

**CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES**

**Financial Statements
(With Independent Auditor's Report Thereon)**

**Independent Auditor's Report on Compliance and on
Internal Control over Financial Reporting**

Schedule of Findings

June 30, 2009 and 2008



Shull
and Co. P.C.
certified public accountants

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Table of Contents

	<u>Page</u>
Officials	2
Transmittal letter	3-6
Operational Review	7-10
Independent Auditor's Report	11-12
Management Discussion and Analysis	13-19
Financial Statements	
Statement of Net Assets	20-21
Statement of Revenues, Expenses and Changes in Net Assets	22-23
Statement of Cash Flows	24-25
Notes to Financial Statements	26-33
Required Supplementary Information	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)	34
Notes to Required Supplementary Information – Budgetary Reporting	35
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters	36-37
Schedule of Findings	38-39

CITY OF INDIANOLA, IOWA
 INDIANOLA MUNICIPAL UTILITIES
 Officials

June 30, 2009

Electric and Water Utility Board of Trustees

Authority: Indianola City Ordinance No. 642

		<u>Term Expires</u> <u>December 31</u>	<u>Amount</u> <u>of Bond</u>
Pat Reding	July 2008 Chairperson	2011	50,000
Clark Raney		2012	50,000
Chris Boone	June 2009 Chairperson	2013	50,000
Eric Vander Linden		2014	50,000
Bob Lester		2015	50,000

Indianola Municipal Utilities Management

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

City Officials and Management

Laurie Hebl	Director of Finance and Community Services		50,000
Roxanne Hunerdosse	Director of Human Resources		50,000
Diana Bowlin	City Clerk		50,000
Douglas Shull	City Treasurer		50,000
John Hoyman	City Solicitor		50,000

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

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report

March 1, 2010

To the Honorable Mayor, Members of the Council, and Citizens of the City of Indianola,

This report consists of the board and management's representations concerning the finances of Indianola Municipal Utilities. Consequently, the board and management assume full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, the board and management have established a comprehensive internal control framework that is designed both to protect the utility's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of these financial statements. Because the cost of internal controls should not outweigh their benefits, the utility's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. The board and management assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Indianola Municipal Utilities' financial statements have been audited by Shull & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2009 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Indianola Municipal Utilities' financial statements for the fiscal year ended June 30, 2009 are fairly presented. The independent auditor's report is presented as the first component of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Profile of the Utility Board of Trustees

The City of Indianola, incorporated in 1864 and the county seat of Warren County, is located in the central part of the state approximately 17 miles south of the state capital, Des Moines. Indianola is considered part of the Des Moines MSA, one of the top growth areas in the state. The City of Indianola encompasses an area of approximately nine square miles and a population of 14,156. The city provides electric, water, and telecommunications services as a discretely reported component unit under the management and control of a board of trustees. The board operates these three utilities as Indianola Municipal Utilities (IMU). This system of management and control was established by a vote of the electorate and implemented by city ordinance in 1973 as provided in Iowa Code.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report - Continued

Electric and water utility territories are fixed in that any new territory expansions must be negotiated and purchased from incumbent service providers. The telecommunications utility currently leases fiber optic lines and offers wireless Internet service to customers in a partnership contract with a private Internet service provider.

Utility board. Utility boards are vested with the authorities of the city in relation to these utilities, with the exceptions that the board may not certify taxes to be levied, pass ordinances or amendments, or issue general obligation or special assessment bonds. Real property is held in the name of the city, but the utility board has all the powers and authorities of the city with respect to the acquisition by purchase, condemnation, or otherwise, lease, sale, or other disposition of such property, and the management, control, and operation of the same, subject to provisions of any outstanding obligations which are payable from the revenues of the city utility. Separate funds are maintained for each utility. Utility fund balances deemed by the board of trustees to be in excess of the needs of a utility may be transferred to any other fund, upon approval by the city council. The five trustees are appointed by the mayor and approved by the city council, each serving staggered six-year terms.

Management. The board of trustees appoints a general manager to oversee the day-to-day management of the electric, water, and telecommunications utilities. The general manager appoints the employees of each of these utilities, carries out the policies of the board of trustees, and performs other duties as determined by resolution of the board.

Other officials. A director of finance & community services serves as the chief accounting officer for all city services, including those provided by IMU, and submits budget and year-end financial reports required of the utility. There is also an appointed clerk, which serves as the secretary of the board of trustees and as such has custodial duties prescribed in Iowa Code, local ordinances, board resolutions, and by management discretion. An appointed treasurer serves as custodian for all funds. An attorney is also appointed to represent the city, its boards, and its commissions and performs certain functions prescribed in local ordinances and in the Iowa Code.

