

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

**INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS**

**December 31, 2008**

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

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**OFFICIALS  
OSAGE MUNICIPAL UTILITIES**

**December 31, 2008**

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	Steve Swenson	December 2008
Trustee	Kelvin Palsic	December 2012
Trustee	Harlan Bremer	December 2009
Trustee	Royce Tack	December 2009
Trustee	Doug Lang	December 2010
General Manager	Dennis Fannin	Indefinite
Board Secretary	Paula Ross	Indefinite
Cashier	Jane Michels	Indefinite
Treasurer	Beverly Miller	January 2011



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Osage Municipal Utilities  
Osage, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of Osage Municipal Utilities, (component units of the City of Osage) as of and for the years ended December 31, 2008 and 2007, which collectively comprise the Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of Osage Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities, each major fund and the aggregate remaining fund information of Osage Municipal Utilities as of December 31, 2008 and 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 13, 2009 on our consideration of Osage Municipal Utilities' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 32 through 33 are not required parts of the basic financial statements, but are supplementary

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Osage Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended December 31, 2007 and expressed unqualified opinions on those financial statements. The other supplementary information included in schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1 through 5 have been subjected to the auditing procedures applied in the audits of the aforementioned financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The other supplementary information included in schedules 6 through 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 6 through 9 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

July 13, 2009

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Osage Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2008. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2008 FINANCIAL HIGHLIGHTS

- ◆ The Utilities' operating revenues increased 12.3%, or approximately \$1,084,000, from 2007 to 2008.
- ◆ Operating expenses increased 13.8%, or approximately \$1,106,000, from 2007 to 2008.
- ◆ The Utilities' net assets increased 4.9%, or approximately \$631,000 during 2008.
- ◆ 2008 investment income decreased by more than 46% due to earnings from lower interest rates on higher cash balances.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

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

Fund financial statements report the Utilities' operations by providing information about the most significant funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

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

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

### REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

#### *Fund Financial Statements*

Osage Municipal Utilities utilizes one kind of fund:

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

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

The condensed statement of net assets, shown below, shows how assets and liabilities have changed over the past two years. In 2008 capital assets increased by just over 7% and represent 61% of total assets. This increase is due to capital asset purchases exceeding depreciation and retirements. Total assets increased by approximately \$2,271,000 and liabilities increased by \$1,640,000 resulting in the increase in net assets of approximately \$631,000 dollars during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2008	2007
Current and other assets	\$ 8,105	\$ 6,694
Capital assets (net of depreciation)	12,980	12,120
Total assets	21,085	18,814
Long-term debt outstanding	5,631	4,450
Other liabilities	1,958	1,499
Total liabilities	7,589	5,949
Net assets:		
Invested in capital assets, net of related debt	7,088	7,590
Restricted	983	663
Unrestricted	5,425	4,612
Total net assets	\$ 13,496	\$ 12,865

## INDIVIDUAL MAJOR FUND ANALYSIS

As Osage Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$13.5 million, an increase of more than \$600,000 over last year's total of \$12.9 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

### Electric Utility Results of Operations

Light and Power operating revenues increased 11.8% from the prior year due to a partial year increase in retail electric rates. The electric rate increase was necessary to offset the 85% increase in the cost of wholesale power that occurred in May of 2008.

Total operating expenses for 2008 were higher by almost \$628,000, or 18.4% more than in 2007. Most of the increase can be attributed to an increase in the cost of purchased power.

## **Gas Utility Results of Operations**

Consumption of natural gas by Osage residents and businesses increased by more than 6.5% in 2008 and total operating expenses increased by more than 15%. Operating revenues in the Gas utility increased by 14%. These factors resulted in a decrease in net assets of \$323,000. Of the total volumes of gas delivered to customers during 2008, 26% can be attributed to the Gas Utility's largest customers.

## **Telecom Utility Results of Operations**

The Communications Utility ended the year with a gain of \$272,000. Although the effect of cellular phone competition has leveled the rate of growth in number of customers who subscribe to our telephone service, the number of cable television, high speed internet, and rural wireless customers grew by 2.6%, 13.0% and 4.8%, respectively, over the previous year. The significant growth in number of customers, as well as a 1.6% reduction in operating expenses, enabled net assets to grow by 35.2% in 2008.

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

Two rounds of price increases for cable TV service were necessary in 2007 to protect margins against the constant onslaught of increasing programming costs. A package of digital cable channels was added to our line-up of cable TV services in 2007 and has been well received by Osage Cable customers who choose to upgrade to this service. No increases in cable rates were implemented in 2008, but we expect an increase in 2009 to cover rising programming costs.

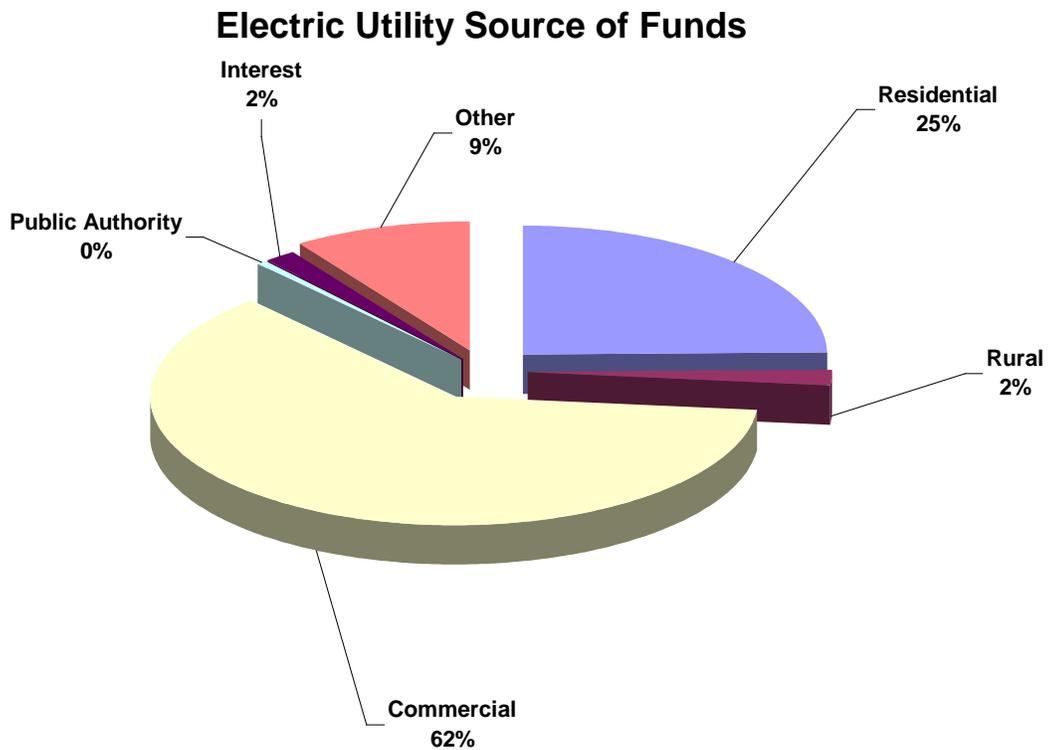
In 2007 we enhanced our cable modem high speed Internet service with a major upgrade that produced increased speed and performance, as well as improved market penetration due to a 20% addition to our customer base. In addition, we expect to enhance speed again in 2009.

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

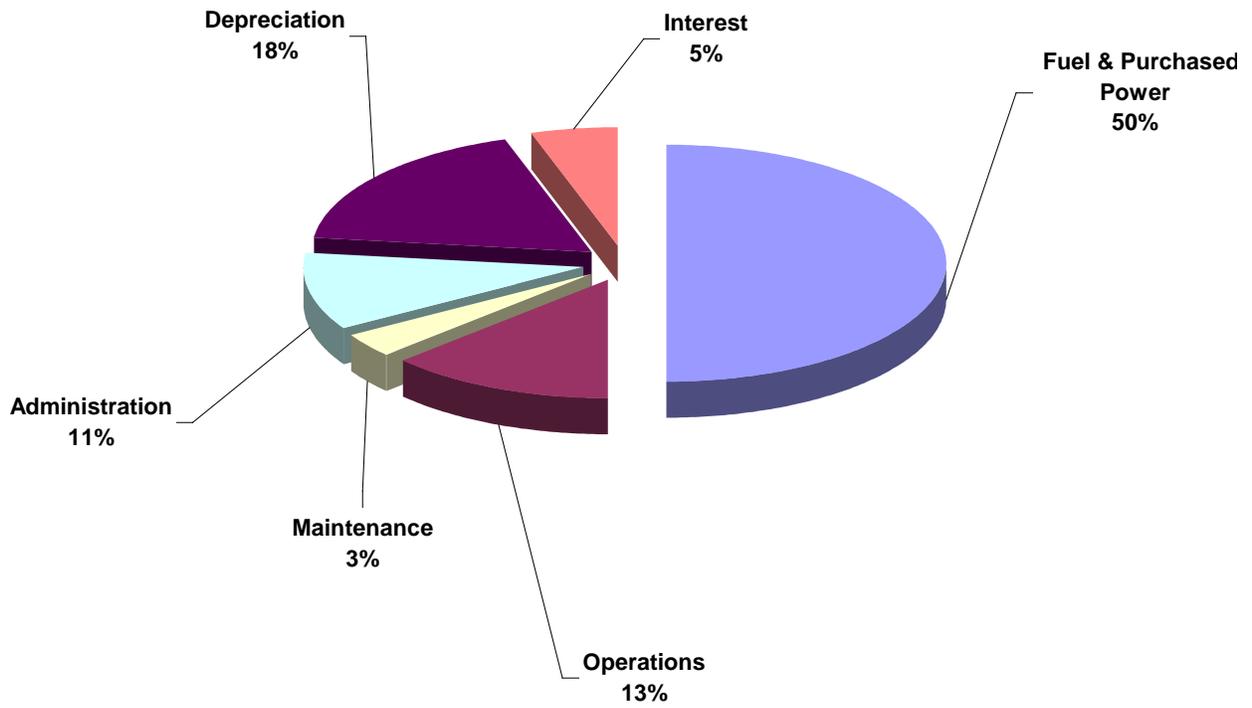
The following analysis focuses on the change in net assets for the combined divisions of Osage Municipal Utilities. The pie charts following the chart below show the source of revenues and expenses by fund for Osage Municipal Utilities.

