Investments, Continued

As of December 31, 2008, the Utility had the following investments and maturities.
(The Utility assumes callable bonds will not be called):

2008 Investment Type	Investment Maturities (In Years)		
	Less than 1	1 to 3	Total
Federal Agency Obligations	\$4,008,767	\$1,992,511	\$6,001,278

As of December 31, 2007, the Utility had the following investments and maturities.
(The Utility assumes callable bonds will not be called):

2007 Investment Type	Investment Maturities (In Years)		
	Less than 1	1 to 3	Total
Federal Agency Obligations	\$8,105,179	\$5,911,371	\$14,016,550

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$500,000 at December 31, 2008 and 2007, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk. The Utility's investment policy limits the investments 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 instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk. The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during the year. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of Credit Risk. The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during the year.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are 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.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(3) Cash on Hand, Deposits, and Investments, Continued

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the balance sheets follows:

	2008	2007
Cash on hand	\$ 345	\$ 345
Carrying amount of deposits	24,594,514	20,281,938
Carrying amount of federal agency obligations	6,001,278	14,016,550
Carrying amount of Iowa Public Agency Investment Trust	500,000	500,000
Total	\$ 31,096,136	\$ 34,798,833
Current Assets		
Cash and cash equivalents	\$ 14,745,857	\$ 5,914,721
Investments	2,691,624	8,212,500
Restricted Cash	1,304,628	2,529,812
Restricted Investments	10,361,517	12,230,429
Noncurrent Investments		
Restricted	1,992,511	5,911,371
Unrestricted		
Total	\$ 31,096,137	\$ 34,798,833

Of the unrestricted cash and investments listed above, the Board of Trustees of the Municipal Electric Utility has made reserve fund designations as follows:

	2008	2007
Unrestricted Cash and Investments		
Board Designated		
Generation	\$ 691,624	\$ -
Western Units Landfill	328,261	-
Security Deposits	152,413	133,085
Operating	16,265,182	13,994,136
Total Cash and Investments		
Unrestricted	\$ 17,437,480	\$ 14,127,221

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2008 and 2007

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2008 and 2007 follows:

2008	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being Depreciated:				
Land	\$ 991,704	\$ -	\$ -	\$ 991,704
Construction, Work-in-progress	6,980,715	13,758,246	9,926,868	10,812,093
Total capital assets, Not being depreciated	7,972,419	13,758,246	9,926,868	11,803,797
Capital assets, being depreciated:				
Land improvements	4,683	-	-	4,683
Infrastructure	118,916,711	9,112,658	1,618,780	126,410,589
Buildings and improvements	14,586,098	444,786	1,819,305	13,211,579
Equipment	17,674,766	1,368,254	1,019,391	18,023,629
Total capital assets, being depreciated	151,182,258	10,925,698	4,457,476	157,650,480
Less accumulated depreciation	67,026,911	4,371,824	4,578,337	66,820,398
Total capital assets, being depreciated, net	84,155,347	6,553,874	(120,861)	90,830,082
Capital assets, net	<u>\$ 92,127,766</u>	<u>\$ 20,312,120</u>	<u>\$ 9,806,007</u>	<u>\$102,633,879</u>
2007	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being Depreciated:				
Land	\$ 991,704	\$ -	\$ -	\$ 991,704
Construction, Work-in-progress	25,266,384	12,791,958	31,077,627	6,980,715
Total capital assets, Not being depreciated	26,258,088	12,791,958	31,077,627	7,972,419
Capital assets, being depreciated:				
Land improvements	4,683	-	-	4,683
Infrastructure	91,240,046	28,553,728	877,063	118,916,711
Buildings and improvements	12,427,338	2,170,279	11,519	14,586,098
Equipment	17,459,262	425,979	210,475	17,674,766
Total capital assets, being depreciated	121,131,329	31,149,986	1,099,057	151,182,258
Less accumulated depreciation	64,533,344	3,660,152	1,166,585	67,026,911
Total capital assets, being depreciated, net	56,597,985	27,489,834	(67,528)	84,155,347
Capital assets, net	<u>\$ 82,856,073</u>	<u>\$ 40,281,792</u>	<u>\$ 31,010,099</u>	<u>\$ 92,127,766</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2008 and 2007 was as follows:

2008	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds:					
Series 2003	\$ 9,030,000	\$ -	\$ 255,000	\$ 8,775,000	\$ 265,000
Series 2005	23,810,000	-	615,000	23,195,000	630,000
Series 2007	17,825,000	-	205,000	17,620,000	640,000
Unamortized premium	256,483	-	37,856	218,627	
Unamortized discount	(711,792)	-	(109,702)	(602,090)	
	<u>50,209,691</u>	-	<u>1,003,154</u>	<u>49,206,537</u>	<u>\$ 1,535,000</u>
Current installments of long-term debt	<u>(1,075,000)</u>	<u>(460,000)</u>	-	<u>(1,535,000)</u>	
Long-term debt, less current installments	<u>49,134,691</u>	<u>(460,000)</u>	<u>1,003,154</u>	<u>47,671,537</u>	
Customer advances for construction	440,894	1,010,464	138,432	1,312,926	
Other liabilities:					
Landfill closure	462,798	328,261	-	791,059	
Other Deferred	-	82,885	-	82,885	
Accrued severance	554,195	403,802	154,954	803,043	
Noncurrent liabilities	<u>1,457,887</u>	<u>1,825,412</u>	<u>293,386</u>	<u>2,989,913</u>	
Total noncurrent liabilities	<u>\$50,592,578</u>	<u>\$1,365,412</u>	<u>\$1,296,540</u>	<u>\$50,661,450</u>	

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2008 and 2007

(5) Noncurrent Liabilities, Continued

2007	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds:					
Series 1999A	\$ 2,875,000	\$ -	\$ 2,875,000	\$ -	\$ -
Series 1999B	1,490,000	-	1,490,000	-	-
Series 2003	9,280,000	-	250,000	9,030,000	255,000
Series 2005	24,405,000	-	595,000	23,810,000	615,000
Series 2007	-	17,825,000	-	17,825,000	205,000
Unamortized premium	140,216	137,353	21,086	256,483	
Unamortized discount	(518,572)	(271,343)	(78,123)	(711,792)	-
	<u>37,671,644</u>	<u>17,691,010</u>	<u>5,152,963</u>	<u>50,209,691</u>	<u>\$1,075,000</u>
Current installments of long-term debt	(1,460,000)	-	(385,000)	(1,075,000)	
Long-term debt, less current installments	<u>36,211,644</u>	<u>17,691,010</u>	<u>4,767,963</u>	<u>49,134,691</u>	
Customer advances for construction	430,150	256,144	245,400	440,894	
Other liabilities:					
Landfill closure	462,798	-	-	462,798	
Accrued severance	626,684	251,199	323,688	554,195	
Noncurrent liabilities	<u>1,519,632</u>	<u>507,343</u>	<u>569,088</u>	<u>1,457,887</u>	
Total noncurrent liabilities	<u>\$37,731,276</u>	<u>\$18,198,353</u>	<u>\$ 5,337,051</u>	<u>\$50,592,578</u>	

During 2007, the Utility issued \$17,825,000 of Series 2007 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility and environmental upgrades of generation facilities owned or co-owned by the Utility. The bonds mature in 2026 and interest rates throughout the term of the bonds are in a range between 4.00% and 4.375%.

During 2007, the Utility redeemed the Series 1999A and Series 1999B revenue bonds. The original maturity date for these revenue bonds was 2012.

During 2005, the Utility issued \$24,975,000 of Series 2005 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility, including the construction of generation and related transmission facilities to serve the Utility. The bonds mature in 2024 and interest rates throughout the term of the bonds are in a range between 3.00% and 4.25%.

During 2003, the Utility issued \$10,000,000 of Series 2003 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility, including the construction of generation and related transmission facilities to serve the Utility. The bonds mature in 2023 and interest rates throughout the term of the bonds are in a range between 3.25% and 4.50%.

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Notes to Financial Statements
December 31, 2008 and 2007

(5) Noncurrent Liabilities, Continued

The Series 2003, 2005 and 2007 revenue bonds require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 3.00% and 4.50%. The bonds are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

Year	Series 2003 Electric Revenue Bonds		Series 2005 Electric Revenue Bonds	
	December 1 Principal Amount	3.25%-4.50% Interest Amount	December 1 Principal Amount	3.00%-4.25% Interest Amount
2009	\$ 265,000	\$ 357,975	\$ 630,000	\$ 933,488
2010	270,000	349,363	655,000	911,438
2011	280,000	339,913	670,000	888,512
2012	295,000	330,113	690,000	864,225
2013	555,000	319,787	1,370,000	838,350
2014-2018	3,150,000	1,260,412	7,700,000	3,343,275
2019-2023	3,960,000	542,510	9,395,000	1,657,144
2024			2,085,000	88,612
	<u>\$8,775,000</u>	<u>\$3,500,073</u>	<u>\$23,195,000</u>	<u>\$9,525,044</u>

Year	Series 2007 Electric Revenue Bonds	
	December 1 Principal Amount	4.00%-4.375% Interest Amount
2009	\$ 640,000	\$ 732,769
2010	670,000	707,169
2011	700,000	680,369
2012	735,000	652,369
2013	765,000	622,969
2014-2018	4,425,000	2,624,443
2019-2023	5,575,000	1,627,843
2024-2026	4,110,000	365,750
	<u>\$17,620,000</u>	<u>\$ 8,013,681</u>

The bond resolutions provides certain covenants relating to the collection, segregation, and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2008 and 2007

(5) Noncurrent Liabilities, Continued

Iowa Administrative Code rule 567-103.2(13) requires the Utility to place a final cover on its ash landfill site for its Streeter Station Generating Facility when it is closed and thereupon to have in place surveying monuments and an approved groundwater monitoring system. Iowa Administrative Code rule 567-103.2(14) requires the Utility to maintain the final cover, monitor ground water, and file reports with the Iowa Department of Natural Resources for thirty years following closure of the site. Although closure and post closure costs are paid only near or after the date that the landfill is closed, the Utility reports a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$462,798 reported as landfill closure and post closure care liability at December 31, 2008, represents the cumulative amount reported to date based on the use of 100% of the estimated capacity of the landfill. This is based on what it would cost to perform all closure and post closure care in 2008. The Utility expects to close the landfill during 2009. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. In 2008 the Utility created a Landfill Closure liability of \$271,475 for its ownership share of Walter Scott - Unit 3, and \$56,787 for its ownership share of Neal - Unit 4 generating units. The Walter Scott - Unit 3 dry ash landfill is expected to be closed December 1, 2010 and its wet ash landfill is expected to be closed December 1, 2024. The Neal - Unit 4 land fill is expected to be closed December 1, 2012.

(6) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), 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 IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 3.90% of their annual covered salary and the Utility is required to contribute 6.05% of annual covered payroll through June 30, 2008. Beginning July 1, 2008 plan members are required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2008, 2007, and 2006 were \$388,089; \$341,288; and \$301,172; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit will be phased out by June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it will be reduced to 50% and zero thereafter. The Utility recognized liability of \$130,134 and \$65,221; respectively, for the years ended December 31, 2008 and 2007.

(7) Income Tax Status

The Utility is exempt from federal and state income taxes under the applicable tax codes.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(8) Jointly-Owned Capital Assets

The Utility's share of jointly owned electric facilities at December 31, 2008 and 2007 is reflected in the following table. These facilities provide approximately 27% of the Utility's total generating capacity. The Utility is required to provide financing for its share of the facilities. The Utility's share of expenses associated with these facilities is included with the appropriate operating expenses in the statements of revenues, expenses and changes in net assets.

Facility	Percentage Ownership	Capacity MW	Capital Assets, Net	
			2008	2007
Walter Scott - Unit 3	3.10%	20.90	\$ 5,455,474	\$ 5,131,190
Walter Scott - Unit 4	2.02%	15.97	27,210,342	27,143,656
Neal - Unit 4	2.50%	15.60	2,405,647	2,464,297
Iowa Distributed Wind Generation Project	65.80%	1.50	745,513	788,614

(9) Related Party Transactions

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2008 and 2007 were \$1,450,000 and \$1,400,000, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2008, the Utility's Board of Trustees approved a payment of \$1,450,000 related to payments in lieu of taxes for 2008.

In addition, the Utility provides electric service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$553,389 and \$519,974 in 2008 and 2007, respectively.

The Electric Utility has extended a loan to the Municipal Communications Utility of the City of Cedar Falls, Iowa (Communications Utility), with an outstanding balance of \$1,853,090 and \$2,163,090 as of December 31, 2008 and 2007, respectively. Interest accrues on the loan at 3.10% and is paid semi-annually during January and July. Semi-annual principal payments continue through 2016. Accrued interest receivable was \$31,421 and \$36,351 at December 31, 2008 and 2007, respectively. Interest income for the years ended December 31, 2008 and 2007 was \$64,622 and \$74,225 respectively.

For the years ended December 31, 2008 and 2007, the Utility earned a management fee of \$69,863 from the Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous nonoperating revenue.

(10) Risk Management

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2008 plan year for aggregate claims exceeding \$2.1 million.