Budgeting process. The annual budget serves as the foundation for the utilities' financial planning and control. The budget process, in general, is as follows:

- The general manager submits a 5-year capital improvement project budget to the board of trustees for review and adoption.
- Departments submit operating budget requests to the general manager.
- The general manager compiles the annual budgets for review.
- The board of trustees adopts budgets for the electric, water, and telecommunications utilities. These are compiled with the City of Indianola's governmental services' budgets and that of the sewer utility for presentation to the public in publication form.
- The city council sets and conducts a public hearing on the budget.
- Any proposed changes to the IMU budget are referred back to the board of trustees.
- The city council adopts the overall budget and the budget is filed with the county auditor and the State of Iowa no later than March 15 of each year.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report - Continued

The State of Iowa limits expenditures to the total amount budgeted by function. Expenditures for individual departments or services may exceed those budgeted as long as total expenditures by function are not exceeded. Budget amendments are permitted under provisions similar to the adoption of the original budget. Budget-to-actual comparisons are provided in this report on a cash accounting basis, which is consistent with the city's financial basis of accounting.

Cash management policies and practices. The board of trustees annually reviews and adopts an investment policy outlining the roles and responsibilities in making investments using available cash balances. The clerk and treasurer are jointly responsible for the investment of funds under that policy, with oversight by the board of trustees.

Cash temporarily idle during the year was invested in bank deposits or money market funds, repurchase agreements, and the Iowa Public Agency Investment Trust. These temporary cash deposits were maintained in stable value investments with a June 30, 2009 rate of return of .25%.

The utility invests reserve funds (those not intended to be expended within 365 days) in a portfolio with the assistance of an investment advisement firm. The investment portfolio includes mortgage-backed securities, obligations of the U.S. Treasury or its agencies, and cash held in a public entity money market fund. At fiscal year end, the effective duration of the portfolio was 2.9 years with a current yield of 4.84%. Reported returns may include changes in fair value during the year but do not necessarily represent continuing returns; nor is it always possible to realize changes in fair value, especially in the case of temporary changes for securities the city intends to hold until maturity.

Additional information on the utility's cash management can be found in notes to the financial statements.

Risk management. Indianola Municipal Utilities participates in the Iowa Communities Assurance Pool (ICAP), a local government risk-sharing pool with over 500 members throughout the state of Iowa. The utility makes annual contributions to ICAP recorded as disbursements from its operating funds for automobile, property, casualty, and liability coverage. The utility maintains reserve funds to meet deductibles as they occur. The utility also participates as a member of the Iowa Municipal Workers' Compensation Association (IMWCA) and pays premiums to the association on an annual basis from its operating funds. The utility purchases boiler and machinery insurance from a private carrier. In addition, the utility has an ongoing safety program to monitor its facilities and employees to maintain a safe environment for employees and the public. Additional information on Indianola Municipal Utilities' risk management activity can be found in notes to the financial statements.

Pension and other post-employment benefits. Indianola Municipal Utilities provides pension benefits for its employees. These benefits are provided through a statewide plan managed by the Iowa Public Employees Retirement System. Indianola Municipal Utilities has no obligation in connection with employee benefits offered through this plan beyond its periodic payments based on earned compensation by active employees.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report - Continued

IMU also provides post-retirement access to its medical insurance plan until age 65 as required under Iowa Code. Retirees contribute an amount equal to the premium amount charged to city departments and active employees on a pay-as-you-go basis.

IMU maintains a health reimbursement arrangement (HRA) for the benefit of employees. The utility makes a fixed annual commitment that employees may use to offset premium contributions or cash payments for any medical expense allowed under IRS Code. If the employee does not utilize the full amount provided in the fiscal year, the balance is carried forward to the following year and is available in any future period, including after retirement. Disbursements are paid out of operating funds and not held in trust. They are, however, accounted for in a sub-fund that is separate from other operating funds for budgetary control.

Additional information on the utility's pension arrangements and other post-employment benefits can be found in notes to the financial statements.

Closing

State law and city ordinance require municipal utility boards to provide the city council an annual report with complete financial statements. State law also requires the city to publish within nine months of the close of each fiscal year a complete set of financial statements, including that of municipal utilities as a component unit. State law requires that financial statements must be audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to these requirements, we hereby issue this report for Indianola Municipal Utilities for the fiscal year ending June 30, 2009.

Pat Reding
2008 Board Chairperson

Chris Boone
2009 Board Chairperson

Todd Kielkopf
General Manager

Laurie Hebl
City of Indianola Finance Director

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review

Utility operations are divided into departments, all of which work toward the common goal of providing superior services to the citizens of Indianola. The IMU Board of Trustees annually adopts a Strategic Plan complete with service objectives, operating strategies, and annual goals.

Highlights of the year include recognition by the Iowa Illinois Safety Council as its winner of the Incident Rate Improvement Award, media coverage from implementing a renewable energy credit program by Channel 13 News, and a new wholesale energy contract that resulted in lower costs and higher capacity revenue.

The following summary provides a brief review of the various departmental activities and accomplishments in FY 2009.