**Changes in Net Assets of Business Type Activities**  
(Expressed in Thousands)

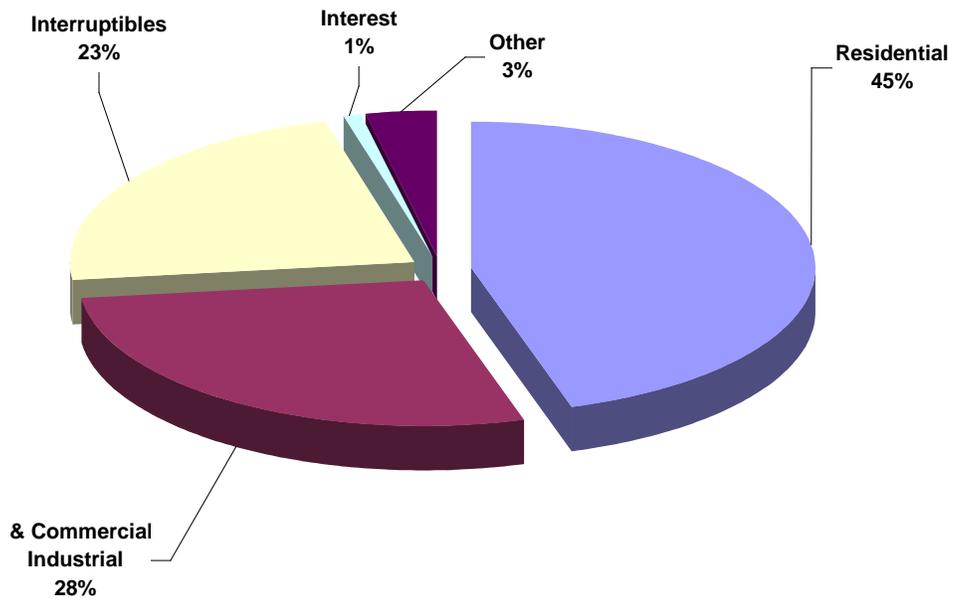
	Year ended December 31,	
	2008	2007
Operating revenues	\$ 9,927	\$ 8,843
Operating expenses	9,129	8,023
Operating income	798	820
Net Non-Operating Revenues (Expenses)	(174)	(348)
Other financing sources (Uses)	7	18
Change in Net Assets	631	490
Net assets beginning of year	12,865	12,375
Net assets end of year	\$ 13,496	\$ 12,865



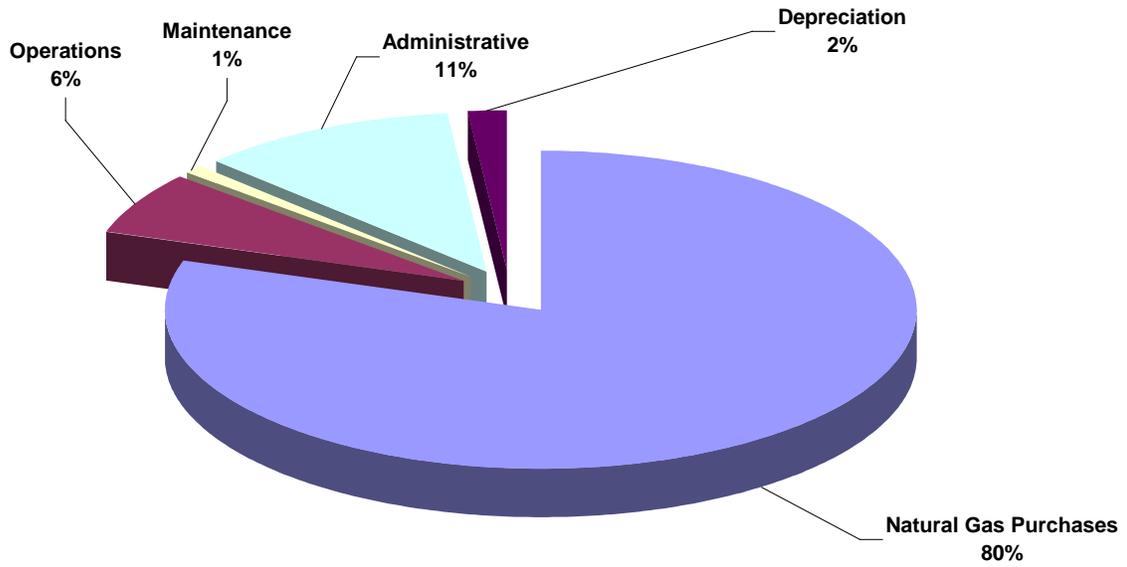
## Electric Utility Use of Funds



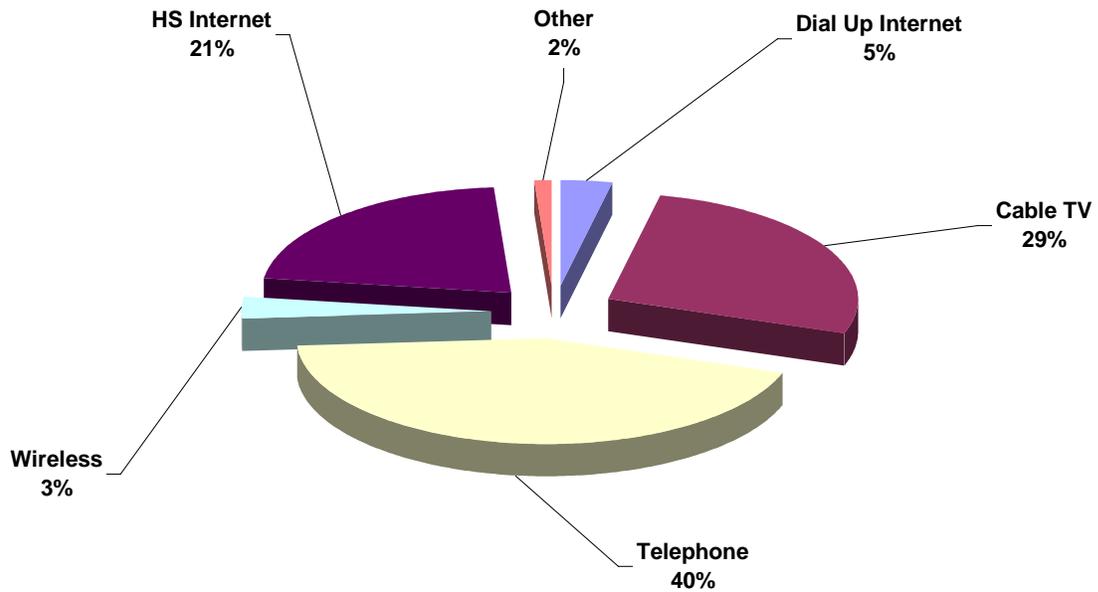
## Gas Utility Source of Funds



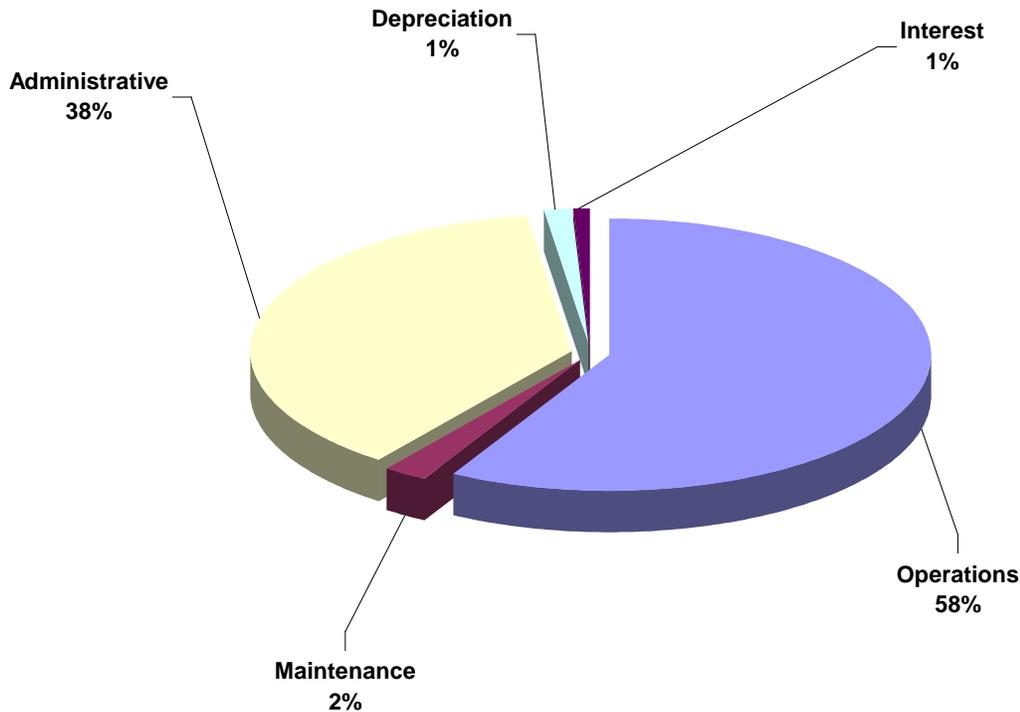
## Gas Utility Use of Funds



## Communications Utility Source of Funds



## Communications Utility Use of Funds



### BUDGETARY HIGHLIGHTS

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

### CAPTIAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At December 31, 2008, Osage Municipal Utilities had approximately \$13 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase (including additions and deletions net of depreciation) of approximately \$860,000 or 7 percent over last year.

Capital Assets of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2008	2007
Land and improvements	\$ 48	\$ 48
Buildings and improvements	1,031	1,046
Equipment and vehicles	11,707	10,763
Construction in Progress	64	128
Iowa Stored Energy Project	130	135
Total	\$ 12,980	\$ 12,120

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

Osage Municipal Utilities had depreciation expense of \$863,507 in 2008 and total accumulated depreciation of \$12,581,467 at December 31, 2008.

## **LONG TERM DEBT/LIABILITIES**

At December 31, 2008, Osage Municipal Utilities had \$6,136,524 in revenue bonds outstanding compared to \$4,815,000 at December 31, 2007, as shown below.

	Outstanding debt of Business Type Activities at Year End (Expressed in Thousands)	
	Year ended December 31,	
	2008	2007
Revenue Bonds	\$ 6,137	\$ 4,815

Debt increased as the Light & Power Fund issued \$1,806,990 in CREBS bonds to finance the addition of a wind turbine.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

### **The Electric Utility**

Effective April 30, 2008, Osage Municipal Utilities' very favorable cost-based long-term power supply agreement came to an end. The combined effect of many factors, including the rising cost of coal and natural gas, coal transportation and increased investment in new technology to meet new environmental standards and state mandates for renewable generation, made it impossible for wholesale power providers to continue offering such low cost energy. Accordingly, starting May 1, 2008, OMU saw their wholesale purchase price for electricity increase by 85%.

Looking to 2009, Dairyland Power, our wholesale power provider, took aggressive measures to reduce costs and developed an alternative strategy for coal burning at one of their generating stations. They further prioritized and cut capital projects and cut back or eliminated non essential activities and expenses to help mitigate some of the cost drivers that continue to rise. Nonetheless, just prior to the start of the new contract year, beginning May 1, 2009, Dairyland announced an approximate 16% increase in wholesale rates. Without Dairyland's efforts, our wholesale energy costs would have been higher. Despite steadily rising power costs, OMU's retail rates continue to hold a favorable position relative to other electric utilities.

In order to minimize the impact of this most recent increase to our customers, Osage Municipal Utilities decided to eliminate or postpone more than \$250,000 from budgeted electric expenses without compromising reliability of service. This action was also taken to address anticipated zero growth in electric consumption for 2009.

Although Dairyland Power remains as one of the lowest cost energy providers in the Midwest, OMU continues to investigate, through municipal joint action, opportunities to acquire a long-term alternate block of energy and capacity to lower our exposure to market risk.

As anticipated, a second Neighborhood Electric Vehicle was purchased in 2008 to further reduce our reliance on internal combustion engine vehicles. Almost 100% of all NEV miles are for trips of 3 miles or less and replace the daily short-distance trips that would have been taken with petroleum-powered pickup trucks. The ZERO-emission NEV has been a visible way to demonstrate our desire to operate more efficiently and reduce greenhouse gas emissions.