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Notes to Financial Statements
December 31, 2008 and 2007

(10) Risk Management, Continued

Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Changes in the balances of claims liabilities during the past two years are as follows:

	<u>2008</u>	<u>2007</u>
Unpaid claims and IBNR, beginning of year	\$ 185,000	\$ 300,000
Current year costs including IBNR	1,544,287	1,424,435
Claims paid	<u>(1,435,687)</u>	<u>(1,539,435)</u>
Unpaid claims and IBNR, end of year	<u>\$ 293,600</u>	<u>\$ 185,000</u>

The Utility has recorded \$179,096 and \$107,300 in accounts payable for its share of these unpaid claims at December 31, 2008 and 2007, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 470 governmental entities participate in the Association. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2008.

Cash and cash equivalents and investments	\$41,832,212
Receivables	1,587,842
Other assets	<u>555,181</u>
Total assets	<u>\$43,975,235</u>
Total liabilities	\$20,132,854
Total equity	<u>23,842,381</u>
Total liabilities and equity	<u>\$43,975,235</u>
Total revenues	\$ 8,727,540
Total expenses	3,056,377
Distribution to members	-
Net increase in equity	<u>\$ 5,671,163</u>

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from coverage in the prior year.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(11) Other Post Employment Benefits (OPEB)

Plan Description

The Cedar Falls Utilities administers a single-employer defined benefit medical health care plan (The Plan) for all four utilities. The plan provides self-insured medical, vision, and prescription drug coverage to all active and retired employees and their eligible dependents. Eligible retirees receive health care coverage through the same plans that are available for active employees. To be eligible for these benefits employees at their retirement date must be a minimum of 55 years old, have been employed for the preceding four years, and be enrolled in the plan. Plan contributions are required from retirees based on an amount equal to the full cost of active members. These medical benefits terminate upon attaining Medicare eligibility. In addition, the Plan provides a \$5,000 in life insurance benefits to all retirees who elect this coverage and agree to pay a contribution for this coverage.

Funding Policy

The Utility, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2008, the Utility contributed \$140,936 and retirees receiving benefits contributed \$153,307 through their required contributions.

Annual OPEB and Net OPEB Obligations

The Plan's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of General Accounting Standards Board (GASB) Statement No 45. This standard was implemented in 2008. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following schedule shows the components of the annual OPEB expense for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	<u>2008</u>
Annual required contribution	\$ 299,000
Interest on Net OPEB Obligation	-
Adjustment to annual required contribution	<u>9,572</u>
Annual OPEB expense	289,428
Contributions and payments made	<u>(12,371)</u>
Increase in net OPEB obligation	\$ 301,799
Net OPEB obligation, December 31, 2007	<u>-</u>
Net OPEB obligation, December 31, 2008	<u><u>\$ 301,799</u></u>

The Electric Utility's share of the December 31, 2008 Net OPEB obligation is \$185,596.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
 (A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
 December 31, 2008 and 2007

(11) Other Post Employment Benefits (OPEB), Continued

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the year ended December 31, 2008:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2008	\$289,428	-4.27%	\$301,799

Funded Status and Funding Progress

As of January 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$3,436,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$11,162,424, in 2008 and the ratio of the UAAL to the covered payroll was 30.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. There are no plans to fund The Plan at this time.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2007
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage Of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	11.0% declining .5% annually to 6%
Projected Salary Increases	4.0%

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(12) Flood Event

On June 10, 2008, Cedar Falls Utilities was hit by a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, building furnishings and equipment, meters, switches, relays, tools and rendered the Streeter Station power plant units 6 and 7 and coal handling systems inoperable and in need of major repair. The Utilities began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2008, Utility administrative facilities and generation facilities were still not completely repaired and operational. As of December 31, 2008, the Electric Utility has spent \$3,682,418 in operational expense for flood recovery and \$4,534,766 in asset repair and replacement. The Utility has recognized \$3,418,700 in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$4,507,778 in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2008, the Utility recognized a receivable of \$7,160,336 for FEMA flood disaster reimbursement. The Utility has received \$5,428,495 in FEMA reimbursements between January 1, 2009 and March 31, 2009 with the remainder due upon completion of the review by the State of Iowa.

(13) Commitments and Contingencies

The Utility jointly owns the Walter Scott Energy Center Unit Numbers 3 and 4, and the George Neal Generating Station Unit No 4 (see note 8). Coal procurements are made by the agent for the joint owners on a system portfolio basis, which are a mix of 1, 2, and 3-year purchases to minimize risk. The Utility is obligated to purchase at least the annual amount of coal to operate the Utility's share at minimum load. The Utility's share of coal purchases for the years 2008 and 2007 were \$1,371,203 and \$3,443,301, respectively.

The Utility is a party to various lawsuits arising in the normal course of business. The Utility believes the resolutions will not have a material adverse impact on its financial operations and net assets.

In 2007, the Utility contracted with Miron Construction Co. Inc (Miron) as its General Contractor, to constructed a baghouse for Streeter Station Generating Unit #6 (Unit 6) to capture particulate matter from this unit. The baghouse construction was completed and Unit #6 was returned to operation in June 2007, however, Unit #6 has only been able run at 8-12MW and has not attained its full capacity of 16.5MW. When exceeding the 8-12 MW range, the bags in the baghouse become clogged, and the normal cleaning process is unable to keep up with the emission particles flowing through the baghouse and the Unit is shut down. The Utility continued to work with Miron to determine the root cause of the problem and identify a solution up until the time of the Flood which took the Unit off-line for repairs.

Unit #6 is scheduled back in service in April 2009 when all flood-related repairs are scheduled to be completed. Once back in service, performance tests will be made to assess the baghouse capabilities and possible solutions. Per the contract for the baghouse construction, a third party testing firm will be hired by Miron to conduct these performance tests and after 30 days or more of continuous operation ensure the baghouse meets the original contract specifications. Independently, the Utility has hired a consultant with baghouse expertise to witness the performance tests and help identify any problems with the baghouse design that is preventing Unit #6 from achieving full capacity and recommend an appropriate solution.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(13) Commitments and Contingencies, Continued

Since the baghouse has not performed as designed and therefore has not achieved substantial completion, the Utility has withheld progress payments to Miron. Miron has disputed this position and has asked for mediation proceedings which are scheduled for May 15, 2009.

As of December 31, 2008, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$5,368,000 including approximately \$4,347,000 in flood-related capital projects. Additionally, the Walter Scott Energy Center Unit 3 has initiated a multi-year environmental project in 2007 with a remaining estimated cost to complete of approximately \$5,444,000.



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**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
Cedar Falls Utilities – Municipal Electric Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Electric Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated May 4, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's 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 of the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

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 the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's 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 the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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.

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Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the Schedule of Findings, which has been submitted under separate cover. 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.

We noted certain matters that we reported to management of the Utility in a separate letter dated May 4, 2009.

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

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

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in dark ink and is positioned above the typed name and date.

Dubuque, Iowa
May 4, 2009



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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Cedar Falls Utilities – Municipal Gas Utility

We have audited the accompanying balance sheets of the Municipal Gas Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2009, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

May 4, 2009
Dubuque, Iowa

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MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

The following discussion and analysis of the Municipal Gas Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2008 and 2007. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

- The Utility's net assets increased as a result of operating income and non-operating revenues in 2008 and 2007. At December 31, 2008 and 2007, total assets were \$23,023,361 and \$20,774,671, respectively, and total liabilities were \$3,404,678 and \$3,473,006, respectively, resulting in net assets of \$19,618,683 and \$17,301,665, respectively.
- In 2008 operating revenues increased over 2007 by 18.5% to \$20,739,508 while operating expenses increased over 2007 by 9.6% to \$19,065,793. In 2007 operating revenues were \$17,507,949 while operating expenses were \$17,398,757.
- In 2008, the Utility had net operating income of \$1,673,715 compared to net operating income of \$109,191 in 2007.
- On June 10, 2008, Cedar Falls Utilities was hit by a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, regulators, and tools. The Utilities began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2008, Utility administrative facilities and generation facilities were still not completely repaired and operational. As of December 31, 2008, the Gas Utility has spent \$395,791 in operational expense for flood recovery and \$616,207 in asset repair and replacement. The Utility has recognized \$277,309 in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$505,827 in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2008, the Utility recognized a receivable of \$569,908 for FEMA flood disaster reimbursement. The Utility has received \$316,763 in FEMA reimbursements between January 1, 2009 and March 31, 2009 with the remainder due upon completion of the review by the State of Iowa.

Overview of the Financial Statements

Management's discussion and analysis (MDA) serves as an introduction to the financial statements, and the MDA represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

The statements of revenues, expenses and changes in net assets present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail sales rates are based on rates established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. A fundamental objective of this rate model is to provide adequate revenue to cover all expenses.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that is essential to a full understanding of data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring and planning.

Condensed Balance Sheet Information

	2008	2007
Current assets	\$11,163,943	\$ 9,315,035
Capital assets, net	11,747,450	11,434,658
Other noncurrent assets	111,968	24,978
Total assets	\$23,023,361	\$20,774,671
Current liabilities	\$ 2,996,533	\$ 3,114,049
Noncurrent liabilities	408,145	358,957
Long-term debt	-	-
Total liabilities	\$ 3,404,678	\$ 3,473,006
Invested in capital assets, net of related debt	\$11,747,450	\$11,034,983
Restricted	-	203,000
Unrestricted	7,871,233	6,063,682
Total net assets	\$19,618,683	\$17,301,665

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

Condensed Revenues, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Sales of gas	\$20,415,953	\$17,471,805
Other	323,555	36,144
Total operating revenues	<u>20,739,508</u>	<u>17,507,949</u>
Natural gas purchased for resale	14,853,389	13,501,541
Operation and maintenance	1,059,681	1,150,142
Depreciation	692,695	663,899
Service and administrative	2,460,028	2,083,175
Total operating expenses	<u>19,065,793</u>	<u>17,398,757</u>
Operating Income	<u>1,673,715</u>	<u>109,192</u>
Interest income	191,345	320,569
Other, net	451,958	303,514
Total non-operating revenues (expenses)	<u>643,303</u>	<u>624,083</u>
Change in net assets	2,317,018	733,275
Net assets, beginning of year	<u>17,301,665</u>	<u>16,568,390</u>
Net assets, end of year	<u>\$19,618,683</u>	<u>\$17,301,665</u>

Financial Analysis

Current assets increased 19.8% in 2008 primarily due to an increase in other accounts receivable of \$569,908 resulting from FEMA grant reimbursement monies to be received for damage and resulting repairs from a major 500-year flood event suffered by the Utility in the June 2008.

The Utility no longer carries any debt as the 2005 Gas Refunding Capital Loan Notes debt was paid in full during 2008.

Gas revenues increased 18.5% in 2008 because of a 13.0% increase in 2008 usage and an increase in Purchase Gas Adjustment (PGA) revenues. The average PGA increased in 2008 to \$8.74 per MCF from \$7.19 per MCF during 2007, an average increase of \$1.55 per MCF.

Natural gas purchased for resale expense increased 10.0% in 2008 primarily due to the increase in retail gas usage of 13.0% and the increase in wholesale gas prices as reflected in the \$1.55 per MCF increase in the average PGA from 2007 to 2008. The amount of the change in fuel cost to be recovered from December 31, 2007 to December 31, 2008 is a decrease in expense of \$11,470 from 2007 to 2008.

Operation and maintenance expenses decreased 7.9% in 2008. This increase is attributable to an overall decrease in maintenance costs.

Service and Administrative expenses increased by 18.1% from 2007 primarily due to flood expenses related to operations of \$395,791 for 2008. Also, the Utility began its House Call energy efficiency program in 2008 offering customer's rebates and incentives for selected energy efficiency measures. This program increased Customer Service and Informational expenses by 139.1% or \$81,039.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

Interest income decreased 40.3% in 2008 primarily due to a reduction in investments of \$1,335,000 in order to make cash available for flood expenses and the drop in rates of interest earned.

Other, net increased in 2008 by 48.9% primarily due to the Utility recognizing \$505,827 in FEMA grant revenue for its expenditures for restoring and/or replacing capital assets due to the 2008 500-year flood event.

Capital Assets and Debt Administration

Net capital assets represent 51.0% of total assets for the Utility. Net capital assets increased 2.7% from the prior year primarily due to more capital projects being required during 2008. Additional detail on the change in capital assets can be found in Note 4.