In keeping with the flexibility afforded by our contract with Dairyland, which allows us to build a portfolio of energy supply options, OMU has committed to locating a wind turbine on its electric distribution system by the end of 2009. If current trends continue, the cost of electricity from a wind turbine will soon be less than the cost of electricity from fossil fueled sources. OMU plans to be prepared for meeting or exceeding any renewable portfolio standard that may be required in the next few years.

### **The Gas Utility**

Oil prices, impending climate change legislation, valuation of the dollar, global supply of natural gas, deterioration of the credit markets, and a global financial crisis represent a mix of issues that have teamed up to create uncertainty and risk in the natural gas industry. Price volatility has been the end result. To address increased price volatility, as well as increased credit exposure associated with buying peak supplies during a potentially volatile gas price environment, OMU continues to employ price hedges on gas volumes throughout the year.

OMU management has also been alert for opportunities to participate in a natural gas prepayment transaction to secure long-term supply of natural gas at a significant discount to market prices. We believe natural gas prepayment transactions can be an effective strategy to mitigate the cost of an essential service, thereby helping to safeguard the economic well being of the community. Although disruptions to the financial markets have resulted in a slowdown in completing natural gas prepayment projects, we remain optimistic that these opportunities will return when the financial markets stabilize once again.

### **Communications**

Osage Municipal Utility's largest technical challenge in 2009 is planning the replacement of our community-wide phone system which is scheduled for end-of-life in July 2011. Initial investigation favors the current technology, open systems and lower maintenance costs of a Voice over Internet Protocol (VoIP) system. Future enhancements could provide additional savings by moving third party services in-house.

In November 2008, software configuration changes to one of our broadband wireless systems failed to significantly increase customer Internet speeds. As a result, this system is scheduled for conversion to the vendor's newest series of radios in early 2009. This new system can support speeds of up to 4 times faster than our current 256k offering and has additional VoIP phone prioritization support for possible future services to our rural customers.

Switching Internet cloud providers in late 2008 enabled us to increase bandwidth at minimal cost. In early 2009 OMU customers will enjoy cable modem speeds that are 40% to 100% faster. These bandwidth increases also help improve network efficiency and reduce system overhead from dropped packets, resend requests and faster large email attachment delivery.

Expanding our cable TV offering by 17 HD and 3 digital channels in January of 2009 is competitively positioning our service in the local market. As the cost of HD TVs continue to decrease and as the economy stabilizes, pent-up customer demand should help increase HD cable TV service customer counts. Maintaining adequate balance between customer pricing and vendor wholesale price increases is always a challenging task with Cable TV services. Cable programmers' increases continue to average about 10% annually and 2009 is being budgeted accordingly. Another rapidly rising expense is retransmission consent fees, fees charged by local broadcasters for the right to carry their signal. The 2009 retransmission agreement resulted in increasing our cost of doing business with local broadcast TV stations by 119%. Such hyper-inflated cost increases, while already an industry trend, may not be sustainable and could change how content is delivered. Customer price increases are planned in March 2009. We will continue following what has worked in the past: maintaining a competitive position relative to our market and delivering outstanding service while modeling new service bundling strategies, investigating alternate media sources such as IPTV and staying aware of current trends like broadband delivery of television content.

### **Energy Efficiency**

In response to the 2008 Iowa Legislature's new energy efficiency requirements for non rate-regulated utilities, OMU participated in the Iowa Association of Municipal Utilities' sponsored energy efficiency assessment study conducted by the Energy Center of Wisconsin. This study will produce cost-effectiveness ranked measures for use in reducing customer energy consumption and reasonable energy efficiency goals to use as a starting point for determining the utility's energy efficiency goal. These results will assist the utility in implementing energy efficiency programs and defining energy efficiency goals to be reported to the Iowa Legislature beginning in January 2010.

### **CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Osage Municipal Utilities' finances and to provide accountability for the money the Utilities receive. If you have questions about this report or need additional financial information, contact Dennis Fannin, General Manager, 720 Chestnut Street, Osage, Iowa.

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

**STATEMENTS OF NET ASSETS**

**AS OF DECEMBER 31:**

	ENTERPRISE	
	LIGHT AND POWER	
	2008	2007
Capital assets:		
Capital assets, net of accumulated depreciation	\$ 12,112,022	\$ 11,304,133
Current assets:		
Cash and cash equivalents	3,074,521	2,263,034
Accounts receivable (net of allowance for doubtful accounts)	469,405	384,983
Unbilled usage	297,793	218,957
Investments	633,459	214,900
Inventory	448,029	407,608
Prepaid expenses	21,649	19,216
	4,944,856	3,508,698
Other assets:		
Bond discount - net of accumulated amortization	54,903	49,942
Prepaid contract fees - net of accumulated amortization	-	1,334
	54,903	51,276
Total assets	\$ 17,111,781	\$ 14,864,107

See notes to the financial statements

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ 813,774	\$ 752,260	\$ 53,763	\$ 63,542	\$ 12,979,559	\$ 12,119,935
456,592	1,032,502	1,100,309	855,507	4,631,422	4,151,043
				-	-
369,707	291,207	323,788	303,907	1,162,900	980,097
457,851	363,280	3,789	4,362	759,433	586,599
-	-	-	-	633,459	214,900
13,427	14,338	32,813	23,751	494,269	445,697
344,161	242,973	2,975	1,932	368,785	264,121
<u>1,641,738</u>	<u>1,944,300</u>	<u>1,463,674</u>	<u>1,189,459</u>	<u>8,050,268</u>	<u>6,642,457</u>
-	-	-	-	54,903	49,942
-	-	-	-	-	1,334
-	-	-	-	54,903	51,276
<u>\$ 2,455,512</u>	<u>\$ 2,696,560</u>	<u>\$ 1,517,437</u>	<u>\$ 1,253,001</u>	<u>\$ 21,084,730</u>	<u>\$ 18,813,668</u>

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

**STATEMENTS OF NET ASSETS**

**AS OF DECEMBER 31:**

	ENTERPRISE	
	LIGHT AND POWER	
	2008	2007
Liabilities:		
Current liabilities:		
Accounts payable	383,210	223,596
Accounts payable - City of Osage	80,414	82,971
Checks in excess of bank balance	-	-
Customer meter deposits	22,157	13,541
Customer budget billing	22,893	(9,717)
Accrued expenses	52,669	48,494
Accrued interest payable	18,636	18,065
Deferred revenue	-	-
Revenue bonds payable	460,466	325,000
	1,040,445	701,950
Noncurrent liabilities:		
Revenue bonds payable - net of current portion	5,431,058	4,205,000
	6,471,503	4,906,950
Fund net assets:		
Invested in capital assets, net of related debt	6,220,497	6,774,133
Restricted - bond covenant	982,976	662,587
Unrestricted (deficit)	3,436,805	2,520,437
Total net assets	10,640,278	9,957,157

See notes to the financial statements

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2008	2007	2008	2007	2008	2007
470,059	368,520	39,583	33,329	\$ 892,852	\$ 625,445
-	-	-	-	80,414	82,971
-	-	-	-	-	-
40,767	29,645	23,717	16,330	86,641	59,516
97,811	133,112	-	-	120,704	123,395
36,042	31,023	22,733	16,735	111,444	96,252
-	-	853	974	19,489	19,039
-	-	140,470	127,413	140,470	127,413
-	-	45,000	40,000	505,466	365,000
<u>644,679</u>	<u>562,300</u>	<u>272,356</u>	<u>234,781</u>	<u>1,957,480</u>	<u>1,499,031</u>
-	-	200,000	245,000	5,631,058	4,450,000
<u>644,679</u>	<u>562,300</u>	<u>472,356</u>	<u>479,781</u>	<u>7,588,538</u>	<u>5,949,031</u>
813,774	752,260	53,763	63,542	7,088,034	7,589,935
-	-	-	-	982,976	662,587
997,059	1,382,000	991,318	709,678	5,425,182	4,612,115
<u>1,810,833</u>	<u>2,134,260</u>	<u>1,045,081</u>	<u>773,220</u>	<u>13,496,192</u>	<u>\$ 12,864,637</u>

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

**STATEMENTS OF REVENUES, EXPENSES, & CHANGES IN FUND NET ASSETS**

**AS OF DECEMBER 31:**

	<u>ENTERPRISE</u>	
	<u>LIGHT AND POWER</u>	
	<u>2008</u>	<u>2007</u>
Operating revenues:		
Charges for service	\$ 4,504,822	\$ 4,029,304
Operating expenses:		
Business type activities	4,036,430	3,408,761
Operating income (loss)	<u>468,392</u>	<u>620,543</u>
Non-operating revenues (expenses):		
Interest income	80,934	140,185
Interest expense	(219,549)	(229,405)
Other income	75,017	49,716
Donations	(71,810)	(200,500)
Total non-operating revenues (expenses)	<u>(135,408)</u>	<u>(240,004)</u>
Other financing sources (uses):		
Operating transfers in	349,586	61,249
Operating transfers (out)	-	-
Gain (loss) on sale of capital assets	551	16,738
Total other financing sources (uses)	<u>350,137</u>	<u>77,987</u>
Change in net assets	683,121	458,526
Net assets - beginning of year	<u>9,957,157</u>	<u>9,498,631</u>
Net assets - end of year	<u>\$ 10,640,278</u>	<u>\$ 9,957,157</u>

See notes to the financial statements

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ 3,657,910	\$ 3,202,996	\$ 1,764,030	\$ 1,610,665	\$ 9,926,762	\$ 8,842,965
3,694,980	3,193,868	1,397,523	1,420,643	9,128,933	8,023,272
(37,070)	9,128	366,507	190,022	797,829	819,693
29,297	69,444	21,712	36,133	131,943	245,762
(224)	(270)	(10,922)	(12,333)	(230,695)	(242,008)
-	-	-	-	75,017	49,716
(22,340)	(200,000)	(55,850)	(1,000)	(150,000)	(401,500)
6,733	(130,826)	(45,060)	22,800	(173,735)	(348,030)
-	-	-	20,771	349,586	82,020
(300,000)	-	(49,586)	(82,020)	(349,586)	(82,020)
6,910	1,518	-	-	7,461	18,256
(293,090)	1,518	(49,586)	(61,249)	7,461	18,256
(323,427)	(120,180)	271,861	151,573	631,555	489,919
2,134,260	2,254,440	773,220	621,647	12,864,637	12,374,718
<u>\$ 1,810,833</u>	<u>\$ 2,134,260</u>	<u>\$ 1,045,081</u>	<u>\$ 773,220</u>	<u>\$ 13,496,192</u>	<u>\$ 12,864,637</u>

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

**STATEMENTS OF CASH FLOWS**

**AS OF DECEMBER 31:**

	<u>ENTERPRISE</u>	
	<u>LIGHT AND POWER</u>	
	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 4,261,641	\$ 3,896,829
Cash received from other funds	121,149	121,149
Cash payments to suppliers	(2,700,805)	(1,898,092)
Cash payments to employees	(373,525)	(410,208)
Cash payments to other funds	-	-
Cash payments for contributions	(61,139)	(254,240)
Net cash provided (used) by operating activities	<u>1,247,321</u>	<u>1,455,438</u>
Cash flows from noncapital financing activities:		
Transfers in	349,586	61,249
Transfers out	-	-
Miscellaneous non-operating revenue	75,017	49,716
Donations	(71,810)	(200,500)
Net cash provided (used) by noncapital financing activities	<u>352,793</u>	<u>(89,535)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,589,079)	(886,384)
Proceeds from sale of assets	551	16,738
Proceeds from revenue bonds	1,806,990	-
Repayment of revenue bonds	(445,466)	(310,000)
Acquisition of unamortized discount	(5,020)	-
Cash paid for interest	(218,978)	(230,544)
Net cash (used) by capital and related financing activities	<u>(451,002)</u>	<u>(1,410,190)</u>
Cash flows from investing activities:		
Purchases of investments	(418,559)	-
Investment income	80,934	140,185
Net cash provided by investing activities	<u>(337,625)</u>	<u>140,185</u>
Net increase (decrease) in cash and cash equivalents	811,487	95,898
Cash and cash equivalents-beginning of year	2,263,034	2,167,136
Cash and cash equivalents-end of year	<u>\$ 3,074,521</u>	<u>\$ 2,263,034</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ 468,392	\$ 620,543
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	782,583	742,981
Change in accounts receivable	(84,422)	8,459
Change in meter deposits and unbilled usage	(37,610)	(19,785)
Change in prepaid expenses	(2,433)	13,452
Change in inventory	(40,421)	(10,356)
Change in accounts payable and other liabilities	161,232	100,144
Net cash provided (used) by noncapital financing activities	<u>\$ 1,247,321</u>	<u>\$ 1,455,438</u>

See notes to the financial statements

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ 3,460,660	\$ 3,136,492	\$ 1,752,418	\$ 1,572,009	\$ 9,474,719	\$ 8,605,330
-	-	-	-	121,149	121,149
(3,236,111)	(2,614,340)	(838,268)	(792,272)	(6,775,184)	(5,304,704)
(304,526)	(243,445)	(399,004)	(399,171)	(1,077,055)	(1,052,824)
-	-	(121,148)	(121,149)	(121,148)	(121,149)
(85,975)	(287,477)	(3,979)	(3,988)	(151,093)	(545,705)
<u>(165,952)</u>	<u>(8,770)</u>	<u>390,019</u>	<u>255,429</u>	<u>1,471,388</u>	<u>1,702,097</u>
-	-	-	20,771	349,586	82,020
(300,000)	-	(49,586)	(82,020)	(349,586)	(82,020)
-	-	-	-	75,017	49,716
<u>(22,340)</u>	<u>(200,000)</u>	<u>(55,850)</u>	<u>(1,000)</u>	<u>(150,000)</u>	<u>(401,500)</u>
<u>(322,340)</u>	<u>(200,000)</u>	<u>(105,436)</u>	<u>(62,249)</u>	<u>(74,983)</u>	<u>(351,784)</u>
(123,601)	(41,001)	(10,450)	(26,822)	(1,723,130)	(954,207)
6,910	1,518	(40,000)	-	(32,539)	18,256
-	-	-	-	1,806,990	-
-	-	-	(40,000)	(445,466)	(350,000)
-	-	-	-	(5,020)	-
<u>(224)</u>	<u>(270)</u>	<u>(11,043)</u>	<u>(12,448)</u>	<u>(230,245)</u>	<u>(243,262)</u>
<u>(116,915)</u>	<u>(39,753)</u>	<u>(61,493)</u>	<u>(79,270)</u>	<u>(629,410)</u>	<u>(1,529,213)</u>
-	-	-	-	(418,559)	-
29,297	69,444	21,712	36,133	131,943	245,762
<u>29,297</u>	<u>69,444</u>	<u>21,712</u>	<u>36,133</u>	<u>(286,616)</u>	<u>245,762</u>
(575,910)	(179,079)	244,802	150,043	480,379	66,862
1,032,502	1,211,581	855,507	705,464	4,151,043	4,084,181
<u>\$ 456,592</u>	<u>\$ 1,032,502</u>	<u>\$ 1,100,309</u>	<u>\$ 855,507</u>	<u>\$ 4,631,422</u>	<u>\$ 4,151,043</u>
\$ (37,070)	\$ 9,128	\$ 366,507	\$ 190,022	\$ 797,829	\$ 819,693
62,088	49,023	20,229	29,864	864,900	821,868
(78,500)	30,613	(19,881)	11,463	(182,803)	50,535
(83,450)	(63,164)	21,017	19,134	(100,043)	(63,815)
(101,188)	47,572	(1,043)	259	(104,664)	61,283
911	537	(9,062)	(4,072)	(48,572)	(13,891)
71,257	(82,479)	12,252	8,759	244,741	26,424
<u>\$ (165,952)</u>	<u>\$ (8,770)</u>	<u>\$ 390,019</u>	<u>\$ 255,429</u>	<u>\$ 1,471,388</u>	<u>\$ 1,702,097</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Osage Municipal Utilities are component units of the City of Osage whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. Osage Municipal Utilities are governed by a separate Board of Trustees and operate Osage Municipal Utilities under the authority of Chapter 388 of the Code of Iowa. Osage Municipal Utilities provide electric, gas, cable, telephone, internet, and wireless internet services on a user charge basis to the general public and other governmental units within Mitchell County, Iowa.

A. Reporting Entity

For financial reporting purposes, Osage Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. Osage Municipal Utilities has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with Osage Municipal Utilities are such that exclusion would cause Osage Municipal Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of Osage Municipal Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on Osage Municipal Utilities. Osage Municipal Utilities has no component units, which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

Osage Municipal Utilities participate in a jointly governed organization that provides goods and services to Osage Municipal Utilities but does not meet the criteria of a joint venture since there is not ongoing financial interest or responsibility by the participating parties. The General Manager serves on the Upper Midwest Municipal Power Agency.

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

B. Basis of Presentation

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

Osage Municipal Utilities reports the following major proprietary funds:

Enterprise Funds:

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

The Gas Fund is used to account for delivery of natural gas to the citizens and businesses of Osage.

C. Measurement Focus and Basis of Accounting

Osage Municipal Utilities maintains their financial records on the accrual basis of accounting in conformity with U.S. generally accepted accounting principals. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of Osage Municipal Utilities result from charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2008, disbursements did not exceed the amounts budgeted.

E. Osage Municipal Utilities Plant and Depreciation

Osage Municipal Utilities' plant is stated at original cost when first devoted to public service. Expenditures for additions and betterments (including labor charges) are capitalized, while expenditures for repairs and maintenance are charged to operations as incurred. Interest costs incurred during construction periods are also capitalized. The costs of assets retired or sold and the related accumulated depreciation are eliminated from the accounts in the year of disposal, with the resulting gain or loss credited or charged to operations. The straight-line method is used for computing depreciation with estimated useful lives ranging from two to fifty years.

F. Revenue, Unbilled Usage, and Deferred Revenue

Revenues are based on billing rates applied to customers' consumption. Unbilled usage represents revenues based upon estimated consumption for the period between the last billing dates and the end of the year. Deferred revenue represents amounts billed for cable, internet, and telephone services that had not yet been provided at the end of the year.

G. Inventory

Inventories, which consist of fuel oil and materials for plant and distribution systems, are stated at the lower of cost (first-in, first-out) or market.

H. Rate Matters

Rates charged by Osage Municipal Utilities are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**J. Cash and Cash Equivalents**

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

**K. Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable as of December 31, 2008 and 2007 consisted of approximately 2,240 uncollateralized accounts. Accounts receivable balances older than 90 days for Osage Municipal Utilities were approximately \$5,000 for the years ended December 31, 2008 and 2007 respectively.

Osage Municipal Utilities use the allowance method to charge off uncollectible accounts receivable. Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for doubtful accounts and related accounts receivable write offs. A 1.5% per month penalty is charged for accounts older than 30 days. Accumulated penalties included in the accounts receivable balance at December 31, 2008 and 2007 amounted to less than \$1,000. The charges originate substantially from the Light and Power fund.

The allowance for uncollectible accounts had balances as of December 31, 2008 and 2007 respectively as follows:

	Light and Power		Gas		Other Non-Major	
	2008	2007	2008	2007	2008	2007
Allowance for doubtful accounts	\$ -	\$ -	\$ -	\$ -	\$128,450	\$128,450

**NOTE 2 - CASH AND INVESTMENTS**

Osage Municipal Utilities' deposits at December 31, 2008 and 2007 (which include certificates of deposit totaling \$633,459 and \$1,377,694 respectively) were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2 - CASH AND INVESTMENTS-continued**

insure there will be no loss of public funds.

Osage Municipal Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district.

Osage Municipal Utilities have funds on deposit with the Wisconsin Local Government Investment Pool as part of their Shared Transmission System Agreement with Dairyland Power Cooperative. According to the agreement, the funds can be withdrawn at any time, and have been withdrawn in the past. These deposits were \$128,998 and \$181,391 as of December 31, 2008 and 2007, respectively. This Wisconsin Local Government Investment Pool is held outside the State of Iowa. Cash is used in order to invest in transmission improvements and to cover control center costs.

Osage Municipal Utilities' investments are categorized to give an indication of the level of risk assumed by Osage Municipal Utilities at year-end. Osage Municipal Utilities' investments are all category 1, which means that the investments are insured or registered or the securities are held by Osage Municipal Utilities or their agent in Osage Municipal Utilities' name.

Interest Rate Risk - Osage Municipal Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of Osage Municipal Utilities.

**NOTE 3 – REVENUE BONDS PAYABLE**

The following is a summary of changes in long-term debt for the year ended December 31, 2008 and 2007.

**Light and Power Fund:**

	Bal. 1/1/08	Issued	Repaid	Bal. 12/31/08
Business type activities:				
Revenue bonds – issued December 1996	\$ 200,000	-	200,000	\$ -
Revenue bonds – issued September 2001	4,330,000	-	125,000	4,205,000
Revenue bonds – issued November 2008	-	1,806,990	120,466	1,686,524
	<u>\$ 4,530,000</u>	<u>1,806,990</u>	<u>445,466</u>	<u>\$ 5,891,524</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3 – REVENUE BONDS PAYABLE- continued**

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

**Telephony Fund:**

	Bal. 1/1/08	Issued	Repaid	Bal. 12/31/08
Business type activities:				
Revenue bonds – issued July 2002	\$ 285,000	-	40,000	\$ 245,000

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

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

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

Year Ending December 31,	Light and Power Series 2001 Interest 2.5-5.2%		Light and Power Series 2008 Interest 1.27%		Telephony July 2002 Interest 3.4-4.4%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	340,000	202,212	120,466	21,419	45,000	9,359	505,466	232,990
2010	355,000	187,932	120,466	19,889	45,000	7,581	520,466	215,402
2011	370,000	172,490	120,466	18,359	50,000	5,620	540,466	196,469
2012	390,000	156,026	120,466	16,829	50,000	3,495	560,466	176,350
2013	405,000	138,086	120,466	15,299	55,000	1,210	580,466	154,595
2014	425,000	118,848	120,466	13,769	-	-	545,466	132,617
2015	445,000	98,236	120,466	12,239	-	-	565,466	110,475
2016	470,000	75,986	120,466	10,709	-	-	590,466	86,695
2017	490,000	52,016	120,466	9,179	-	-	610,466	61,195
2018	515,000	26,780	120,466	7,650	-	-	635,466	34,430
2019			120,466	6,120			120,466	6,120
2020			120,466	4,590			120,466	4,590
2021			120,466	3,060			120,466	3,060
2022			120,466	1,530			120,466	1,530
	<u>\$4,205,000</u>	<u>\$1,228,612</u>	<u>\$1,686,524</u>	<u>\$160,641</u>	<u>\$245,000</u>	<u>\$27,265</u>	<u>\$6,136,524</u>	<u>\$1,416,518</u>

Bond discount amortization was \$59 and \$479, respectively for the years ended December 31, 2008 and 2007.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3 – REVENUE BONDS PAYABLE- continued**

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to the sinking fund for the purpose of making the note principal and interest payments when due.
- C. Sufficient monthly transfers shall be made to a reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund.
- D. Sufficient monthly transfers shall be made to an improvement fund to be used solely for the purpose of paying principal or interest on the bonds should insufficient money be available in the sinking and reserve funds; and to the extent not required for the foregoing purposes to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, or capital improvements to the system. The required minimum balance in the reserve is \$100,000 and has been achieved as of December 31, 2008 and 2007.
- E. The CREBS financing received in 2008 included requirements that included:
  - Required an improvement fund of \$100,000 which is fully funded. Required a sinking fund be used to make debt payments that was utilized, and required a reserve fund into which \$140,699 was set aside as of December 31, 2008.