There is no remaining long term debt as the Utility paid off the 2005 Gas Refunding Capital Loan Notes in 2008.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets
December 31, 2008 and 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 18,844,555	\$ 19,176,829
Less accumulated depreciation	7,610,731	7,798,286
	<u>11,233,824</u>	<u>11,378,543</u>
Construction work in progress	513,626	56,115
Net capital assets	<u>11,747,450</u>	<u>11,434,658</u>
Noncurrent assets:		
Loans receivable	111,968	22,504
Total noncurrent assets	<u>111,968</u>	<u>22,504</u>
Current assets:		
Cash and cash equivalents (note 3)	6,104,585	3,540,017
Cash - Restricted (note 2 and 3)	354,262	471,150
Investments (note 3)	550,000	1,885,000
Receivables:		
Customer accounts, less allowance for doubtful		
accounts of \$ 35,150 in 2008 and \$38,023 in 2007	3,330,419	3,082,893
Loans receivable	51,284	56,396
Interest	6,866	46,123
Trade	3,924	8,960
Government grants - FEMA (note 11)	569,908	-
Other	35,966	61,627
Inventories:		
Material and supplies	123,625	133,296
Prepayments and other	33,104	29,573
Total current assets	<u>11,163,943</u>	<u>9,315,035</u>
Deferred costs	-	2,474
Total assets	<u>\$ 23,023,361</u>	<u>\$ 20,774,671</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets
December 31, 2008 and 2007

<u>Liabilities</u>	<u>2008</u>	<u>2007</u>
Long-term debt, less current installments (note 5)	\$ -	\$ -
Current liabilities:		
Accounts payable	2,620,013	2,364,392
Accrued wages and vacations	205,132	203,555
Accrued interest	-	6,000
Other accrued expenses	171,388	140,427
Current installments of long-term debt (note 5)	-	399,675
Total current liabilities	<u>2,996,533</u>	<u>3,114,049</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	175,641	178,551
Other liabilities (note 5 and 10)	232,504	180,406
Total noncurrent liabilities	<u>408,145</u>	<u>358,957</u>
 Total liabilities	 <u>3,404,678</u>	 <u>3,473,006</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	11,747,450	11,034,983
Restricted - bond indentures (note 2)	-	203,000
Unrestricted	7,871,233	6,063,682
Total net assets	<u>19,618,683</u>	<u>17,301,665</u>
 Total liabilities and net assets	 <u>\$ 23,023,361</u>	 <u>\$ 20,774,671</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Revenues, Expenses and Changes in Net Assets
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Sales of gas:		
Residential	\$ 11,262,766	\$ 9,901,492
Industrial	2,515,372	2,133,406
Commercial	5,211,604	4,122,238
Governmental (note 8)	1,295,445	1,208,376
Interdepartmental	130,766	106,293
Total sales of gas	20,415,953	17,471,805
Other operating revenues	323,555	36,144
Total operating revenues	20,739,508	17,507,949
 Operating expenses:		
Production:		
Natural gas purchased for resale	14,853,389	13,501,541
Other	2,000	10,274
Distribution	1,057,681	1,139,868
Depreciation	692,695	663,899
Customer accounts	421,629	431,710
Customer service and information expenses	139,287	58,248
Sales	10,950	26,127
Administrative and general (note 8)	1,752,217	1,435,321
Taxes other than income taxes	135,945	131,769
Total operating expenses	19,065,793	17,398,757
Operating income	1,673,715	109,192
 Non-operating revenues (expenses):		
Interest income	191,345	320,569
Net increase (decrease) in the fair value of investments	-	3,600
Miscellaneous revenue (expense), net (note 8)	(47,751)	219,350
Intergovernmental grant funds (note 11)	505,827	103,500
Interest expense on long-term debt	(6,118)	(22,936)
Total non-operating revenues (expenses)	643,303	624,083
Change in net assets	2,317,018	733,275
Net assets, beginning of year	17,301,665	16,568,390
Net assets, end of year	\$ 19,618,683	\$ 17,301,665

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows
Years ended December 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash received from customers	\$ 19,543,128	\$ 17,348,876
Intergovernmental grants	277,309	-
Cash paid to suppliers	(16,896,510)	(15,397,464)
Cash paid to employees	(1,137,873)	(1,130,623)
Payment in lieu of taxes to the City of Cedar Falls	-	(200,000)
	<hr/>	<hr/>
Net cash provided by operating activities	1,786,054	620,789
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(400,000)	(595,000)
Interest paid	(12,000)	(28,660)
Proceeds from customer advances for construction	32,700	53,070
Refunds of customer advances for construction	(34,325)	(45,480)
Acquisition, construction and removal cost of capital assets	(1,098,998)	(771,216)
Proceeds from sale of capital assets	-	2,257
Reimbursement of utility construction costs	102,819	116,688
Intergovernmental grants	505,827	103,500
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(903,977)	(1,164,841)
	<hr/>	<hr/>
Cash flows from investing activities:		
Proceeds from maturities of investment securities	3,765,000	2,385,000
Purchase of investment securities	(2,430,000)	(2,385,000)
Interest received	230,603	332,622
	<hr/>	<hr/>
Net cash provided by investing activities	1,565,603	332,622
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	2,447,680	(211,430)
	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	4,011,167	4,222,597
	<hr/>	<hr/>
Cash and cash equivalents, end of year (note 1)	\$ 6,458,847	\$ 4,011,167
	<hr/> <hr/>	<hr/> <hr/>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows, Continued
Years ended December 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 1,673,715	\$ 109,192
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	692,695	663,899
Other Income (expense), net	(55,664)	207,655
(Increase) decrease in accounts receivable	(216,829)	(389,374)
(Increase) decrease in loans receivable	(84,352)	-
(Increase) decrease in intergovernmental grants	(569,908)	-
(Increase) decrease in inventory	9,671	1,351
(Increase) decrease in prepayments and other	(3,531)	(6,942)
Increase (decrease) in accounts payable	255,621	163,002
Increase (decrease) in reserve for surplus declaration	-	(200,000)
Increase (decrease) in accrued wages and vacation	1,577	30,195
Increase (decrease) in accrued expenses	30,961	95,705
Increase (decrease) in other liabilities	52,098	(53,894)
Net cash provided by operating activities	<u>\$ 1,786,054</u>	<u>\$ 620,789</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

The Municipal Gas Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls, Iowa. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 18 - Conservation of Power and Water Resources, Chapter I - Federal Energy Regulatory Commission, Department of Energy.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Utility applies only Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989.

(b) Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 5.74% in 2008 and 2007. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated services and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 15 to 65 years, buildings and improvements - 30 to 45 years, and equipment - 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 3.6% of depreciable assets for 2008 and 2007.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

(c) Cash and Investments

Investments are stated at their fair value on the balance sheets. The Utility's investments stated at fair value reflect quoted market prices at the balance sheet date, for U.S. Treasury and government agency debt securities. The cost of certificates of deposit approximates fair value.

The Utility considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2008 and 2007 was \$500,000, respectively for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

(d) Inventories

Materials and supplies are valued at average cost. Inventories are recorded as an expenditure at the time individual inventory items are consumed.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

(e) Natural Gas Commodity Purchases

The Utility has entered into agreements with natural gas suppliers to purchase gas for resale to our customers. Purchases under these contracts are considered "normal purchases and sales" under Statements of Financial Accounting Standards (SFAS) No. 133 and are not marked-to-market.

(f) Operating Revenues and Expenses

Operating revenues include revenues resulting from the sale of gas and service revenues. Operating expenses include expenses for natural gas purchases, distribution, depreciation, customer accounts, customer service and information, sales, and administrative and general. Nonoperating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities, and investing activities.

Revenues from the sale of gas are based on billing rates, which are applied to customers' consumption of gas. The Utility records estimated unbilled revenue, including amounts to be billed under a purchased gas adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2008 and 2007 were \$1,863,177 and \$1,856,176, respectively, and are recorded in customer accounts receivable. The Utility uses a purchased gas adjustment clause whereby increases and decreases in fuel costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

(g) Debt Discount and Bond Issue Costs

Unamortized debt discount and bond issue costs are amortized over the life of the bonds using the effective interest method.

(h) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of government entities.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(i) Reclassifications

Reclassifications of prior year's amounts have been made for comparability.

(j) Estimates

The preparation of the financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

(k) Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based on the total of all four utilities as a whole. Due to a devastating June 2008 flood that significantly damaged much utility property and related unexpected recovery expenditures, a budget amendment identifying these additional expenditures was filed with the state of Iowa.

(2) Restricted Assets

The composition of restricted assets as of December 31, 2008 and 2007 was as follows:

	2008		
	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Current Assets - Restricted			
Self Insured Medical and Dental	\$ 354,262	-	\$ 354,262
Total Current Assets - Restricted	<u>354,262</u>	<u>-</u>	<u>354,262</u>
Total restricted assets	<u>\$ 354,262</u>	<u>-</u>	<u>\$ 354,262</u>

	2007		
	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Current Assets - Restricted			
Bond and Interest	\$ 209,000	-	\$ 209,000
Self Insured Medical and Dental	262,150	-	262,150
Total Current Assets - Restricted	<u>471,150</u>	<u>-</u>	<u>471,150</u>
Total restricted assets	<u>\$ 471,150</u>	<u>-</u>	<u>\$ 471,150</u>

The monies deposited into the various funds have been invested in interest-bearing securities as required by the bond resolutions. Amounts deposited in the above funds may only be used for the purpose of paying principal and interest on the bonds when due or such other purposes as set forth in the bond resolutions and as a result are classified as restricted. Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

(3) Cash on Hand, Deposits, and Investments

Cash on Hand. Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2008 and 2007 was \$100, respectively.

Deposits. At December 31, 2008, the Utility's carrying amount of deposits, including \$550,000 of certificates of deposits was \$6,508,747. At December 31, 2007, the Utility's carrying amount of deposits, including \$1,885,000 of certificates of deposits, was \$5,396,067.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(3) Cash on Hand, Deposits, and Investments, Continued

Investments. The utility is authorized by statute to invest public funds not currently needed for operating expenses 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; and warrants or improvement certificates of a drainage district.

As of December 31, 2008 and 2007, the Utility had no Federal Agency Obligation investments or maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$500,000 at December 31, 2008 and 2007, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk. The Utility's investment policy limits the investments 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 instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk. The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during the year. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of Credit Risk. The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during the year.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are 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.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(3) Cash on Hand, Deposits, and Investments, Continued

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the balance sheets follows:

	2008	2007
Cash on hand	\$ 100	\$ 100
Carrying amount of deposits	6,508,747	5,396,067
Carrying amount of Iowa Public Agency Investment Trust	500,000	500,000
Total	\$ 7,008,847	\$ 5,896,167

	2008	2007
Current Assets		
Cash and cash equivalents	\$ 6,104,585	\$ 3,540,017
Investments	550,000	1,885,000
Restricted Cash	354,262	471,150
Total	\$ 7,008,847	\$ 5,896,167

Of the unrestricted cash and investments listed above, the Board of Trustees of the Municipal Gas Utility has made no reserve fund designations.

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2008 and 2007 follows:

	2008	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:					
Land		\$ 41,350	\$ -	\$ -	\$ 41,350
Construction, Work-in-progress		56,115	986,305	528,794	513,626
Total capital assets, not being depreciated		97,465	986,305	528,794	554,976
Capital assets, being depreciated:					
Infrastructure		16,496,833	481,716	111,528	16,867,021
Buildings and improvements		1,876,762	14,565	622,209	1,269,118
Equipment		761,884	32,513	127,331	667,066
Total capital assets, being depreciated		19,135,479	528,794	861,068	18,803,205
Less accumulated depreciation		7,798,286	692,711	880,266	7,610,731
Total capital assets, being depreciated, net		11,337,193	(163,917)	(19,198)	11,192,474
Capital assets, net		\$11,434,658	\$ 822,388	\$ 509,596	\$11,747,450

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(4) Capital Assets, Continued

2007	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 41,350	\$ -	\$ -	\$ 41,350
Construction, Work-in-progress	516,704	652,377	1,112,966	56,115
Total capital assets, not being depreciated	558,054	652,377	1,112,966	97,465
Capital assets, being depreciated:				
Infrastructure	16,161,337	368,537	33,041	16,496,833
Buildings and improvements	1,145,703	732,579	1,520	1,876,762
Equipment	750,034	11,850	-	761,884
Total capital assets, being depreciated	18,057,074	1,112,966	34,561	19,135,479
Less accumulated depreciation	7,177,673	664,473	43,860	7,798,286
Total capital assets, being depreciated, net	10,879,401	448,493	(9,299)	11,337,193
Capital assets, net	<u>\$11,437,455</u>	<u>\$ 1,100,870</u>	<u>\$ 1,103,667</u>	<u>\$11,434,658</u>

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2008 and 2007 was as follows:

2008	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 2005 gas refunding capital loan notes	\$ 400,000	\$ -	\$ 400,000	\$ -	\$ -
Unamortized discount on capital loan notes	(325)	-	(325)	-	-
	399,675	-	399,675	-	<u>\$ -</u>
Current installments of long-term debt	(399,675)	-	(399,675)	-	
Long-term debt, less Current installments	-	-	-	-	
Customer advances for construction	178,551	34,968	37,878	175,641	
Other liabilities	180,406	121,929	69,831	232,504	
Other current liabilities	358,957	156,897	107,709	408,145	
Total noncurrent liabilities	<u>\$ 358,957</u>	<u>\$ 156,897</u>	<u>\$ 107,709</u>	<u>\$ 408,145</u>	

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(5) Noncurrent Liabilities, Continued

2007	Beginning Balance	Additions	Reduction s	Ending Balance	Amounts Due Within One Year
Series 2005 gas refunding capital loan notes	\$ 995,000	\$ -	\$ 595,000	\$ 400,000	\$ 400,000
Unamortized discount on revenue bonds	(1,340)	-	(1,015)	(325)	(325)
	<u>993,660</u>	<u>-</u>	<u>593,985</u>	<u>399,675</u>	<u>\$ 399,675</u>
Current installments of long-term debt	(595,000)	325	(195,000)	(399,675)	
Long-term debt, less current installments	<u>398,660</u>	<u>325</u>	<u>398,985</u>	<u>-</u>	
Customer advances for construction	176,061	66,810	64,320	178,551	
Other liabilities	234,300	148,162	202,056	180,406	
Other current liabilities	<u>410,361</u>	<u>214,972</u>	<u>266,376</u>	<u>358,957</u>	
Total noncurrent liabilities	<u>\$ 809,021</u>	<u>\$ 215,297</u>	<u>\$ 665,361</u>	<u>\$ 358,957</u>	

The Series 2005 revenue refunding capital loan notes matured and the final payment was made July 1, 2008. The Gas Utility no longer has any bond debt outstanding.