**NOTE 4 – INTEREST COSTS**

During the years ended December 31, 2008 and 2007, the interest incurred and expensed by the Light and Power Fund was \$219,549 and \$229,405 respectively.

During the years ended December 31, 2008 and 2007, interest incurred and expensed by the Telephony Fund was \$10,855 and \$12,272 respectively.

**NOTE 5 - PENSION AND RETIREMENT BENEFITS**

Osage Municipal Utilities contribute to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 5 - PENSION AND RETIREMENT BENEFITS –continued**

by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 4.10% (3.9% through June 30, 2008) of their salary and Osage Municipal Utilities was required to contribute 6.35% (6.05 through June 30, 2008) of covered payroll. Contribution requirements are established by State statute. Osage Municipal Utilities' contributions to IPERS for the years ended December 31, 2008, 2007 and 2006 were \$66,508, \$61,870 and \$53,832 respectively, equal to the required contributions for each year.

**NOTE 6 – RISK MANAGEMENT**

Osage Municipal Utilities are exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years. Osage Municipal Utilities assume liability for any deductibles and claims in excess of coverage limitations.

**NOTE 7 – COMPENSATED ABSENCES**

Osage Municipal Utilities' employees accumulate a limited amount of earned but unused vacation. Osage Municipal Utilities' approximate liability for earned vacation payments payable to employees at December 31, 2008 and 2007 is as follows:

December 31, 2008	Light and Power	Gas	Non-major	Total
Vacation	<u>\$ 29,143</u>	<u>\$ 15,776</u>	<u>\$ 7,960</u>	<u>\$ 52,879</u>
December 31, 2007	Light and Power	Gas	Non-major	Total
Vacation	<u>\$ 27,757</u>	<u>\$ 15,479</u>	<u>\$ 6,382</u>	<u>\$ 49,618</u>

**NOTE 8 – INTERFUND TRANSFERS**

Interfund transfers were made during the years ended December 31, 2008 and 2007. The transfers are as detailed below.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 8 – INTERFUND TRANSFERS - continued**

Transfers for the year ended December 31, 2008:		
Transferred from:	Transferred to:	Amount
Gas	Light and Power	<u>\$ 300,000</u>
Cable	Light and Power	<u>\$ 17,260</u>
Telephony	Light and Power	<u>\$ 32,326</u>
Transfers for the year ended December 31, 2007:		
Transferred from:	Transferred to:	Amount
Internet	Rural Wireless	<u>\$ 20,771</u>
Cable	Light and Power	<u>\$ 60,744</u>
Telephony	Light and Power	<u>\$ 505</u>

**NOTE 9 – JOINT LEASE AGREEMENT**

Osage Municipal Utilities' Light and Power Fund constructed a Fiber Optic System to facilitate information transmission. Portions of this system are leased to the Cable, Internet, Telephony and Wireless funds under a thirty-year operating lease, required annual payments of \$121,149 through December 31, 2008 increasing to \$142,408 in 2009. Future minimum lease payments are as follows:

Year Ending December 31,	Payments
2009	\$ 142,408
2010	142,408
2011	142,408
2012	142,408
2013	142,408
2014-2018	712,040
2019-2023	712,040
2024-2028	712,040
2029-2033	712,040
2034-2035	284,816
Total	<u>\$ 3,845,016</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 10 – CAPITAL ASSETS**

The following schedules disclose the major fixed asset additions for the years ended December 31, 2008 and 2007.

**Light and Power Fund – 2008**

Capital Assets	Balance 12/31/07	Additions	Disposals	Balance 12/31/08
Capital assets not being depreciated				
Land	\$ 41,029	-	-	\$ 41,029
Iowa Stored Energy Park Agency	92,500	-	2,500	90,000
Construction in progress	127,990	64,362	127,990	64,362
Capital assets being depreciated				
Buildings and improvements	1,191,373	22,634	-	1,214,007
Generating equipment and lines	12,679,301	1,532,544	-	14,211,845
HFC distribution center	5,656,388	64,727	-	5,721,115
Equipment and vehicles	1,494,726	27,435	1,295	1,520,866
Broadband room	121,419	-	-	121,419
Digital cable	60,744	7,867	-	68,611
	21,465,470	1,719,569	131,785	23,053,254
Less:				
Accumulated depreciation	10,161,337	781,190	1,295	10,941,232
Book value	<u>\$ 11,304,133</u>			<u>\$ 12,112,022</u>

Major additions to the Light and Power Fund capital assets included the 69KV project and generation equipment.

**Gas Fund-2008**

Capital Assets	Balance 12/31/07	Additions	Disposals	Balance 12/31/08
Capital assets not being depreciated				
Land	\$ 7,734	-	-	\$ 7,734
Iowa Stored Energy Park Agency	42,500	-	2,500	40,000
Capital assets being depreciated				
Buildings and improvements	586,967	1,774	-	588,741
Peak shaving plant	233,764	4,124	-	237,888
Gas plant, lines and meters	842,976	11,403	-	854,379
Equipment and vehicles	479,920	108,800	41,267	547,453
	2,193,861	126,101	43,767	2,276,195

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 10 – CAPITAL ASSETS – continued**

<b>Gas Fund-2008</b>				
Capital Assets	Balance 12/31/07	Additions	Disposals	Balance 12/31/08
Capital assets not being depreciated – from above	\$ 2,193,861	126,101	43,767	2,276,195
Less:				
Accumulated depreciation	1,441,601	62,088	41,268	1,462,421
Book value	\$ 752,260			\$ 813,774

Major additions to the Gas Fund capital assets included an excavator, truck and gas meters.

<b>Internet and Wireless Funds (Combined) – 2008</b>				
Capital Assets	Balance 12/31/07	Additions	Disposals	Balance 12/31/08
Capital assets being depreciated				
Equipment	\$ 180,651	10,450	-	\$ 191,101
Organizational costs	40,476	-	-	40,476
	221,127	10,450	-	231,577
Less:				
Accumulated depreciation	157,585	20,229	-	177,814
Book value	\$ 63,542			\$53,763

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

<b>Light and Power Fund – 2007</b>				
Capital Assets	Balance 12/31/06	Additions	Disposals	Balance 12/31/07
Capital assets not being depreciated				
Land	\$ 41,029	-	-	\$ 41,029
Iowa Stored Energy Park Agency	92,500	-	-	92,500
Construction in progress		127,990	-	127,990
Capital assets being depreciated				
Buildings and improvements	1,174,508	16,865	-	1,191,373
Generating equipment and lines	12,073,701	605,600	-	12,679,301
HFC distribution center	5,647,518	8,870	-	5,656,388
Equipment and vehicles	1,430,439	66,315	2,028	1,494,726
Broadband room	121,419	-		121,419

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 10 – CAPITAL ASSETS – continued**

**Light and Power Fund – 2007 (continued)**

Capital Assets	Balance 12/31/06	Additions	Disposals	Balance 12/31/07
Digital cable	-	60,744	-	60,744
	20,581,114	886,384	2,028	21,465,470
Less:				
Accumulated depreciation	9,424,863	738,502	2,028	10,161,337
Book value	<u>\$ 11,156,251</u>			<u>\$ 11,304,133</u>

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

**Gas Fund-2007**

Capital Assets	Balance 12/31/06	Additions	Disposals	Balance 12/31/07
Capital assets not being depreciated				
Land	\$ 7,734	-	-	\$ 7,734
Iowa Stored Energy Park Agency	42,500	-	-	42,500
Capital assets being depreciated				
Buildings and improvements	584,548	2,419	-	586,967
Peak shaving plant	232,733	1,031	-	233,764
Gas plant, lines and meters	837,232	5,744	-	842,976
Equipment and vehicles	457,152	31,807	9,039	479,920
	2,161,899	41,001	9,039	2,193,861
Less:				
Accumulated depreciation	1,401,617	49,023	9,039	1,441,601
Book value	<u>\$ 760,282</u>			<u>\$ 752,260</u>

Major additions to the Gas Fund capital assets included an infrared scanner and a copier.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 10 – CAPITAL ASSETS – continued**

<b>Internet and Wireless Funds (Combined) – 2007</b>				
Capital Assets	Balance 12/31/06	Additions	Disposals	Balance 12/31/07
Capital assets being depreciated				
Equipment	\$ 153,830	26,821	-	\$ 180,651
Organizational costs	40,476	-	-	40,476
	194,306	26,821	-	221,127
Less:				
Accumulated depreciation	127,722	29,863	-	157,585
	<u>\$ 66,584</u>			<u>\$ 63,542</u>

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

**NOTE 11 – RESTRICTED ASSETS**

As required by bond resolution, the Light and Power Fund of Osage Municipal Utilities has set aside the following reserve funds for the years ended December 31, 2008 and 2007:

December 31, 2008

	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	\$ 504,644	\$ 57,943	\$ 100,000	\$ 662,587
Deposits	209,514	10,875	100,000	320,389
Withdrawals	-	-	-	-
Balance, end of year	<u>\$ 714,158</u>	<u>\$ 68,818</u>	<u>\$ 200,000</u>	<u>\$ 982,976</u>

December 31, 2007

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

**NOTE 12 - ECONOMIC DEVELOPMENT**

Osage Municipal Utilities' Board of Trustees has agreed to contribute financially to assist in constructing the Cedar River Recreation & Fine Arts Complex. The contributions were

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 12 - ECONOMIC DEVELOPMENT – continued**

\$150,000 and \$401,500 for the years ended December 31, 2008 and 2007 respectively. The annual contributions are anticipated to be \$100,000 per year for the next 15 years. The contributions may only come from surpluses generated by Osage Municipal Utilities and are expected to attract economic activity to the region.

**NOTE 13 – CORRECTION OF ERROR**

An error was detected in carrier access billing charges as reported in prior periods for Osage Municipal Utilities. The error resulted from failing to bill for a portion of carrier access charges earned in the Telephony Fund. The following financial statement line items as reported in December 31, 2007, have been restated as follows.

	12/31/07 As previously reported	Correction	12/31/07 As corrected
Non Major Accounts Receivable	167,905	136,002	303,907
Non Major Total Assets	1,116,999	136,002	1,253,001
Non Major Net Assets	637,218	136,002	773,220
Non Major Operating Revenue	1,519,997	90,668	1,610,665
Non Major Operating Income	99,354	90,668	190,022
Non Major Change in Net Assets	60,905	90,668	151,573
Non Major Net Assets			
Beginning of the Year	576,313	45,334	621,647
Telephony Accounts Receivable	84,749	136,002	220,751
Telephony Total Assets	556,109	136,002	692,111
Telephony Net Assets	178,508	136,002	314,510
Telephony Operating Revenue	613,758	90,668	704,426
Telephony Operating Income	18,904	90,668	109,572
Telephony Changes in Net Assets	25,143	90,668	115,811
Telephony Net Assets Beginning of the Year	153,365	45,334	198,699
Telephony Net Assets End of the Year	178,508	136,002	314,510

**REQUIRED SUPPLEMENTARY INFORMATION**

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

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN BALANCES – BUDGET AND ACUTAL  
ALL ENTERPRISE FUNDS**

**DECEMBER 31, 2008**

	Proprietary Funds Actual	Budgeted Amounts		Final to Net Variance
			Original	
<b>Receipts:</b>				
Charges for service	\$ 9,926,762	\$ 9,852,978	\$ 73,784	
Interest earnings	131,943	133,150	(1,207)	
Miscellaneous	82,478	174,629	(92,151)	
	<u>10,141,183</u>	<u>10,160,757</u>	<u>(19,574)</u>	
<b>Disbursements:</b>				
<b>Program:</b>				
Business type activities	<u>9,509,628</u>	<u>10,094,547</u>	<u>584,918</u>	
	<u>9,509,628</u>	<u>10,094,547</u>	<u>584,918</u>	
Net income	631,555	66,210	<u>\$ 565,345</u>	
Balance beginning of year	<u>12,864,637</u>	<u>12,757,956</u>		
Balance end of year	<u>\$ 13,496,192</u>	<u>\$ 12,824,166</u>		

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETEARY  
REPORTING**

**DECEMBER 31, 2008**

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

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

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

For the year ended December 31, 2008, Osage Municipal Utilities did not exceed budgeted expenditures.

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

**STATEMENTS OF NET ASSETS  
NON-MAJOR FUNDS**

**AS OF DECEMBER 31:**

	<u>INTERNET</u>		<u>CABLE</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Capital assets:				
Capital assets, net of accumulated depreciation	\$ 866	\$ 1,301	\$ -	\$ -
Current assets:				
Cash and cash equivalents	175,179	141,822	332,360	251,300
Accounts receivable (net of allowance for doubtful accounts)	1,732	2,371	82,455	75,787
Unbilled usage	1,416	1,989	-	-
Inventory	-	-	-	-
Prepaid expenses	-	-	1,774	860
Accrued interest receivable	-	-	-	-
	<u>178,327</u>	<u>146,182</u>	<u>416,589</u>	<u>327,947</u>
Total assets	<u>\$179,193</u>	<u>\$ 147,483</u>	<u>\$ 416,589</u>	<u>\$ 327,947</u>
Liabilities:				
Current liabilities:				
Accounts payable	\$ 710	\$ 294	\$ 8,781	\$ 5,760
Checks in excess of bank balance	-	-	-	-
Customer meter deposits	-	-	16,223	10,420
Accrued expenses	6,630	4,869	7,037	4,907
Accrued interest payable	-	-	-	-
Deferred revenue	-	-	74,637	67,910
Revenue bonds payable	-	-	-	-
	<u>7,340</u>	<u>5,163</u>	<u>106,678</u>	<u>88,997</u>
Noncurrent liabilities:				
Revenue bonds payable - net of current portion	-	-	-	-
Total liabilities	<u>7,340</u>	<u>5,163</u>	<u>106,678</u>	<u>88,997</u>
Fund net assets:				
Invested in capital assets, net of related debt	866	1,301	-	-
Unrestricted (deficit)	170,987	141,019	309,911	238,950
Total Net Assets	<u>\$171,853</u>	<u>\$ 142,320</u>	<u>\$ 309,911</u>	<u>\$ 238,950</u>

See notes to the financial statements

TELEPHONY		RURAL WIRELESS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ -	\$ -	\$ 52,897	\$ 62,241	\$ 53,763	\$ 63,542
551,516	444,164	41,254	18,221	1,100,309	855,507
234,793	220,751	4,808	4,998	323,788	303,907
2,373	2,373	-	-	3,789	4,362
32,813	23,751	-	-	32,813	23,751
1,201	1,072	-	-	2,975	1,932
-	-	-	-	-	-
822,696	692,111	46,062	23,219	1,463,674	1,189,459
<u>\$ 822,696</u>	<u>\$ 692,111</u>	<u>\$ 98,959</u>	<u>\$ 85,460</u>	<u>\$ 1,517,437</u>	<u>\$ 1,253,001</u>
\$ 29,579	\$ 26,726	\$ 513	\$ 549	\$ 39,583	\$ 33,329
-	-	-	-	-	-
4,494	3,510	3,000	2,400	23,717	16,330
9,066	6,959	-	-	22,733	16,735
853	974	-	-	853	974
60,924	54,432	4,909	5,071	140,470	127,413
45,000	40,000	-	-	45,000	40,000
149,916	132,601	8,422	8,020	272,356	234,781
200,000	245,000	-	-	200,000	245,000
349,916	377,601	8,422	8,020	472,356	479,781
-	-	52,897	62,241	53,763	63,542
472,780	314,510	37,640	15,199	991,318	709,678
<u>\$ 472,780</u>	<u>\$ 314,510</u>	<u>\$ 90,537</u>	<u>\$ 77,440</u>	<u>\$ 1,045,081</u>	<u>\$ 773,220</u>

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

**STATEMENTS OF REVENUES, EXPENSES, & CHANGES IN FUND NET ASSETS  
NON-MAJOR FUNDS**

**AS OF DECEMBER 31:**

	INTERNET		CABLE	
	2008	2007	2008	2007
Operating revenues:				
Charges for service	\$ 61,463	\$ 84,579	\$ 868,345	\$ 772,195
Operating expenses:				
Business type activities	33,348	39,051	775,132	716,065
Operating Income (loss)	28,115	45,528	93,213	56,130
Non-operating revenues (expenses):				
Interest income	3,014	4,703	6,239	11,522
Interest expense	-	-	(61)	(41)
Donations	(1,596)	-	(11,170)	(500)
Total non-operating revenues (expenses)	1,418	4,703	(4,992)	10,981
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	(20,771)	(17,260)	(60,744)
Gain (loss) on sale of capital assets	-	-	-	-
Total other financing sources (uses)	-	(20,771)	(17,260)	(60,744)
Change in net assets	29,533	29,460	70,961	6,367
Net assets - beginning of year	142,320	112,860	238,950	232,583
Net assets - end of year	\$ 171,853	\$ 142,320	\$ 309,911	\$ 238,950

See notes to the financial statements

TELEPHONY		RURAL WIRELESS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ 774,618	\$ 704,426	\$ 59,604	\$ 49,465	\$ 1,764,030	\$ 1,610,665
<u>543,647</u>	<u>594,854</u>	<u>45,396</u>	<u>70,673</u>	<u>1,397,523</u>	<u>1,420,643</u>
<u>230,971</u>	<u>109,572</u>	<u>14,208</u>	<u>(21,208)</u>	<u>366,507</u>	<u>190,022</u>
11,968	19,516	491	392	21,712	36,133
(10,855)	(12,272)	(6)	(20)	(10,922)	(12,333)
<u>(41,488)</u>	<u>(500)</u>	<u>(1,596)</u>	<u>-</u>	<u>(55,850)</u>	<u>(1,000)</u>
<u>(40,375)</u>	<u>6,744</u>	<u>(1,111)</u>	<u>372</u>	<u>(45,060)</u>	<u>22,800</u>
-	-	-	20,771	-	20,771
(32,326)	(505)	-	-	(49,586)	(82,020)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(32,326)</u>	<u>(505)</u>	<u>-</u>	<u>20,771</u>	<u>(49,586)</u>	<u>(61,249)</u>
158,270	115,811	13,097	(65)	271,861	151,573
<u>314,510</u>	<u>198,699</u>	<u>77,440</u>	<u>77,505</u>	<u>773,220</u>	<u>621,647</u>
<u>\$ 472,780</u>	<u>\$ 314,510</u>	<u>\$ 90,537</u>	<u>\$ 77,440</u>	<u>\$ 1,045,081</u>	<u>\$ 773,220</u>

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

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

**AS OF DECEMBER 31:**

	INTERNET		CABLE	
	2008	2007	2008	2007
Cash flows from operating activities:				
Cash receipts from customers	\$ 62,676	\$ 85,588	\$ 861,677	\$ 764,149
Cash payments to suppliers	(17,964)	(21,948)	(501,859)	(449,009)
Cash payments to employees	(2,626)	(2,411)	(195,778)	(210,750)
Cash Payments to other funds	(7,169)	(10,337)	(60,228)	(51,775)
Cash Payments for contributions	(2,978)	(2,988)	(500)	(500)
Net cash provided (used) by operating activities	<u>31,939</u>	<u>47,904</u>	<u>103,312</u>	<u>52,115</u>
Cash flows from non-capital financing activities:				
Transfers in	-	-	-	-
Transfers out	-	(20,771)	(17,260)	(60,744)
Miscellaneous non-operating revenue	-	-	-	-
Donations	(1,596)	-	(11,170)	(500)
Net cash provided (used) by noncapital financing activities	<u>(1,596)</u>	<u>(20,771)</u>	<u>(28,430)</u>	<u>(61,244)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	-	-	-	-
Repayment of revenue bonds	-	-	-	-
Cash paid for interest	-	-	(61)	(41)
Net cash (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>(61)</u>	<u>(41)</u>
Cash flows from investing activities:				
Investment income	3,014	4,703	6,239	11,522
Net cash provided by investing activities	<u>3,014</u>	<u>4,703</u>	<u>6,239</u>	<u>11,522</u>
Net increase (decrease) in cash and cash equivalents	33,357	31,836	81,060	2,352
Cash and cash equivalents-beginning of year	141,822	109,986	251,300	248,948
Cash and cash equivalents-end of year	<u>\$ 175,179</u>	<u>\$ 141,822</u>	<u>\$ 332,360</u>	<u>\$ 251,300</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Income (loss) from operations	\$ 28,115	\$ 45,528	\$ 93,213	\$ 56,130
Adjustments to reconcile operating income to				
Depreciation and amortization	435	668	-	-
Change in accounts receivable	639	1,009	(6,668)	(8,046)
Change in meter deposits and unbilled usage	573	-	12,530	4,287
Change in prepaid expenses	-	155	(914)	62
Change in inventory	-	-	-	-
Change in accounts payable & accrued expenses	2,177	544	5,151	(318)
	<u>\$ 31,939</u>	<u>\$ 47,904</u>	<u>\$ 103,312</u>	<u>\$ 52,115</u>