(6) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), 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 IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 3.90% of their annual covered salary and the Utility is required to contribute 6.05% of annual covered payroll through June 30, 2008. Beginning July 1, 2008 plan members are required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2008, 2007, and 2006 were \$119,626; \$111,999; and \$105,801; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit will be phased out by June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it will be reduced to 50% and zero thereafter. The Utility recognized liability of \$33,415 and \$7,020; respectively, for the years ended December 31, 2008 and 2007.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(7) Income Tax Status

The Utility is exempt from federal and state income taxes under the applicable tax codes.

(8) Related Party Transactions

The Utility provides gas service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$147,481 and \$121,782 in 2008 and 2007, respectively.

For the years ended December 31, 2008 and 2007, the Utility earned a management fee of \$21,424 from the Municipal Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous nonoperating revenue.

(9) Risk Management

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks.

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2008 plan year for aggregate claims exceeding \$2.1 million. Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Changes in the balances of the Utilities liabilities during the past two years are as follows:

	2008	2007
Unpaid Claims and IBNR, beginning of year	\$ 185,000	\$ 300,000
Current year costs including IBNR	1,544,287	1,424,435
Claims Paid	(1,435,687)	(1,539,435)
Unpaid Claims and IBNR, end of year	\$ 293,600	\$ 185,000

The Utility has recorded \$52,848 and \$38,850 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2008 and 2007, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 480 governmental entities participate in the Association. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(9) Risk Management, Continued

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2008.

Cash and cash equivalents and investments	\$41,832,212
Receivables	1,587,842
Other assets	555,181
Total assets	\$43,975,235
Total liabilities	\$20,132,854
Total equity	23,842,381
Total liabilities and equity	\$43,975,235
Total revenues	\$ 8,727,540
Total expenses	3,056,377
Distribution to members	-
Net increase in equity	\$ 5,671,163

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from coverage in the prior year.

(10) Other Post Employment Benefits (OPEB)

Plan Description

The Cedar Falls Utilities administers a single-employer defined benefit medical health care plan (The Plan) for all four utilities. The plan provides self-insured medical, vision, and prescription drug coverage, and to all active and retired employees and their eligible dependents. Eligible retirees receive health care coverage through the same plans that are available for active employees. To be eligible for these benefits employees at their retirement date must be a minimum of 55 years old, have been employed for the preceding four years, and be enrolled in the plan. Plan contributions are required from retirees based on an amount equal to the full cost of active members. These medical benefits terminate upon attaining Medicare eligibility. In addition, the Plan provides a \$5,000 in life insurance benefits to all retiree who elect this coverage and agree to pay a contribution for this coverage.

Funding Policy

The Utility, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2008, the Utility contributed \$140,936 and retirees receiving benefits contributed \$153,307 through their required contributions.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(10) Other Post Employment Benefits (OPEB), Continued

Annual OPEB and Net OPEB Obligations

The Plan's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of General Accounting Standards Board (GASB) Statement No 45. This standard was implemented in 2008. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following schedule shows the components of the annual OPEB expense for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	2008
Annual required contribution	\$ 299,000
Interest on Net OPEB Obligation	-
Adjustment to annual required contribution	9,572
Annual OPEB expense	289,428
Contributions and payments made	(12,371)
Increase in net OPEB obligation	\$ 301,799
Net OPEB obligation, December 31, 2007	-
Net OPEB obligation, December 31, 2008	\$ 301,799

The Gas Utility's share of the December 31, 2008 Net OPEB obligation is \$55,291.

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the year ended December 31, 2008:

Fiscal Year Ended	Annual OPEB Cost	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2008	\$ 289,428	-4.27%	\$ 301,799

Funded Status and Funding Progress

As of January 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$3,436,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$11,162,424, in 2008 and the ratio of the UAAL to the covered payroll was 30.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. There are no plans to fund The Plan at this time.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(10) Other Post Employment Benefits (OPEB), Continued

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2007
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage Of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	11.0% declining .5% annually to 6%
Projected Salary Increases	4.0%

(11) Flood Event

On June 10, 2008, Cedar Falls Utilities was hit by a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, regulators, and tools. The Utilities began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2008, Utility administrative facilities and generation facilities were still not completely repaired and operational. As of December 31, 2008, the Gas Utility has spent \$395,791 in operational expense for flood recovery and \$616,207 in asset repair and replacement. The Utility has recognized \$277,309 in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$505,827 in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2008, the Utility recognized a receivable of \$569,908 for FEMA flood disaster reimbursement. The Utility has received \$316,763 in FEMA reimbursements between January 1, 2009 and March 31, 2009 with the remainder due upon completion of the review by the State of Iowa.

(12) Commitments and Contingencies

The Utility has a natural gas transportation contract with a pipeline, which expires in 2022. Total payments include transportation charges and commodity charges. Minimum transportation payments for 2009 are expected to be approximately \$585,800 at current rates.

The Utility is a member of the Central Plains Energy Project. This organization was created in 2006 to accomplish the members' joint and cooperative action with respect to the acquisition, transportation, storage, management and related services and functions which are necessary to provide the members secure, reliable, and economic supplies of natural gas. This membership allows the Utility to purchase a fixed amount of gas for 20 years at a discount from market prices.

As of December 31, 2008, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$514,000 including approximately \$480,000 in flood-related capital projects.



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**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
Cedar Falls Utilities – Municipal Gas Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Gas Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated May 4, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's 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 of the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

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 the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's 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 the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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.

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Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the Schedule of Findings, which has been submitted under separate cover. 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.

We noted certain matters that we reported to management of the Utility in a separate letter dated May 4, 2009.

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

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
May 4, 2009



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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Cedar Falls Utilities – Municipal Water Utility

We have audited the accompanying balance sheets of the Municipal Water Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2009, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

May 4, 2009
Dubuque, Iowa

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MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

The following discussion and analysis of the Municipal Water Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the year ended December 31, 2008 and 2007. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

- The Utility's net assets increased as a result of non-operating revenues of contributions in aid of construction and FEMA reimbursements for flood related capital projects. At December 31, 2008 and 2007, total assets were \$21,323,118 and \$20,042,250, respectively, and total liabilities were \$695,640 and \$820,411, respectively, resulting in net assets of \$20,627,478 and \$19,221,839, respectively.
- The last water rate increase of approximately 10.8% for all customer classes was effective in January of 2008.
- In 2008, operating revenues increased by 15.0% from 2007 at \$2,640,322 while operating expenses increased 6.8% over 2007 to \$2,612,460. The 2008 increase in operating revenues is due to the 2008 rate increase and \$123,249 in FEMA reimbursement revenue for operation related flood expenses, which is 35.8% of the increase in operating revenue.
- In 2008, the Utility had operating income of \$27,862 compared to an operating loss of \$149,688 in 2007.

On June 10, 2008, Cedar Falls Utilities was hit by a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, well equipment, and tools. The Utilities began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2008, Utility administrative facilities and generation facilities were still not completely repaired and operational. As of December 31, 2008, the Water Utility has spent \$184,482 in operational expense for flood recovery and \$264,902 in asset repair and replacement. The Utility has recognized \$123,249 in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$216,783 in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2008, the Utility recognized a receivable of \$246,162 for FEMA flood disaster reimbursement. The Utility has received \$140,784 in FEMA reimbursements between January 1, 2009 and March 31, 2009 with the remainder due upon completion of the review by the State of Iowa.

Overview of the Financial Statements

Management's discussion and analysis (MDA) serves as an introduction to the financial statements, and the MDA represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

The statements of revenues, expenses and changes in net assets present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail rates to the Utility's customers are established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. The fundamental objective of this rate model is to provide adequate revenue to cover all costs.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that is essential to a full understanding of data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring and planning.

Condensed Balance Sheet Information

	2008	2007
Current assets	\$ 3,664,621	\$ 4,007,948
Capital assets, net	17,633,905	16,034,302
Other noncurrent assets	24,592	-
Total assets	\$21,323,118	\$20,042,250
Current liabilities	\$ 576,541	\$ 739,598
Noncurrent liabilities	119,099	80,813
Total liabilities	\$ 695,640	\$ 820,411
Invested in capital assets, net of related debt	\$17,633,905	\$16,034,302
Unrestricted	2,993,573	3,187,537
Total net assets	\$20,627,478	\$19,221,839

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

Condensed Revenues, Expenses and Changes in Net Assets

	2008	2007
Sales of water	\$ 2,403,114	\$ 2,175,197
Other	237,208	120,825
Total operating revenues	2,640,322	2,296,022
System operation and maintenance	908,406	932,496
Depreciation and amortization	534,789	494,712
Service and administrative	1,169,265	1,018,502
Total operating expenses	2,612,460	2,445,710
Operating income (loss)	27,862	(149,688)
Interest income	101,633	146,225
Other, net	589,743	383,589
Total non-operating revenues (expenses)	691,376	529,814
Income before capital contributions	719,238	380,126
Capital contributions	686,401	716,067
Change in net assets	1,405,639	1,096,193
Net assets, beginning of year	19,221,839	18,125,646
Net assets, end of year	\$20,627,478	\$19,221,839

Financial Analysis

Current assets decreased 8.6% in 2008 primarily due to the reduction in investments of \$1,622,500 in order to make cash available for flood expenses offset somewhat by \$246,162 in FEMA Grants Receivable and \$1,016,503 increase in cash.

Current liabilities decreased 22.0% in 2008 due to a 27.6% decrease in all accounts payable.

Noncurrent liabilities increased \$38,286 in 2008 due to the increased severance and retiree insurance liabilities in 2008.

System operation and maintenance expenses decreased 2.6% in 2008 primarily due to a 6.6% decrease in distribution operations and maintenance expenses, \$37,879. This decrease was offset somewhat by a 3.9% increase in power and pumping expenses primarily due to increased pumping equipment maintenance.

Service and administrative expenses increased 14.8% in 2008 primarily due to flood expenses related to operations of \$184,482. Depreciation expense increased 8.1% in 2008 resulting from completion of construction projects.

Interest income decreased 30.5% in 2008 primarily due to a reduction in investments of \$1,622,500 in order to make cash available for flood expenses and the drop in the rates of interest earned.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

Other, net revenues increased in 2008 by 53.7% primarily due to the Utility recognizing \$216,783 in FEMA grant revenue for its expenditures for restoring and/or replacing capital assets due to the 2008 500-year flood event.

Non cash capital contributions decreased 4.1% in 2008 due to reduction in new developments requiring distribution extensions during the year.

Capital Assets and Debt Administration

Net capital assets represent 82.7 % of total assets for the Utility. Net capital assets increased 10.0% from the prior year primarily due to completion of capital projects in 2008. Additional detail on the change in capital assets can be found in Note 4.

The Utility has no outstanding debt as of December 31, 2008.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets
December 31, 2008 and 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 23,662,594	\$ 23,024,283
Less accumulated depreciation	<u>7,187,386</u>	<u>7,004,911</u>
	16,475,208	16,019,372
Construction work in progress	<u>1,158,697</u>	<u>14,930</u>
Net capital assets	<u>17,633,905</u>	<u>16,034,302</u>
Noncurrent assets:		
Loans Receivable	<u>24,592</u>	<u>-</u>
Total noncurrent investments	<u>24,592</u>	<u>-</u>
Current assets:		
Cash and cash equivalents (note 2)	1,798,841	809,913
Cash - Restricted (note 2 and 3)	160,294	132,719
Unrestricted investments: (note 2)	970,000	2,592,500
Receivables:		
Customer accounts, less allowance for doubtful		
accounts of \$ 3,600 in 2008 and \$3,674 in 2007	335,831	307,227
Loans receivable	8,295	-
Government grants - FEMA (note 11)	246,162	-
Other	9,765	7,479
Interest	15,332	44,569
Material and supplies	97,676	94,491
Prepayments and other	<u>22,425</u>	<u>19,050</u>
Total current assets	<u>3,664,621</u>	<u>4,007,948</u>
Total assets	<u>\$ 21,323,118</u>	<u>\$ 20,042,250</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets
December 31, 2008 and 2007

<u>Liabilities</u>	<u>2008</u>	<u>2007</u>
Current liabilities:		
Accounts payable	\$ 400,100	\$ 552,811
Accrued wages and vacations	123,962	103,034
Other accrued expenses	52,479	83,753
Total current liabilities	<u>576,541</u>	<u>739,598</u>
Noncurrent liabilities:		
Other liabilities (note 5 and 10)	119,099	80,813
Total noncurrent liabilities	<u>119,099</u>	<u>80,813</u>
 Total liabilities	 <u>695,640</u>	 <u>820,411</u>
 <u>Net Assets</u>		
Invested in capital assets	17,633,905	16,034,302
Unrestricted	2,993,573	3,187,537
Total net assets	<u>20,627,478</u>	<u>19,221,839</u>
 Total liabilities and net assets	 <u>\$ 21,323,118</u>	 <u>\$ 20,042,250</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Revenues, Expenses and Changes in Net Assets
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Sales of water:		
Residential	\$ 1,722,353	\$ 1,582,019
Industrial	37,340	29,250
Commercial	460,946	391,174
Governmental (note 8)	151,889	123,375
Interdepartmental	30,586	49,379
Total sales of water	<u>2,403,114</u>	<u>2,175,197</u>
Other operating revenues	237,208	120,825
Total operating revenues	<u>2,640,322</u>	<u>2,296,022</u>
 Operating expenses		
Production:		
Purchased power from affiliated utility	132,519	125,467
Other	237,012	230,275
Distribution	538,875	576,754
Depreciation	534,789	494,712
Customer accounts	202,437	198,764
Customer service and information expenses	25,679	22,066
Sales	8,576	19,056
Administrative and general	860,012	710,641
Taxes other than income taxes	72,561	67,975
Total operating expenses	<u>2,612,460</u>	<u>2,445,710</u>
Operating income (loss)	<u>27,862</u>	<u>(149,688)</u>
 Non-operating revenues (expenses):		
Interest income	101,633	146,225
Net increase (decrease) in the fair value of investments	7,500	24,400
Miscellaneous revenue (expense), net (note 8)	365,460	314,189
Intergovernmental grant funds (note 11)	216,783	45,000
Total non-operating revenues (expenses)	<u>691,376</u>	<u>529,814</u>
Income before contributions	<u>719,238</u>	<u>380,126</u>
 Noncash Capital contributions	<u>686,401</u>	<u>716,067</u>
 Change in net assets	1,405,639	1,096,193
 Net assets, beginning of year	<u>19,221,839</u>	<u>18,125,646</u>
 Net assets, end of year	<u>\$ 20,627,478</u>	<u>\$ 19,221,839</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,573,987	\$ 2,570,851
Cash paid to suppliers	(1,641,955)	(1,277,679)
Cash paid to employees	(573,265)	(584,840)
	<u>358,767</u>	<u>708,332</u>
Cash flows from capital and related financing activities:		
Proceeds from customer advances for construction	-	3,849
Refunds of customer advances for construction	(3,849)	-
Acquisition, construction and removal cost of capital assets	(1,527,350)	(543,580)
Proceeds from sale of capital assets	11,949	2,502
Reimbursement of utility construction costs	199,333	56,961
Intergovernmental grants	216,783	45,000
	<u>(1,103,134)</u>	<u>(435,268)</u>
Cash flows from investing activities:		
Proceeds from maturities of investment securities	4,800,000	3,595,717
Purchase of investment securities	(3,170,000)	(3,345,717)
Interest received	130,870	169,015
	<u>1,760,870</u>	<u>419,015</u>
Net cash provided by investing activities		
	<u>1,016,503</u>	<u>692,079</u>
Net increase in cash and cash equivalents		
Cash and cash equivalents, beginning of year	<u>942,632</u>	<u>250,553</u>
Cash and cash equivalents, end of year (note 1)	<u>\$ 1,959,135</u>	<u>\$ 942,632</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows, Continued
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ 27,862	\$ (149,688)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation of capital assets	534,789	494,712
Other Income (expense), net	233,537	310,562
(Increase) decrease in accounts receivable	(28,604)	(46,864)
(Increase) decrease in loans receivable	(32,887)	-
(Increase) decrease in intergovernmental grants	(246,162)	-
(Increase) decrease in materials and supplies	(3,185)	(6,844)
(Increase) decrease in prepayments and other	(5,661)	(6,348)
Increase (decrease) in accounts payable	(152,711)	23,032
Increase (decrease) in accrued wages and vacation	20,928	8,078
Increase (decrease) in other accrued expenses	(27,425)	30,932
Increase (decrease) in other liabilities	<u>38,286</u>	<u>50,760</u>
Net cash provided by operating activities	<u>\$ 358,767</u>	<u>\$ 708,332</u>
Noncash investing, capital and financing activities:		
Contributions from contractors in aid of construction	<u>\$ 686,401</u>	<u>\$ 716,067</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

The Municipal Water Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 18 - Conservation of Power and Water Resources, Chapter I - Federal Energy Regulatory Commission, Department of Energy.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Utility applies only Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989.

(b) Capital Assets and Depreciation

Capital assets are stated at original cost. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 20 to 70 years, buildings and improvements - 30 to 45 years, and equipment - 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 2.3% of depreciable assets for 2008 and 2007.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

(c) Cash and Investments

Investments are stated at their fair value on the balance sheets. The Utility's investments stated at fair value reflect quoted market prices at the balance sheet date, for U.S. Treasury and government agency debt securities. The cost of certificates of deposit approximates fair value.

The Utility considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2008 and 2007 was \$250,000 for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

(d) Inventories

Materials and supplies are valued at average cost. Inventories are recorded as an expenditure at the time individual inventory items are consumed.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

(e) Operating Revenues and Expenses

Operating revenues include revenues resulting from the sale of water and service revenues. Operating expenses include expenses for power production, distribution, depreciation, customer accounts, customer service and information, sales, and administrative and general. Non-operating revenues and expenses include those derived from capital and non-capital activities, and investing activities.

Revenues from the sale of water are based on billing rates, which are applied to customers' consumption of water. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed as of December 31, 2008 and 2007, were \$111,529 and \$102,646, respectively, and are recorded in customer accounts receivable.

(f) Capital Contributions

Contributions in aid of construction represent the actual cost of property contributed to the Utility and nonrefundable payments from consumers, which are used to partially offset the cost of the construction of additional capital assets.

(g) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of government entities.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(h) Estimates

The preparation of the financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

(i) Reclassifications

Reclassifications of prior year's amounts have been made for comparability.

(j) Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

(j) Budgetary Information, Continued

Formal and legal budgetary control is based on the total of all four utilities as a whole. Due to a devastating June 2008 flood that significantly damaged much utility property and related unexpected recovery expenditures, a budget amendment identifying these additional expenditures was filed with the state of Iowa.

(2) Restricted Assets

The composition of restricted assets as of December 31, 2008 and 2007 was as follows:

	2008		Total
	Cash	Investments	
Current Assets - Restricted			
Self Insured Medical and Dental	\$ 160,294	\$ -	\$ 160,294
Total Current Assets - Restricted	160,294	-	160,294
Total restricted assets	\$ 160,294	\$ 0	\$ 160,294

	2007		Total
	Cash	Investments	
Current Assets - Restricted			
Self Insured Medical and Dental	\$ 132,719	\$ -	\$ 132,719
Total Current Assets - Restricted	132,719	-	132,719
Total restricted assets	\$ 132,719	\$ 0	\$ 132,719

Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

(3) Cash on Hand, Deposits, and Investments

Cash on Hand. Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2008 was \$45 and 2007 was \$45.

Deposits. At December 31, 2008, the Utility's carrying amount of deposits, including \$970,000 of certificates of deposits, was \$2,679,090. At December 31, 2007, the Utility's carrying amount of deposits, including \$1,600,000 of certificates of deposits, was \$2,292,587.

Investments. The utility is authorized by statute to invest public funds not currently needed for operating expenses 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; and warrants or improvement certificates of a drainage district.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(3) Cash on Hand, Deposits, and Investments, Continued

As of December 31, 2008 the Utility had no Federal Agency Obligation investments or maturities.

Investment Type	Investment Maturities (In Years)		
	Less than 1	1 to 3	Total
Federal Agency Obligations	\$ -	\$ -	\$ -

As of December 31, 2007, the Utility had the following investments and maturities. (The Utility assumes callable bonds will not be called):

Investment Type	Investment Maturities (In Years)		
	Less than 1	1 to 3	Total
Federal Agency Obligations	\$ 992,500	\$ -	\$ 992,500

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$250,000 at December 31, 2008 and 2007, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk. The Utility's investment policy limits the investments 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 instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk. The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during the year. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of Credit Risk. The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during the year.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are 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.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(3) Cash on Hand, Deposits, and Investments, Continued

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the balance sheets follows:

	2008	2007
Cash on hand	\$ 45	\$ 45
Carrying amount of deposits	2,679,090	2,292,587
Carrying amount of federal agency obligations	-	992,500
Carrying amount of Iowa Public Agency Investment Trust	250,000	250,000
Total	\$ 2,929,135	\$ 3,535,132
Current Assets		
Cash and cash equivalents	\$ 1,798,841	\$ 809,913
Investments	970,000	2,592,500
Restricted Cash	160,294	132,719
Total	\$ 2,929,135	\$ 3,535,132

Of the unrestricted cash and investments listed above, the Board of Trustees of the Municipal Water Utility has made no reserve fund designations.

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2008 and 2007 follows:

2008	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 63,466	\$ -	\$ -	\$ 63,466
Construction, Work-in-progress	14,930	2,118,245	974,478	1,158,697
Total capital assets, not being depreciated	78,396	2,118,245	974,478	1,222,163
Capital assets, being depreciated:				
Infrastructure	21,754,534	964,290	29,509	22,689,315
Buildings and improvements	738,926	5,997	267,747	477,176
Equipment	467,357	4,191	38,911	432,637
Total capital assets, being depreciated	22,960,817	974,478	336,167	23,599,128
Less accumulated depreciation	7,004,911	548,739	366,264	7,187,386
Total capital assets, being depreciated, net	15,955,906	425,739	(30,097)	16,411,742
Capital assets, net	\$16,034,302	\$2,543,984	\$ 944,381	\$17,633,905

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(4) Capital Assets, Continued

2007	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 63,466	\$ -	\$ -	\$ 63,466
Construction, Work-in-progress	635,781	1,211,788	1,832,639	14,930
Total capital assets, not being depreciated	699,247	1,211,788	1,832,639	78,396
Capital assets, being depreciated:				
Infrastructure	20,295,881	1,504,565	45,912	21,754,534
Buildings and improvements	424,473	315,066	613	738,926
Equipment	454,349	13,008	-	467,357
Total capital assets, being depreciated	21,174,703	1,832,639	46,525	22,960,817
Less accumulated depreciation	6,548,748	504,452	48,289	7,004,911
Total capital assets, being depreciated, net	14,625,955	1,328,187	(1,764)	15,955,906
Capital assets, net	\$15,325,202	\$2,539,975	\$1,830,875	\$16,034,302

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2008 and 2007 was as follows:

2008	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Other liabilities	\$ 80,813	\$ 102,534	\$ 64,248	\$ 119,099	\$ -
Total noncurrent liabilities	\$ 80,813	\$ 102,534	\$ 64,248	\$ 119,099	\$ -

2007	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Other liabilities	\$ 30,053	\$ 150,078	\$ 99,318	\$ 80,813	\$ -
Total noncurrent liabilities	\$ 30,053	\$ 150,078	\$ 99,318	\$ 80,813	\$ -

(6) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), 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 IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(6) Pension and Retirement Benefits, Continued

Plan members were required to contribute 3.90% of their annual covered salary and the Utility is required to contribute 6.05% of annual covered payroll through June 30, 2008. Beginning July 1, 2008 plan members are required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2008, 2007 and 2006, were \$64,319; \$58,083; and \$55,119; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit will be phased out by June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it will be reduced to 50% and zero thereafter. The Utility recognized liability of \$15,778 and \$3,120; respectively, for the years ended December 31, 2008 and 2007.

(7) Income Tax Status

The Utility is exempt from federal and state income taxes under the applicable tax codes.

(8) Related Party Transactions

The Utility provides water service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$59,776 and \$50,764 in 2008 and 2007, respectively.

The Utility also provides billing and collection services to the City for the City's sanitary sewer system and garbage and refuse service. Revenues from the service provided amounted to \$159,535 in 2008 and 2007, and are recorded in miscellaneous non-operating revenue.

For the years ended December 31, 2008 and 2007, the Utility earned a management fee of \$1,863 from the Municipal Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous non-operating revenue.

(9) Risk Management

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks.

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2008 plan year for aggregate claims exceeding \$2.1 million. Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(9) Risk Management, Continued

Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Changes in the balances of the Utilities liabilities during the past two years are as follows:

	<u>2008</u>	<u>2007</u>
Unpaid claims and IBNR, beginning of year	\$ 185,000	\$ 300,000
Current year costs including IBNR	1,544,287	1,424,435
Claims paid	(1,435,687)	(1,539,435)
Unpaid claims and IBNR, end of year	<u>\$ 293,600</u>	<u>\$ 185,000</u>

The Utility has recorded \$23,488 and \$16,650 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2008 and 2007, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 470 governmental entities participate in the Association. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2008.

Cash and cash equivalents and investments	\$41,832,212
Receivables	1,587,842
Other assets	555,181
Total assets	<u>\$43,975,235</u>
Total liabilities	\$20,132,854
Total equity	23,842,381
Total liabilities and equity	<u>\$43,975,235</u>
Total revenues	\$ 8,727,540
Total expenses	3,056,377
Distribution to members	-
Net increase in equity	<u>\$ 5,671,163</u>

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage in the prior year.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
 (A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
 December 31, 2008 and 2007

(10) Other Post Employment Benefits (OPEB)

Plan Description

The Cedar Falls Utilities administers a single-employer defined benefit medical health care plan (The Plan) for all four utilities. The plan provides self-insured medical, vision, and prescription drug coverage, and to all active and retired employees and their eligible dependents. Eligible retirees receive health care coverage through the same plans that are available for active employees. To be eligible for these benefits employees at their retirement date must be a minimum of 55 years old, have been employed for the preceding four years, and be enrolled in the plan. Plan contributions are required from retirees based on an amount equal to the full cost of active members. These medical benefits terminate upon attaining Medicare eligibility. In addition, the Plan provides a \$5,000 in life insurance benefits to all retirees who elect this coverage and agree to pay a contribution for this coverage.