See notes to financial statements

TELEPHONY		RURAL WIRELESS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ 768,271	\$ 673,035	\$ 59,794	\$ 49,237	\$ 1,752,418	\$ 1,572,009
(308,124)	(294,493)	(10,321)	(26,822)	(838,268)	(792,272)
(189,668)	(174,411)	(10,932)	(11,599)	(399,004)	(399,171)
(49,804)	(56,031)	(3,947)	(3,006)	(121,148)	(121,149)
(501)	(500)	-	-	(3,979)	(3,988)
<u>220,174</u>	<u>147,600</u>	<u>34,594</u>	<u>7,810</u>	<u>390,019</u>	<u>255,429</u>
-	-	-	20,771	-	20,771
(32,326)	(505)	-	-	(49,586)	(82,020)
-	-	-	-	-	-
<u>(41,488)</u>	<u>(500)</u>	<u>(1,596)</u>	<u>-</u>	<u>(55,850)</u>	<u>(1,000)</u>
<u>(73,814)</u>	<u>(1,005)</u>	<u>(1,596)</u>	<u>20,771</u>	<u>(105,436)</u>	<u>(62,249)</u>
-	-	(10,450)	(26,822)	(10,450)	(26,822)
(40,000)	(40,000)	-	-	(40,000)	(40,000)
<u>(10,976)</u>	<u>(12,387)</u>	<u>(6)</u>	<u>(20)</u>	<u>(11,043)</u>	<u>(12,448)</u>
<u>(50,976)</u>	<u>(52,387)</u>	<u>(10,456)</u>	<u>(26,842)</u>	<u>(61,493)</u>	<u>(79,270)</u>
<u>11,968</u>	<u>19,516</u>	<u>491</u>	<u>392</u>	<u>21,712</u>	<u>36,133</u>
<u>11,968</u>	<u>19,516</u>	<u>491</u>	<u>392</u>	<u>21,712</u>	<u>36,133</u>
107,352	113,724	23,033	2,131	244,802	150,043
<u>444,164</u>	<u>330,440</u>	<u>18,221</u>	<u>16,090</u>	<u>855,507</u>	<u>705,464</u>
<u>\$ 551,516</u>	<u>\$ 444,164</u>	<u>\$ 41,254</u>	<u>\$ 18,221</u>	<u>\$ 1,100,309</u>	<u>\$ 855,507</u>
\$ 230,971	\$ 109,572	\$ 14,208	\$ (21,208)	\$ 366,507	\$ 190,022
-	-	19,794	29,196	20,229	29,864
(14,042)	19,136	190	(636)	(19,881)	11,463
7,476	14,439	438	408	21,017	19,134
(129)	42	-	-	(1,043)	259
(9,062)	(4,072)	-	-	(9,062)	(4,072)
<u>4,960</u>	<u>8,483</u>	<u>(36)</u>	<u>50</u>	<u>12,252</u>	<u>8,759</u>
<u>\$ 220,174</u>	<u>\$ 147,600</u>	<u>\$ 34,594</u>	<u>\$ 7,810</u>	<u>\$ 390,019</u>	<u>\$ 255,429</u>

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

**COMBINED SCHEDULE OF OPERATING REVENUE**

**AS OF DECEMBER 31:**

	ENTERPRISE	
	LIGHT AND POWER	
	2008	2007
Operating revenues:		
Rural	\$ 97,544	\$ 72,662
Residential sales	1,148,253	993,722
Commercial and industrial	2,873,601	2,450,606
Public buildings	25,394	13,769
Interruptibles	-	-
Line payments, net	-	-
Bookkeeping fee - City of Osage	9,000	9,000
Other operating fees	351,030	489,545
	<u>\$ 4,504,822</u>	<u>\$ 4,029,304</u>

See notes to the financial statements

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ -	\$ -	\$ -	\$ -	\$ 97,544	\$ 72,662
1,688,270	1,483,174	1,749,242	1,601,210	4,585,765	4,078,106
1,036,760	906,213	-	-	3,910,361	3,356,819
-	-	-	-	25,394	13,769
845,099	609,942	-	-	845,099	609,942
7,776	3,224	-	-	7,776	3,224
9,000	9,000	-	-	18,000	18,000
71,005	191,443	14,788	9,455	436,823	690,443
<u>\$ 3,657,910</u>	<u>\$ 3,202,996</u>	<u>\$ 1,764,030</u>	<u>\$ 1,610,665</u>	<u>\$ 9,926,762</u>	<u>\$ 8,842,965</u>

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

**COMBINING SCHEDULES OF OPERATING EXPENSES**

**AS OF DECEMBER 31:**

	ENTERPRISE	
	LIGHT AND POWER	
	2008	2007
Operating expenses:		
Plant expenses:		
Supervision and labor	\$ 111,443	\$ 123,166
Payroll taxes	19,425	21,977
Fuel	70,597	221,758
Load management expense	13,427	1,089
Engine expense	12,817	29,819
Insurance	25,457	43,344
Supplies	8,888	14,033
Power purchased	2,167,822	1,315,101
Communication expense	1,861	2,068
School and travel	1,506	1,078
Uniforms	3,926	3,228
Maintenance and materials	9,090	17,285
Total plant expenses	2,446,259	1,793,946
Distribution expenses:		
Supervision and labor	170,860	176,102
Payroll taxes	27,415	24,958
Insurance	44,235	41,306
Truck expense	25,471	23,270
Tree removal expense	354	703
Supplies	119,954	153,173
Maintenance, repairs and labor	14,947	30,923
Natural gas purchases	-	-
Propane purchases	-	-
School and travel	-	-
Uniforms	-	-
Safety	-	-
Communication expense	1,567	312
Internet, cable and phone	-	-
Local lines	-	-
Utilities	-	-
Miscellaneous	16,252	19,110
Total distribution expenses	421,055	469,857

See notes to the financial statements

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ -	\$ -	\$ -	\$ -	\$ 111,443	\$ 123,166
-	-	-	-	19,425	21,977
-	-	-	-	70,597	221,758
-	-	-	-	13,427	1,089
-	-	-	-	12,817	29,819
-	-	-	-	25,457	43,344
-	-	-	-	8,888	14,033
-	-	-	-	2,167,822	1,315,101
-	-	-	-	1,861	2,068
-	-	-	-	1,506	1,078
-	-	-	-	3,926	3,228
-	-	-	-	9,090	17,285
-	-	-	-	2,446,259	1,793,946
149,594	161,466	169,359	163,674	489,813	501,242
19,245	17,615	27,423	22,901	74,083	65,474
39,700	43,397	39,088	53,987	123,023	138,690
8,132	9,429	10,733	5,411	44,336	38,110
-	-	-	-	354	703
8,268	6,907	24,374	44,256	152,596	204,336
34,416	29,758	30,877	11,060	80,240	71,741
2,975,875	2,564,271	-	-	2,975,875	2,564,271
-	-	-	-	-	-
4,380	2,248	56	200	4,436	2,448
3,987	3,590	3,637	3,435	7,624	7,025
1,463	3,336	1,861	4,246	3,324	7,582
1,566	366	-	-	3,133	678
-	-	554,993	516,240	554,993	516,240
-	-	304	310	304	310
-	-	18,427	16,716	18,427	16,716
-	-	1,145	906	17,397	20,016
3,246,626	2,842,383	882,277	843,342	4,549,958	4,155,582

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

**COMBINING SCHEDULES OF OPERATING EXPENSES**

**AS OF DECEMBER 31:**

	ENTERPRISE	
	LIGHT AND POWER	
	2008	2007
Office and administration expenses:		
Office salaries	\$ 95,397	\$ 118,089
Payroll taxes	19,377	17,947
Use tax	2,936	12,389
Property taxes	2,623	2,572
Trustee fees	1,540	1,640
Professional fees	7,238	7,214
New building supplies	4,232	3,795
Office and administration	11,778	14,499
Publication and advertising	2,508	4,485
Utilities	491	1,031
Insurance	112,465	97,570
Global warming fee	4,301	3,773
Engineering service	4,185	5,705
Office supplies and postage	16,575	13,785
Janitorial services	9,080	10,418
Office equipment expense	2,879	2,653
Uniform expense	1,891	1,804
Dues	11,595	11,232
Contributions in lieu of taxes	61,139	53,740
Safety expense	852	728
Energy efficiency	3,472	3,245
Bad debts	7,255	10,775
Joint lease expense	-	-
Miscellaneous	2,724	2,888
Total office and administration expenses	<u>386,533</u>	<u>401,977</u>
Other expenses:		
Depreciation	781,190	738,502
Amortization	1,393	4,479
Total depreciation and amortization	<u>782,583</u>	<u>742,981</u>
Total operating expenses	<u>\$ 4,036,430</u>	<u>\$ 3,408,761</u>

See notes to the financial statements

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ 159,951	\$ 86,181	\$ 196,140	\$ 203,420	\$ 451,487	\$ 407,690
29,139	25,488	9,974	9,359	58,490	52,794
837	1,933	1,640	1,965	5,413	16,287
-	-	20,403	10,088	23,027	12,660
1,540	680	3,080	3,280	6,160	5,600
7,300	5,948	12,413	3,684	26,951	16,846
5,523	5,205	452	1,445	10,207	10,445
4,628	2,104	42,617	50,020	59,023	66,623
2,309	4,061	21,093	23,163	25,909	31,709
491	1,031	-	-	982	2,062
40,648	31,295	40,864	31,266	193,977	160,131
3,124	3,391	-	-	7,425	7,164
-	-	-	-	4,185	5,705
16,333	13,882	12,785	13,004	45,692	40,671
9,072	7,339	-	-	18,152	17,757
1,934	1,882	329	328	5,142	4,863
1,891	1,804	-	-	3,782	3,608
6,138	10,005	3,749	3,079	21,483	24,316
85,975	87,477	3,979	2,988	151,093	144,205
788	993	-	-	1,640	1,721
3,110	4,586	-	-	6,582	7,831
5,535	7,177	(113)	64,011	12,677	81,963
-	-	121,149	121,149	121,149	121,149
-	-	4,464	5,188	7,188	8,076
<u>386,266</u>	<u>302,462</u>	<u>495,017</u>	<u>547,437</u>	<u>1,267,816</u>	<u>1,251,876</u>
62,088	49,023	20,229	29,864	863,507	817,389
-	-	-	-	1,393	4,479
<u>62,088</u>	<u>49,023</u>	<u>20,229</u>	<u>29,864</u>	<u>864,900</u>	<u>821,868</u>
<u>\$ 3,694,980</u>	<u>\$ 3,193,868</u>	<u>\$ 1,397,523</u>	<u>\$ 1,420,643</u>	<u>\$ 9,128,933</u>	<u>\$ 8,023,272</u>

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

Schedule 6

**COMPARATIVE SCHEDULE OF KILOWATT HOURS  
UNAUDITED**

**Light and Power Division**

For the Years ended December 31, 1990 through 2008

Year Ended December 31,	Kilowatt Hours Generated	Kilowatt Hours Purchased	Total Kilowatt Hours	Annual Kilowatt Hours Increase (Decrease)	Percent of Increase (Decrease)
1990	195,800	34,914,806	35,110,606	1,628,843	4.86
1991	610,800	35,807,244	36,418,044	1,307,438	3.72
1992	335,400	35,384,218	35,719,618	(698,426)	(1.92)
1993	333,800	37,725,285	38,059,085	2,339,467	6.55
1994	497,500	40,560,924	41,058,424	2,999,339	7.88
1995	875,500	43,360,285	44,235,785	3,177,361	7.74
1996	800,250	44,184,580	44,984,830	749,045	1.69
1997	549,520	45,186,175	45,735,695	750,865	1.67
1998	894,890	46,596,929	47,491,819	1,756,124	3.84
1999	1,535,101	46,692,000	48,227,101	735,282	1.55
2000	1,818,897	48,355,200	50,174,097	1,946,996	4.04
2001	2,296,623	48,501,131	50,797,754	623,657	1.24
2002	781,178	49,953,600	50,734,778	(62,976)	(0.12)
2003	999,120	50,807,677	51,806,797	1,072,019	2.11
2004	731,018	52,793,581	53,524,599	1,717,802	3.32
2005	614,150	54,234,617	54,848,767	1,324,168	2.47
2006	968,520	54,668,395	55,636,915	778,148	1.43
2007	1,926,827	55,106,967	57,033,794	1,396,879	2.51
2008	346,990	55,272,976	55,619,966	(1,413,828)	(2.48)

See accompanying independent auditor's report.