Funding Policy

The Utility, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2008, the Utility contributed \$140,936 and retirees receiving benefits contributed \$153,307 through their required contributions.

Annual OPEB and Net OPEB Obligations

The Plan's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of General Accounting Standards Board (GASB) Statement No 45. This standard was implemented in 2008. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following schedule shows the components of the annual OPEB expense for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	<u>2008</u>
Annual required contribution	\$ 299,000
Interest on Net OPEB Obligation	-
Adjustment to annual required contribution	<u>9,572</u>
Annual OPEB expense	289,428
Contributions and payments made	<u>(12,371)</u>
Increase in net OPEB obligation	\$ 301,799
Net OPEB obligation, December 31, 2007	<u>-</u>
Net OPEB obligation, December 31, 2008	<u><u>\$ 301,799</u></u>

The Water Utility's share of the December 31, 2008 Net OPEB obligation is \$39,411.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(10) Other Post Employment Benefits (OPEB), Continued

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the year ended December 31, 2008:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2008	\$289,428	-4.27%	\$301,799

Funded Status and Funding Progress

As of January 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$3,436,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$11,162,424, in 2008 and the ratio of the UAAL to the covered payroll was 30.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. There are no plans to fund The Plan at this time.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2007
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage Of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	11.0% declining .5% annually to 6%
Projected Salary Increases	4.0%

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(11) Flood Event

On June 10, 2008, Cedar Falls Utilities was hit by a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, well equipment, and tools. The Utilities began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2008, Utility administrative facilities and generation facilities were still not completely repaired and operational. As of December 31, 2008, the Water Utility has spent \$184,482 in operational expense for flood recovery and \$264,902 in asset repair and replacement. The Utility has recognized \$123,249 in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$216,783 in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2008, the Utility recognized a receivable of \$246,162 for FEMA flood disaster reimbursement. The Utility has received \$140,784 in FEMA reimbursements between January 1, 2009 and March 31, 2009 with the remainder due upon completion of the review by the State of Iowa.

(12) Commitments and Contingencies

As of December 31, 2008, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$1,159,000 including approximately \$945,000 for Water Main Extensions and \$201,000 in flood-related capital projects.

(13) Subsequent Events

Effective January 1, 2009, the Board of Trustees approved a general water rate increase. The average increase is approximately 9.0% for all customer classes.



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**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
Cedar Falls Utilities – Municipal Water Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Water Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated May 4, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's 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 of the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

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 the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's 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 the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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.

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Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the Schedule of Findings, which has been submitted under separate cover. 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.

We noted certain matters that we reported to management of the Utility in a separate letter dated May 4, 2009.

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

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

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
May 4, 2009



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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Cedar Falls Utilities – Municipal Communications Utility

We have audited the accompanying balance sheets of the Municipal Communications Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2009, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

May 4, 2009
Dubuque, Iowa

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MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

The following discussion and analysis of the Municipal Communications Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the year ended December 31, 2008 and 2007. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

- The Utility's net assets increased as a result of operating income. At December 31, 2008 and 2007, total assets were \$13,995,150 and \$12,365,649, respectively, and total liabilities were \$6,445,103 and \$7,222,975, respectively, resulting in net assets of \$7,550,047 in 2008 and net assets of \$5,142,674 in 2007.
- In 2008 operating revenues increased 13.1% to \$10,995,281 while operating expenses increased 14.5% to \$8,617,364. In 2007 operating revenues increased 12.9% to \$9,721,949 while operating expenses increased 9.7% to \$7,529,287.
- In 2008, the Utility operating income increased 8.4% to \$2,377,917 compared to \$2,192,662 in 2007.

On June 10, 2008, Cedar Falls Utilities was hit by a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, and tools. The Utilities began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2008, Utility administrative facilities and generation facilities were still not completely repaired and operational. As of December 31, 2008, the Communications Utility has spent \$312,915 in operational expense for flood recovery and \$4,141 in asset repair and replacement. The Utility has recognized \$200,279 in Other Operating Revenues for FEMA reimbursement expected for operational losses. As of December 31, 2008, the Utility recognized a receivable of \$87,163 for FEMA flood disaster reimbursement. The Utility has received \$228,773 in FEMA reimbursements between January 1, 2009 and March 31, 2009 with the remainder due upon completion of the review by the State of Iowa.

Overview of the Financial Statements

Management's discussion and analysis (MDA) serves as an introduction to the financial statements, and the MDA represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

The statements of revenues, expenses and changes in net assets present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail rates to purchase communications services are based on rates established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. A fundamental objective of this rate model is to provide adequate revenue to cover all expenses.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, noncapital financing activities, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that is essential to a full understanding of data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, and obligations.

Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring and planning.

Condensed Balance Sheet Information

	<u>2008</u>	<u>2007</u>
Current assets	\$ 5,653,390	\$ 4,427,961
Capital assets, net	8,337,135	7,926,453
Other noncurrent assets	4,625	11,235
Total assets	<u>\$13,995,150</u>	<u>\$12,365,649</u>
Current liabilities	\$ 1,990,541	\$ 1,777,620
Noncurrent liabilities	264,360	256,371
Long-term debt	4,190,202	5,188,984
Total liabilities	<u>\$ 6,445,103</u>	<u>\$ 7,222,975</u>
Invested in capital assets, net of related debt	\$ 3,146,933	\$ 1,757,469
Restricted	960,500	958,833
Unrestricted	3,442,614	2,426,372
Total net assets	<u>\$ 7,550,047</u>	<u>\$ 5,142,674</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

Condensed Revenues, Expenses and Changes in Net Assets

	2008	2007
Cable television	\$ 6,115,836	\$ 5,301,911
High speed data communications	4,679,163	4,420,038
Other Operating Revenue	200,282	-
Total operating revenues	10,995,281	9,721,949
System operation and maintenance	5,150,562	4,579,392
Depreciation	1,400,177	1,386,185
Sales, customer service, administrative	2,066,625	1,563,710
Total operating expenses	8,617,364	7,529,287
Operating income	2,377,917	2,192,662
Interest Income	94,244	122,949
Interest Expense	(261,781)	(299,651)
Other, net	196,993	225,476
Total non-operating revenues (expenses)	29,456	48,774
Change in net assets	2,407,373	2,241,436
Net assets, beginning of year	5,142,674	2,901,238
Net assets, end of year	\$ 7,550,047	\$ 5,142,674

Financial Analysis

Current assets increased 27.7% primarily due to a 64.5% increase in cash and short-term investments and a 47.6% increase in Other Receivables due to an \$87,163 FEMA grant receivable.

Current liabilities increased 12.0% in 2008 primarily from the \$155,257 increase in accounts payable and a \$20,000 increase in current installments of long-term debt.

Noncurrent liabilities increased 3.1% in 2008 primarily due to a 33.4%, \$32,976, increase in the severance and retirement benefit liability, offset somewhat by a decrease in customer advances for construction by 15.8%, \$24,987.

Long term debt, less current installments, decreased 19.2%.

Cable television operating revenues increased 15.4% in 2008. This is primarily due to a rate increase in 2008. Basic Service revenues increased 14.6% in 2008 primarily because of a \$1.00 per subscriber per month rate increase. Basic Plus revenues increased 15.5% in 2008 due to a \$3.00 per subscriber per month rate increase.

Data communications operating revenues increased 5.9% in 2008. An increase of 295 subscribers in 2008 accounts for the increase. Point to Point data service revenues decreased by 12.1% and CyberBasic revenues decreased by 1.8% in 2008.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis
December 31, 2008 and 2007

Total system operation and maintenance expenses increased 12.5% in 2008 due to Cable Television programming costs increases of \$329,892 or 11.0%. In addition, data communications system operation and maintenance expenses increased 11.2% primarily due to a 64.8% increase, \$47,707, in Customer Premise Wiring expenses, an increase of 47.2%, \$42,474, in Network Administration expense, a 63.7%, \$38,223, increase in Plant Operations Administration expense.

Total sales, customer services, and administrative expenses increased 32.2% over 2007. Cable television sales expenses increased by over \$93,600, 50.0%, in 2008 primarily due to a 44.1%, \$57,200, increase in sales expense such as commission wages, a 55.4%, \$31,584, increase in product advertising expense, and a \$205,716 increase in Other General & Administrative costs due to \$185,839 in flood-related operational expenses. Data communication sales expense and customer operations expenses increased by 10.6% due to increased product advertising and customer service wages and a \$140,242 increase in Other General & Administrative expenses due to \$127,076 in flood-related operational expenses.

Interest income decreased 23.3% in 2008 due to lower interest rates in 2008.

Interest expense decreased 12.6% in 2008 primarily due to higher principal payments on long-term debt resulting in less interest paid in 2008.

The other, net decrease of 12.6% in 2008 was primarily due to 72.8%, \$70,357, reduction in Contributions in Aid of Construction revenues.

Capital Assets and Debt Administration

Net capital assets represent 59.6% of total assets for the Utility. Net capital assets increased 5.2% from the prior year primarily due to digital set top box equipment, ad insertion equipment, and video on demand equipment purchases. Additional detail on the change in capital assets can be found in Note 4.

The Utility's total long-term debt at year end 2008, excluding the outstanding loan with the Municipal Electric Utility, was \$3,337,112 compared to \$4,005,894 at year end 2007. The Utility has an outstanding loan with the Municipal Electric Utility totaling \$1,853,090 and \$2,163,090 at December 31, 2008 and 2007 respectively. Additional detail on the outstanding loan can be found in Note 5.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets

Years ended December 31, 2008 and 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and short-term investments (note 3)	\$ 2,400,306	\$ 1,444,601
Cash - Restricted (note 2 and 3)	286,598	188,312
Investments - Restricted (note 2 and 3)	903,000	903,000
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$20,100 in 2008 and \$23,458 in 2007	1,282,691	1,158,099
Interest	19,621	40,174
Government grants - FEMA (note 11)	87,163	-
Other	126,024	117,548
Material and supplies	456,990	486,459
Prepayments and other	90,997	89,768
Total current assets	<u>5,653,390</u>	<u>4,427,961</u>
Capital assets: (note 4)		
Capital assets, in service	17,314,589	16,906,443
Less accumulated depreciation	<u>9,423,856</u>	<u>9,107,410</u>
	7,890,733	7,799,033
Construction work in progress	<u>446,402</u>	<u>127,420</u>
Net capital assets	<u>8,337,135</u>	<u>7,926,453</u>
Deferred costs, net of amortization	<u>4,625</u>	<u>11,235</u>
Total noncurrent assets	<u>8,341,760</u>	<u>7,937,688</u>
Total assets	<u>\$ 13,995,150</u>	<u>\$ 12,365,649</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets
Years ended December 31, 2008 and 2007

<u>Liabilities</u>	<u>2008</u>	<u>2007</u>
Current liabilities:		
Accounts payable	\$ 704,065	\$ 548,808
Accrued wages and vacation	138,906	104,805
Accrued interest	45,082	52,321
Other accrued liabilities	102,488	91,686
Current installments of note payable (note 5)	310,000	310,000
Current installments of long-term debt (note 5)	690,000	670,000
Total current liabilities	<u>1,990,541</u>	<u>1,777,620</u>
Noncurrent liabilities: (note 5)		
Other liabilities (note 5 and 10)	131,640	98,664
Customer advances for construction	132,720	157,707
Total noncurrent liabilities	<u>264,360</u>	<u>256,371</u>
Long-term Debt (note 5)		
Long-term note payable, less current installments (note 5)	1,543,090	1,853,090
Long-term debt, less current installments (note 5)	2,647,112	3,335,894
	<u>4,190,202</u>	<u>5,188,984</u>
Total liabilities and Long-term debt	<u>6,445,103</u>	<u>7,222,975</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,146,933	1,757,469
Restricted - bond indentures (note 2)	960,500	958,833
Unrestricted	3,442,614	2,426,372
Total net assets	<u>7,550,047</u>	<u>5,142,674</u>
Total liabilities and net assets	<u>\$ 13,995,150</u>	<u>\$ 12,365,649</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Revenues, Expenses and Changes in Net Assets
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Cable system revenues	\$ 6,115,836	\$ 5,301,911
Data services revenue	4,299,833	4,036,918
Network access revenue	232,985	216,553
Local private line revenue	146,345	166,567
Other Operating Income	200,282	
Total operating revenues	<u>10,995,281</u>	<u>9,721,949</u>
Operating expenses:		
Plant specific and programming	4,330,697	3,844,619
Depreciation	1,400,177	1,386,185
Plant nonspecific	819,865	734,773
Customer operations	550,399	500,948
Sales	329,552	232,717
Corporate operations (note 8)	1,186,674	830,045
Total operating expenses	<u>8,617,364</u>	<u>7,529,287</u>
Operating income	<u>2,377,917</u>	<u>2,192,662</u>
Non-operating revenues (expenses):		
Interest income	94,244	122,949
Miscellaneous revenue (expense), net	181,644	211,337
Interest expense on long-term debt (note 5)	(197,159)	(225,426)
AFUDC (note 1)	15,349	14,139
Interest expense on affiliated note payable (note 5 and 8)	(64,622)	(74,225)
Total non-operating revenues (expenses)	<u>29,456</u>	<u>48,774</u>
Change in net assets	<u>2,407,373</u>	<u>2,241,436</u>
Net assets beginning of year	<u>5,142,674</u>	<u>2,901,238</u>
Net assets end of year	<u>\$ 7,550,047</u>	<u>\$ 5,142,674</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 10,934,960	\$ 9,848,816
Cash paid to suppliers	(5,948,798)	(5,361,546)
Cash paid to employees	(1,011,534)	(834,121)
	<u>3,974,628</u>	<u>3,653,149</u>
Cash flows from noncapital financing activities:		
Payments on advance from affiliated utility	(310,000)	(310,000)
Interest paid Note Payable	(69,552)	(79,070)
	<u>(379,552)</u>	<u>(389,070)</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(670,000)	(635,000)
Interest payments on long-term debt	(191,640)	(217,208)
Proceeds from customer advances for construction	-	91,000
Refunds of customer advances for construction	(24,987)	(40,293)
Acquisition, construction and removal cost of capital assets	(1,825,245)	(1,709,416)
Proceeds from sale of capital assets	490	11,021
Reimbursement of utility construction costs	55,500	134,382
	<u>(2,655,882)</u>	<u>(2,365,514)</u>
Cash flows from investing activities:		
Proceeds from maturities of investment securities	1,188,000	903,000
Purchase of investment securities	(1,188,000)	(903,000)
Interest received	114,797	121,382
	<u>114,797</u>	<u>121,382</u>
Net increase in cash and cash equivalents	1,053,991	1,019,947
Cash and cash equivalents, beginning of year	1,632,913	612,966
Cash and cash equivalents, end of year (note 1)	<u>\$ 2,686,904</u>	<u>\$ 1,632,913</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows, Continued
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,377,917	\$ 2,192,662
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	1,400,177	1,386,185
Other income (expense), net	155,389	114,725
(Increase) decrease in accounts receivable	(133,068)	958
(Increase) decrease in intergovernmental grants	(87,163)	-
(Increase) decrease in materials and supplies	29,469	(157,675)
(Increase) decrease in prepayments and other	(1,229)	(77,969)
Increase (decrease) in accounts payable	155,257	123,897
Increase (decrease) in accrued wages and vacation	34,101	5,617
Increase (decrease) in other accrued liabilities	10,802	12,229
Increase (decrease) in other noncurrent liabilities	<u>32,976</u>	<u>52,520</u>
Net cash provided by operating activities	<u>\$ 3,974,628</u>	<u>\$ 3,653,149</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

The Municipal Communications Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls, Iowa. The Utility was formed to engage in the development and operation of a broadband communications system and the marketing of related services such as cable television and high-speed data communications. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Communications Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 47 - Telecommunication, Chapter I - Federal Communications Commission.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Utility applies only Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989.

(b) Cash and Investments

All investments held are certificates of deposit where cost approximates fair value.

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows.

(c) Inventories

Materials and supplies are valued at average cost. Inventories are recorded as an expenditure at the time individual inventory items are consumed.

(d) Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 4.92% in 2008 and 2007. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 7 to 20 years and equipment - 20 years. The depreciation provision was equivalent to an overall composite rate of 8.2% and 8.9% of depreciable assets for 2008 and 2007, respectively.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

(e) Operating Revenues and Expenses

Operating revenues include revenues resulting from the sale of products and services. Operating expenses include expenses for plant specific and programming, depreciation, plant nonspecific, customer operations, sales, and corporate operations. Nonoperating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities and investing activities.

Revenues are based on billing rates, which are applied to customers' consumption of communications services. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not billed at December 31, 2008 and 2007, were \$342,254 and \$322,848, respectively.

(f) Deferred Costs

Debt discount, debt premium and debt issue costs are amortized over the life of the debt using the effective interest method.

(g) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of government entities.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(h) Estimates

The preparation of the financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

(i) Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based on the total of all four utilities as a whole. Due to a devastating June 2008 flood that significantly damaged much utility property and related unexpected recovery expenditures, a budget amendment identifying these additional expenditures was filed with the state of Iowa.

(j) Reclassifications

Reclassifications of prior year's amounts have been made for comparability.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(2) Restricted Assets

The composition of restricted assets as of December 31, 2008 and 2007 was as follows:

	2008		
Current Assets - Restricted	Cash	Investments	Total
Bond Reserve	\$ -	\$ 403,000	\$ 403,000
Bond and Interest	71,161	-	71,161
Self Insured Medical and Dental	215,437	-	215,437
Improvement and Extension	-	500,000	500,000
Total Current Assets - Restricted	<u>286,598</u>	<u>903,000</u>	<u>1,189,598</u>
Total restricted assets	<u>\$ 286,598</u>	<u>\$ 903,000</u>	<u>\$1,189,598</u>

	2007		
Current Assets - Restricted	Cash	Investments	Total
Bond Reserve	\$ -	\$ 403,000	\$ 403,000
Bond and Interest	71,803	-	71,803
Self Insured Medical and Dental	116,509	-	116,509
Improvement and Extension	-	500,000	500,000
Total Current Assets - Restricted	<u>\$ 188,312</u>	<u>\$ 903,000</u>	<u>\$1,091,312</u>
Total restricted assets	<u>\$ 188,312</u>	<u>\$ 903,000</u>	<u>\$1,091,312</u>

The monies deposited into the various accounts have been invested in interest-bearing securities as required by the bond resolution. Amounts deposited in the above funds may only be used for the purposes as set forth in the bond resolution and as a result are classified as restricted. Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

(3) Cash on Hand, Deposits, and Investments

Cash on Hand. Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2008 was \$60 and 2007 was \$60.

Deposits. At December 31, 2008, the Utility's carrying amount of deposits, including \$903,000 of certificates of deposits, was \$3,589,844. At December 31, 2007, the Utility's carrying amount of deposits, including \$903,000 of certificates of deposits, was \$2,535,853.

Investments. The utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United State 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; and warrants or improvement certificates of a drainage district.

As of December 31, 2008 and 2007, the Utility had no Federal Agency Obligation investments or maturities.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(3) Cash on Hand, Deposits, and Investments, Continued

Interest Rate Risk. The Utility's investment policy limits the investments 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 instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk. The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during the year.

Concentration of Credit Risk. The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during the year.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are 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.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the balance sheets follows:

	2008	2007
Cash on hand	\$ 60	\$ 60
Carrying amount of deposits	3,589,844	2,535,853
Total	\$ 3,589,904	\$ 2,535,913
Current Assets		
Cash and cash equivalents	\$ 2,400,306	\$ 1,444,601
Restricted Cash	286,598	188,312
Restricted Investments	903,000	903,000
Total	\$ 3,589,904	\$ 2,535,913

Of the unrestricted cash and investments listed above, the Board of Trustees of the Municipal Communications Utility has made no reserve fund designations.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2008 and 2007 follows:

2008	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Construction,				
Work-in-progress	\$ 127,420	\$1,816,153	\$1,497,171	\$ 466,402
Total capital assets, not being depreciated	<u>127,420</u>	<u>1,816,153</u>	<u>1,497,171</u>	<u>466,402</u>
Capital assets, being depreciated:				
Infrastructure	16,607,029	1,489,215	1,061,356	17,034,888
Equipment	299,414	7,956	27,669	279,701
Total capital assets, being depreciated	<u>16,906,443</u>	<u>1,497,171</u>	<u>1,089,025</u>	<u>17,314,589</u>
Less accumulated depreciation	<u>9,107,410</u>	<u>1,409,645</u>	<u>1,093,199</u>	<u>9,423,856</u>
Total capital assets, being depreciated, net	<u>7,799,033</u>	<u>87,526</u>	<u>(4,174)</u>	<u>7,890,733</u>
Capital assets, net	<u>\$ 7,926,453</u>	<u>\$1,903,679</u>	<u>\$1,492,997</u>	<u>\$ 8,337,135</u>
2007	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Construction,				
Work-in-progress	\$ 293,776	\$ 1,656,333	\$ 1,822,689	\$ 127,420
Total capital assets, not being depreciated	<u>293,776</u>	<u>1,656,333</u>	<u>1,822,689</u>	<u>127,420</u>
Capital assets, being depreciated:				
Infrastructure	15,090,638	1,788,037	271,646	16,607,029
Equipment	264,513	34,901	-	299,414
Total capital assets, being depreciated	<u>15,355,151</u>	<u>1,822,938</u>	<u>271,646</u>	<u>16,906,443</u>
Less accumulated depreciation	<u>7,980,114</u>	<u>1,398,942</u>	<u>271,646</u>	<u>9,107,410</u>
Total capital assets, being depreciated, net	<u>7,375,037</u>	<u>423,996</u>	<u>-</u>	<u>7,799,033</u>
Capital assets, net	<u>\$ 7,668,813</u>	<u>\$ 2,080,329</u>	<u>\$ 1,822,689</u>	<u>\$ 7,926,453</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2008 and 2007 was as follows:

2008	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation bonds:					
Series 1998	\$ 405,000	\$ -	\$ 40,000	\$ 365,000	\$ 40,000
Series 1999	385,000	-	50,000	335,000	50,000
Series 2002	915,000	-	295,000	620,000	305,000
Note payable - Municipal Electric Utility	2,163,090	-	310,000	1,853,090	310,000
Series 1999 capital loan notes	2,305,000	-	285,000	2,020,000	295,000
Unamortized discount	(2,013)	-	(733)	(1,280)	-
Unamortized premium	(2,093)	-	(485)	(1,608)	-
	<u>6,168,984</u>	<u>-</u>	<u>978,782</u>	<u>5,190,202</u>	<u>\$1,000,000</u>
Current installments of long-term debt	(980,000)	(20,000)	-	(1,000,000)	
Long-term debt, less current installments	5,188,984	(20,000)	978,782	4,190,202	
Other noncurrent liabilities:					
Customer advances for construction	157,707	-	24,987	132,720	
Other liabilities	98,664	58,064	25,088	131,640	
Noncurrent liabilities	<u>256,371</u>	<u>58,064</u>	<u>50,075</u>	<u>264,360</u>	
Total noncurrent liabilities	<u>\$5,445,355</u>	<u>\$ 38,064</u>	<u>\$1,028,857</u>	<u>\$4,454,562</u>	

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(5) Noncurrent Liabilities, Continued

2007	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation bonds:					
Series 1998	\$ 445,000	\$ -	\$ 40,000	\$ 405,000	\$ 40,000
Series 1999	430,000	-	45,000	385,000	50,000
Series 2002	1,195,000	-	280,000	915,000	295,000
Note payable - Municipal Electric Utility Series 1999 capital loan notes	2,473,090	-	310,000	2,163,090	310,000
Unamortized discount	(2,879)	-	(866)	(2,013)	-
Unamortized premium	(1,956)	-	137	(2,093)	-
	<u>7,113,255</u>	<u>-</u>	<u>944,271</u>	<u>6,168,984</u>	<u>\$980,000</u>
Current installments of long-term debt	(945,000)	(35,000)	-	(980,000)	
Long-term debt, less current installments	<u>6,168,255</u>	<u>(35,000)</u>	<u>944,271</u>	<u>5,188,984</u>	
Other noncurrent liabilities:					
Customer advances for construction	164,939	66,331	73,563	157,707	
Other liabilities	46,144	77,651	25,131	98,664	
Noncurrent liabilities	<u>211,083</u>	<u>143,982</u>	<u>98,694</u>	<u>256,371</u>	
Total noncurrent liabilities	<u>\$6,379,338</u>	<u>\$ 108,982</u>	<u>\$1,042,965</u>	<u>\$5,445,355</u>	

All general obligation (G.O.) bonds have been issued by the City on behalf of the Utility. The (G.O.) bonds require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 2.5% and 5.5%. The total debt service obligations over the remaining term of the bonds are as follows:

Year	Series 1998 Communications General Obligation Bonds		Series 1999 Communications General Obligation Bonds		Series 2002 Communications General Obligation Bonds	
	December 1 Principal Amount	4.30%-4.90% Interest Amount	December 1 Principal Amount	4.35%-5.15% Interest Amount	December 1 Principal Amount	2.50%-3.60% Interest Amount
2009	\$ 40,000	\$ 17,600	\$ 50,000	\$ 16,810	\$ 305,000	\$ 21,710
2010	45,000	15,720	50,000	14,385	315,000	11,340
2011	90,000	13,583	55,000	11,935	-	-
2012	95,000	9,262	55,000	9,185	-	-
2013	95,000	4,655	60,000	6,408	-	-
2014	-	-	65,000	3,347	-	-
	<u>\$ 365,000</u>	<u>\$ 60,820</u>	<u>\$ 335,000</u>	<u>\$ 62,070</u>	<u>\$ 620,000</u>	<u>\$ 33,050</u>

The Series 1999 capital loan notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the notes are in a range between 4.6% and 5.5%. The debt is secured by the future net revenues of the Utility.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(5) Noncurrent Liabilities, Continued

The total debt service obligations over the remaining term of the notes are as follows:

Series 1999 Communications Capital Loan Notes		
Year	December 1 Principal Amount	4.60%-5.50% Interest Amount
2009	\$ 295,000	\$ 107,813
2010	310,000	92,768
2011	325,000	76,648
2012	345,000	59,422
2013	365,000	40,792
2014	380,000	20,900
	<u>\$ 2,020,000</u>	<u>\$ 398,343</u>

The bond resolution provides certain covenants relating to the collection, segregation and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

The Board of Trustees of the Municipal Electric Utility authorized a loan to be extended to the Utility under Resolutions No. 2759, 2840, 2939, 2994, and 3086. The December 31, 2008 and 2007 outstanding balances on this loan were \$1,478,090 and \$1,663,090, respectively, bearing interest at 3.1%. The Board of Trustees of the Municipal Electric Utility approved a loan be extended to the Utility under Resolution No. 3497. The December 31, 2008 and 2007 outstanding balances on this loan were \$375,000 and \$500,000, respectively, bearing interest at 3.1%. Semiannual debt service payments are required on January 1 and July 1. Total debt service requirements are as follows:

Notes Payable Electric Utility		
Year	Principal Amount	Interest Amount
2009	\$ 310,000	\$ 59,764
2010	310,000	50,240
2011	310,000	40,630
2012	185,000	31,059
2013	185,000	25,247
2014-2016	553,090	43,840
	<u>\$1,853,090</u>	<u>\$ 250,780</u>

(6) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), 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 IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

(6) Pension and Retirement Benefits, Continued

Plan members were required to contribute 3.90% of their annual covered salary and the Utility is required to contribute 6.05% of annual covered payroll through June 30, 2008. Beginning July 1, 2008 plan members are required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2008, 2007, and 2006, were \$100,992; \$83,095; and \$77,117, respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit will be phased out by June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it will be reduced to 50% and zero thereafter. The Utility recognized liability of \$6,285 and \$5,070; respectively, for the years ended December 31, 2008 and 2007.