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

Schedule 7

**COMPARATIVE OPERATING STATISTICS  
UNAUDITED**

**Gas Division**

For the Years ended December 31, 1990 through 2008

Year ended December 31:	Consumer Data			
	Heating Consumers		Total Consumers	
	Residential	Nonresidential	Residential	Nonresidential
1990	1,389	196	1,403	203
1991	1,424	192	1,439	198
1992	1,428	200	1,443	209
1993	1,444	199	1,458	209
1994	1,446	202	1,459	212
1995	1,457	200	1,468	210
1996	1,471	204	1,481	214
1997	1,481	211	1,492	221
1998	1,493	214	1,503	224
1999	1,506	216	1,512	225
2000	1,515	217	1,526	226
2001	1,523	222	1,534	230
2002	1,537	221	1,548	229
2003	1,544	225	1,555	242
2004	1,553	233	1,565	250
2005	1,565	240	1,578	256
2006	1,570	234	1,583	242
2007	1,575	233	1,588	241
2008	1,585	235	1,598	244

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

See accompanying independent auditor's report.

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

Schedule 7 - continued

**COMPARATIVE OPERATING STATISTICS  
UNAUDITED**

**Gas Division**

For the Years ended December 31, 1990 through 2008

Year Ended	Billing Data - Continued					
	Residential		Commercial		Standby	
	December 31:	Amount	MCF (1)	Amount	MCF (1)	Amount
2000	\$ 811,621	144,775	\$ 426,606	79,081	\$386,495	71,704
2001	1,434,837	154,619	746,438	82,203	533,385	79,082
2002	1,077,415	147,528	562,619	80,392	442,895	77,903
2003	1,157,292	151,024	588,351	79,744	493,646	78,281
2004	1,219,129	142,242	612,513	73,933	760,702	101,179
2005	1,454,893	140,364	923,304	89,974	844,526	80,914
2006	1,562,040	134,268	1,024,777	92,028	829,359	85,568
2007	1,442,619	136,913	878,695	87,117	603,850	83,917
2008	\$1,636,778	149,264	\$1,004,636	94,253	\$835,243	84,575

(1)= MCF-1,000 cubic feet

See accompanying independent auditor's report.

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

Schedule 8

**DISTRIBUTION OF ENERGY  
UNAUDITED**

**Light and Power Division**

For the Year ended December 31, 2008

	Meters	Kilowatt Hours
Rural	94	1,101,742
Residential	1,695	13,746,588
Commercial	318	36,769,235
Public Authority	32	376,009
Rural Security Lighting on Flat Rate per Month, Unmetered	162	126,684
	2,301	52,120,258
Kilowatt Hours Used for Free Street Lighting		302,642
Kilowatt Hours Used at Plant		358,174
Kilowatt Hours Used at Municipal Building and Donated		149,912
Kilowatt Hours Lost and Unaccounted For		2,688,980
		55,619,966
Kilowatt Hours Purchased		55,272,976
Kilowatt Hours Generated		346,990
		55,619,966
Lost and unaccounted for as a percentage of Kilowatts purchased and generated		4.83%

See accompanying independent auditor's report.

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

Schedule 8 - continued

**DISTRIBUTION OF ENERGY  
UNAUDITED**

**Light and Power Division**

For the Year ended December 31, 2007

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

See accompanying independent auditor's report.

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

Schedule 9

**INFORMATION REQUIRED BY BOND RESOLUTION  
UNAUDITED**

The following insurance policies were in force at December 31, 2008:

Insurer: Employers Mutual Casualty Company

Coverage		Amount
Property, including buildings, generating equipment and other contents, 90% coinsurance	4/1/08 – 4/1/09	\$ 4,806,122
Property, including buildings, generating equipment and other contents, 90% coinsurance	4/1/08 - 4/1/09	1,319,000
Property, including buildings, generating equipment and other contents, 90% coinsurance	4/1/08 - 4/1/09	17,901,485
General Liability		
Aggregate limit	4/1/08 – 4/1/09	2,000,000
Operations limit	4/1/08 – 4/1/09	2,000,000
Personal injury	4/1/08 – 4/1/09	1,000,000
Each occurrence	4/1/08 – 4/1/09	1,000,000
Fire damage limit	4/1/08 – 4/1/09	100,000
Medical insurance	4/1/08 – 4/1/09	5,000
Contractors equipment	4/1/08 – 4/1/09	93,741
EDP equipment	4/1/08 – 4/1/09	181,741
Miscellaneous property	4/1/08 – 4/1/09	80,210
Theft		
Indoor	4/1/08 – 4/1/09	13,000
Outdoor	4/1/08 – 4/1/09	13,000
Automobile		
Liability	4/1/08 – 4/1/09	1,000,000
Uninsured motorist	4/1/08 – 4/1/09	50,000
Underinsured motorist	4/1/08 – 4/1/09	50,000

See accompanying independent auditor's report.

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

Schedule 9 - continued

**INFORMATION REQUIRED BY BOND RESOLUTION  
UNAUDITED**

Coverage		Amount
<b>Worker's Compensation</b>		
Injury by accident (employee)	4/1/07 – 4/1/08	500,000
Injury by disease (employee)	4/1/07 – 4/1/08	500,000
Injury by disease (limit)	4/1/07 – 4/1/08	500,000
<b>Commercial Umbrella</b>		
Retained limit	4/1/07 – 4/1/08	10,000
Occurrence limit	4/1/07 – 4/1/08	5,000,000
Aggregate limit	4/1/07 – 4/1/08	5,000,000
<b>Linebacker</b>		
Each loss	4/1/07 – 4/1/08	1,000,000
Aggregate	4/1/07 – 4/1/08	1,000,000
Deductible	4/1/07 – 4/1/08	2,500
 <b>Insurer : Cincinnati Insurance Company</b>		
<b>Boiler and Machinery</b>		
Comprehensive limit	4/1/08-4/1/09	15,500,000
 <b>Insurer: State Auto</b>		
<b>Surety Bond</b>		
Employee theft	3/25/07 – 3/25/08	150,000
Deductible	3/25/07 – 3/25/08	500

See accompanying independent auditor's report.

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

Schedule 9 - continued

**INFORMATION REQUIRED BY BOND RESOLUTION  
UNAUDITED**

Electric Rates in effect at December 31, 2008:

Residential	Residential Rate Schedule is available to any consumer for domestic purpose only. Monthly service charge: \$8.00 per month All kilowatt hours per month	7.25c/kwh
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Small General Service	Small General Service is available to any customer for single or three phase service supplies through one meter, where no more than two monthly 15 minute demands of 20 kilowatts or more shall have occurred in the previous twelve months. Monthly service charge: \$13.00 per month. First 1,000 kilowatt hours per month Excess kilowatt hours per month	8.20c/kwh 8.00c/kwh
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Large General Service	Large General Service is available to any customer where two or more monthly 15 minute demands over the previous twelve month period shall have been 20 kilowatts or more. Demand – Maximum 15 minute demand during the billing period, but not less than 75% of the highest demand occurring during the preceding eleven months Minimum - Demand Billing, but not less than for 20 kilowatts per month, or 75% of highest 15 minute demand recorded in the preceding eleven months, whichever is the greater.  Demand Charge: All kilowatts \$5.00 per month. Monthly service charge: \$25.00 Energy charge First 20,000 kilowatt hours per month Excess kilowatt hours per month	6.30c/kwh 5.99c/kwh
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Nonprofit Organizations  
Certified nonprofit organizations; churches, service clubs, etc., will be billed for electrical service under the Small General Service or Large General Service. User classification will be determined by usage criteria.

See accompanying independent auditor's report.

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

Schedule 9 - continued

**INFORMATION REQUIRED BY BOND RESOLUTION  
UNAUDITED**

December 31, 2008

2008 Payments	\$ 665,015
2008 Net Revenues – Light and Power	\$1,250,975
Ratio of Debt Payments to Net Revenues*	53.2%

December 31, 2007

2007 Payments	\$ 539,405
2007 Net Revenues – Light and Power	\$1,363,524
Ratio of Debt Payments to Net Revenues*	39.6%

December 31, 2006

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

December 31, 2005

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

December 31, 2004

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

December 31, 2003

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

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

See accompanying independent auditor's report.



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

To the Board of Trustees of the  
Osage Municipal Utilities:

We have audited the accompanying financial statements of the business type activities, each major fund, and the aggregate remaining fund information of Osage Municipal Utilities, component units of the City of Osage, Iowa, as of and for the year ended December 31, 2008, which collectively comprise the Utilities' basic financial statements listed in the table of contents and have issued our report thereon dated July 13, 2009. Our report expressed unqualified opinions on the financial statements. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Osage Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is

more than a remote likelihood that a misstatement of the Utilities' financial statements that is more than inconsequential will not be prevented or detected by Osage Municipal Utilities' internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08 is a material weakness.

### **Compliance and Other Matters**

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

Comments involving statutory and other legal matters about Osage Municipal Utilities' operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Osage Municipal Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

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

July 13, 2009

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

**SCHEDULE OF FINDINGS**

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance, which is material to the financial statements.

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

**SCHEDULE OF FINDINGS**

**Part II: Findings Related to the General Purpose Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT CONTROL DEFICIENCIES:**

2008-II-A Carrier Access Billing – We noted during our audit that an under-billing of carrier access charges over a period of time had been located, billed, and ran through the 2008 record keeping. Portions of the under-billing related to prior periods however and required a prior period adjustment to the financial statements presented.

Recommendation – A system of internal controls operating effectively is assumed will identify all material errors or misstatements so that significant adjustments such as a prior period adjustment will not be required. We recommend instituting control procedures to review these carrier access charges on a regular basis.

Response – We have already implemented procedures including analytical review the monthly carrier access billings and revenues to address this issue.

Conclusion – Response accepted.

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

**SCHEDULE OF FINDINGS**

**Part III: Other Findings Related to Statutory Reporting:**

- III-A-08     Certified Budget - Disbursements during the year ended December 31, 2008 were within the budgeted limits.
  
- III-B-08     Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
  
- III-C-08     Travel Expense – No disbursements of the Utilities’ money for travel expenses of spouses of Utilities’ officials or employees’ were noted.
  
- III-D-08     Business Transactions – No business transactions between the Utilities and the Utilities’ officials or employees were noted.
  
- III-E-08     Bond Coverage – Surety bond coverage of the Utilities’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
  
- III-F-08     Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.
  
- III-G-08     Revenue Bonds – No violations of revenue bond resolution requirements were noted.
  
- III-H-08     Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policy.
  
- III-I-08     Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.