(7) Income Tax Status

The Utility is exempt from federal and state income taxes under the applicable tax codes.

(8) Related Party Transactions

The Utility provides communications service to the City. Operating revenues from the service provided amounted to \$66,260 and \$70,459 in 2008 and 2007, respectively.

Outstanding loan balances from the Municipal Electric Utility are \$1,853,090, and \$2,163,090 as of December 31, 2008, and 2007, respectively. Interest accrues on the loan at 3.1%, and is paid semi-annually during January and July. Annual principal payments continue through 2016 (see note 5). Accrued interest payable was \$31,421 and \$36,351 at December 31, 2008 and 2007, respectively. Interest expense for the years ended December 31, 2008 and 2007 was \$64,622 and \$74,225 respectively.

The Utility pays the Municipal Electric Utility, the Municipal Gas Utility and the Municipal Water Utility a management fee for administration, finance, human resources and legal services as part of the program to equitably allocate Communications costs. For the years ended December 31, 2008 and 2007, the Utility recorded a management fee to the Municipal Electric Utility of \$69,863; the Municipal Gas Utility of \$21,424; and the Municipal Water Utility of \$1,863.

See note 5 for description of debt with the City. The interest paid to the City was \$69,579 and \$81,916 for the years ended December 31, 2008 and 2007, respectively. The accrued interest related to this debt was \$4,677 and \$5,798 at December 31, 2008 and 2007, respectively.

(9) Risk Management

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks.

(9) Risk Management, Continued

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2008 plan year for aggregate claims exceeding \$2.1 million.

Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Changes in the balances of the Utilities liabilities during the past two years are as follows:

	2008	2007
Unpaid claims and IBNR, beginning of year	\$ 185,000	\$ 300,000
Current year costs including IBNR	1,544,287	1,424,435
Claims paid	(1,435,687)	(1,539,435)
Unpaid claims and IBNR, end of year	<u>\$ 293,600</u>	<u>\$ 185,000</u>

The Utility has recorded \$38,168 and \$22,200 in accounts payable for its share of these unpaid claims at December 31, 2008 and 2007, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 470 governmental entities participate in the Association. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2008.

Cash and cash equivalents and investments	\$41,832,212
Receivables	1,587,842
Other assets	555,181
Total assets	<u>\$43,975,235</u>
Total liabilities	\$20,132,854
Total equity	23,842,381
Total liabilities and equity	<u>\$43,975,235</u>
Total revenues	\$ 8,727,540
Total expenses	3,056,377
Distribution to members	-
Net increase in equity	<u>\$ 5,671,163</u>

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from coverage in the prior year.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

Plan Description

The Cedar Falls Utilities administers a single-employer defined benefit medical health care plan (The Plan) for all four utilities. The plan provides self-insured medical, vision, and prescription drug coverage, and to all active and retired employees and their eligible dependents. Eligible retirees receive health care coverage through the same plans that are available for active employees. To be eligible for these benefits employees at their retirement date must be a minimum of 55 years old, have been employed for the preceding four years, and be enrolled in the plan. Plan contributions are required from retirees based on an amount equal to the full cost of active members. These medical benefits terminate upon attaining Medicare eligibility. In addition, the Plan provides a \$5,000 in life insurance benefits to all retirees who elect this coverage and agree to pay a contribution for this coverage.

Funding Policy

The Utility, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2008, the Utility contributed \$140,936 and retirees receiving benefits contributed \$153,307 through their required contributions.

Annual OPEB and Net OPEB Obligations

The Plan's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of General Accounting Standards Board (GASB) Statement No 45. This standard was implemented in 2008. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following schedule shows the components of the annual OPEB expense for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	<u>2008</u>
Annual required contribution	\$299,000
Interest on Net OPEB Obligation	-
Adjustment to annual required contribution	<u>9,572</u>
Annual OPEB expense	289,428
Contributions and payments made	<u>(12,371)</u>
Increase in net OPEB obligation	\$301,799
Net OPEB obligation, December 31, 2007	<u>-</u>
Net OPEB obligation, December 31, 2008	<u><u>\$301,799</u></u>

The Communications Utility's share of the December 31, 2008 Net OPEB obligation is \$21,501.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
 (A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
 December 31, 2008 and 2007

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the year ended December 31, 2008:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2008	\$289,428	-4.27%	\$301,799

Funded Status and Funding Progress

As of January 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$3,436,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$11,162,424, in 2008 and the ratio of the UAAL to the covered payroll was 30.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. There are no plans to fund The Plan at this time.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Actuarial valuation date:	January 1, 2007
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage Of Projected Payroll
Remaining amortization period:	30 years
Actuarial assumptions:	
Discount Rate	5.0%
Healthcare Trend Rate	11.0% declining .5% annually to 6%
Projected Salary Increases	4.0%

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements
December 31, 2008 and 2007

On June 10, 2008, Cedar Falls Utilities was hit by a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, and tools. The Utilities began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2008, Utility administrative facilities and generation facilities were still not completely repaired and operational. As of December 31, 2008, the Communications Utility has spent \$312,915 in operational expense for flood recovery and \$4,141 in asset repair and replacement. The Utility has recognized \$200,279 in Other Operating Revenues for FEMA reimbursement expected for operational losses. As of December 31, 2008, the Utility recognized a receivable of \$87,163 for FEMA flood disaster reimbursement. The Utility has received \$228,773 in FEMA reimbursements between January 1, 2009 and March 31, 2009 with the remainder due upon completion of the review by the State of Iowa.

(12) Commitments and Contingencies

As of December 31, 2008, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$446,000 including approximately \$4,000 in flood-related capital projects.

(13) Subsequent Events

Effective January 1, 2009, the Board of Trustees approved a rate increase in premium movie channel packages of approximately 16% and Digital Signature add-on package of 2.8% for customers taking these services.



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**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
Cedar Falls Utilities – Municipal Communications Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Communications Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated May 4, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's 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 of the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

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 the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's 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 the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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.

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Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the Schedule of Findings, which has been submitted under separate cover. 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.

We noted certain matters that we reported to management of the Utility in a separate letter dated May 4, 2009.

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

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

A handwritten signature in cursive script that reads "Eide Sully LLP".

Dubuque, Iowa
May 4, 2009



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Cedar Falls Utilities – Municipal Electric Utility

We have audited the accompanying balance sheets of the Municipal Electric Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2009, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

The management's discussion and analysis on pages 1 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

May 4, 2009
Dubuque, Iowa

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Cedar Falls Utilities – Municipal Gas Utility

We have audited the accompanying balance sheets of the Municipal Gas Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2009, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

May 4, 2009
Dubuque, Iowa

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Cedar Falls Utilities – Municipal Water Utility

We have audited the accompanying balance sheets of the Municipal Water Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2009, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

May 4, 2009
Dubuque, Iowa

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Cedar Falls Utilities – Municipal Communications Utility

We have audited the accompanying balance sheets of the Municipal Communications Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2009, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

May 4, 2009
Dubuque, Iowa

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**INFORMATION TO COMPLY WITH OMB CIRCULAR A-133,
*AUDITS OF STATES, LOCAL GOVERNMENTS,
AND NON-PROFIT ORGANIZATIONS*
FOR THE YEAR ENDED DECEMBER 31, 2008**

**CEDAR FALLS MUNICIPAL UTILITIES
CEDAR FALLS, IOWA**

**CEDAR FALLS MUNICIPAL UTILITIES
CEDAR FALLS, IOWA**

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CPAs & BUSINESS ADVISORS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
ITS MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees
Cedar Falls Municipal Utilities
Cedar Falls, Iowa

Compliance

We have audited the compliance of Cedar Falls Municipal Utilities with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. The Utilities' major federal program is identified in the summary of the independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the management of Cedar Falls Municipal Utilities. Our responsibility is to express an opinion on the Utilities' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Utilities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Utilities' compliance with those requirements.

In our opinion, Cedar Falls Municipal Utilities complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Cedar Falls Municipal Utilities is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Utilities' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Cedar Falls Municipal Utilities as of and for the year ended December 31, 2008, and have issued our report thereon dated May 4, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Utilities' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of Cedar Falls Municipal Utilities and other parties to whom Cedar Falls Municipal Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
May 4, 2009

**CEDAR FALLS MUNICIPAL UTILITIES
 CEDAR FALLS, IOWA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2008**

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
Department of Homeland Security:			
Iowa Department of Public Defense:			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	013-000CA-00	<u>\$8,515,230</u>

**CEDAR FALLS MUNICIPAL UTILITIES
CEDAR FALLS, IOWA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cedar Falls Municipal Utilities and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**CEDAR FALLS MUNICIPAL UTILITIES
CEDAR FALLS, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008**

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program was noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Cedar Falls Municipal Utilities did not qualify as a low-risk auditee.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-08 Certified Budget – Disbursements during the year ended December 31, 2008, did not exceed the amounts budgeted.
- II-B-08 Questionable Expenditures – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-08 Travel Expense – No expenditures of the Utility's money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-08 Business Transactions – No business transactions between the Utilities and Utility officials or employees were noted.
- II-E-08 Bond Coverage – Surety bond coverage of Utility 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.
- II-F-08 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-08 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.

**CEDAR FALLS MUNICIPAL UTILITIES
CEDAR FALLS, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Part II: Other Findings Related to Required Statutory Reporting: (continued)

- II-H-08 Revenue Bonds – We noted no instances of non-compliance with the provisions of the Utilities’ revenue bond resolutions.
- II-I-08 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Iowa Code were noted.



CPAs & BUSINESS ADVISORS

To the Board of Trustees
Cedar Falls Utilities – Municipal Electric, Gas, Water, and Communications Utilities

We have audited the financial statements of Cedar Falls Utilities – Municipal Electric, Gas, Water, and Communications Utilities (the Utilities) for the year ended December 31, 2008, and have issued our report thereon dated May 4, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated October 24, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope of Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our conversation about planning matters with Roger Kueter on April 1, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Cedar Falls Utilities are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Utility during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the unbilled receivables is based on a calculation of billing dates in January 2008. We evaluated the key factors and assumptions used to develop the unbilled receivables in determining that it is reasonable in relation to the financial statements taken as a whole.

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Management's estimate of the allowance for doubtful accounts is based on a calculation of average write offs for the four previous years. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the incurred but not reported claims is based on a calculation of estimated unpaid claims. We evaluated the key factors and assumptions used to develop the incurred but not reported claims in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the accrued severance and retirement insurance benefit is based on a calculation of estimated payout of sick leave and estimated probability of severance pay. We evaluated the key factors and assumptions used to develop the accrued severance and retirement insurance benefit in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of intergovernmental receivables from FEMA is based on expenditures incurred for flood related items as of year end which are reimbursed through FEMA. We evaluated the key factors and assumptions used to develop the receivables in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The material misstatements detected as a result of auditing procedures were corrected by management and are attached on the supporting schedule.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 4, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Company’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Utilities’ auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of board of directors and management of Cedar Falls Utilities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
May 4, 2009

CEDAR FALLS UTILITIES
DECEMBER 31, 2008
OTHER COMMENTS

Communications Utility Allocations

The process of allocating administrative, accounting, and customer service salaries and building cost to the Communication Utility was implemented at least five years ago. We recommend that the process be reviewed and adjusted for any changes in operations.

New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued four statements not yet implemented by Cedar Falls Utilities. The statements, which might impact the Utilities, are as follows:

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued June 2007 will be effective for the fiscal year ending December 31, 2010. This statement requires that all intangible assets not specifically excluded by its scope be classified as capital assets.

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, issued November 2007, will be effective for the fiscal year ending December 31, 2009. This statement establishes standards of accounting and financial reporting for land and other real estate held as investments by endowments. Land and other real estate held as investments by endowments should be reported at fair value at that reporting date.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for the fiscal year ending December 31, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments.

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued March 2009, will be effective for the fiscal year ending December 31, 2011. This statement establishes new standards for fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The Utilities' management is in the process of determining the effect these statements will have, if any, on the Utilities' financial statements.