- **Electric Utility.** The electric utility provides reliable service by purchasing wholesale energy for the community as a whole, receiving it over the transmission system, generating electricity within Indianola as needed, and distributing it safely to customers. Significant progress towards implementing operational strategies include:
 - Converted from a short-term to a long-term contract for wholesale energy with the Municipal Energy Agency of Nebraska (MEAN), which decreased monthly energy costs and increased capacity payments.
 - Worked with MEAN on planning and management issues related to the transition of transmission control from MidAmerican Energy to the Midwest Independent System Operator (MISO).
 - Completed the Kenwood Underground Conversion project.
 - Began design work with contracted engineers for the 2009 Underground Conversion Project, which will convert the entire community north of Hwy 92 and east of Hwy 65/69.
 - Planned and let the contract for construction of an 8,000 sq. ft. storage facility at the East Iowa turbine & substation site.
 - Completed smaller plant upgrade projects identified in the Capital Improvement Plan.
 - Continued installing automated meter system and replacing old meters to improve readings and collections.
 - Worked with the Central Iowa Power Cooperative (CIPCO) to plan for constructing a new 69kV tie at IMU's Westside Substation.
 - Strengthened inventory management and internal controls.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review - Continued

- **Water Utility.** The water department also had a busy and productive year. A major highlight was the removal of the downtown water tower.
 - Completed a water system modeling study to determine the adequacy of various aspects of the storage and distribution system.
 - Identified a preferred site, on the Activity Center grounds, for a 3rd water tower; worked with city staff on potential acquisition strategy.
 - Replaced the lime machine and other plant upgrade projects identified in the Capital Improvement Plan.
 - Continued installing automated meter system and replacing old meters to improve readings and collections.
 - Completed and implemented an antennae lease with US Cellular at the Simpson water tower.
 - Bid and let the contract for painting the Simpson water tower.
 - Completed the purchase of additional water territory from the Warren Water District; adopted an associated connection fee district to recover costs.

- **Communications Utility.** IMU's continued it's partnership in the Indianola Communications Agency, with the main focus still being to work with MCG in Phase I to bring a bundled package of high-speed Internet and telephone services to businesses adjacent to the existing IMU fiber network. Over 40 businesses are currently MCG customers via the IMU fiber.
 - Began the ownership transition process of transferring telecom infrastructure assets to the electric utility through a buyout of private parties.
 - Held planning meetings with the remaining private partner, Mahaska Communications Group, to begin planning for an expansion of the fiber-to-the-premise system as part of the upcoming electric underground conversion project.
 - Delegated telecom plant responsibilities to the Technical Services Coordinator.

- **Administration.** The three utilities are administered by a combination of the IMU Board of Trustees and their staff, services provided by the City of Indianola through cost-sharing arrangements, and third-party contractors.

Public works activities primarily involve co-managing the public right of way. IMU also supports economic development and community betterment activities. Third, there are utility-specific services such as technical activities, safety, and utility programming. Last are the governance and professional services associated with oversight, regulatory actions, general management, human resources, fiduciary controls, public notifications and information systems, and legal compliance & risk management.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review - Continued

Significant progress towards implementing operational strategies include:

Public Works-

- Continued research on LED and other streetlights designed to reduce energy consumption.
- Met with private telecom providers to minimize rights of way issues when planning underground conversion and fiber projects.

Economic Development & Community Betterment-

- Funded and worked with the Indianola Development Association (IDA) to promote the community and to solicit potential customers through contacts and proposals made by the IDA, Warren County Economic Development Corp., and the Greater Des Moines Partnership; assisted with IDA marketing efforts such as web site design and printed materials.
- Expanded future funding opportunities through the IMU electric revolving loan fund.
- Participated in community projects such as Salem Court, Community Athletic Facilities, and others; participated in planning for RAGBRAI in July, 2009.
- Fireworks display and National Balloon Classic sponsorships.
- Participated in the City of Indianola Sustainability Committee; co-managed with city staff the founding of an annual series of April events including a Sustainability Fair.

Utility Services-

- Reviewed new National Electric Safety Code regulations regarding arc-flash, analyzed the system, and identified cost-effective protective solutions.
- Identified potential partners for, and performed research on, a smart-grid demonstration site grant.
- Revised major outage internal procedures.
- Improved the structure of internal staff safety training classes.
- Worked extensively to populate water utility infrastructure in the GIS; added GPS coordinates to electric infrastructure on a limited basis.
- Researched and submitted applications for IMU to be a conduit for USDA funding for economic development and energy efficiency activities.
- Adopted joint residential energy auditing program with MidAmerican Energy.
- Developed an auditing system for routinely low-reading electric and water meters.
- Held the annual Customer Appreciation Day event complete with booths on utility operations, energy efficiency programs, and others.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review - Continued

Governance and Professional Services-

- Met with management staff and performed an annual review of the Strategic Plan; implemented and held IMU Performance Committee meetings comprising of management staff, supervisors, crew members, and other administrative staff; met to discuss performance measurements; designed database task tracking system.
- Negotiated a new 3-year union contract.
- Completed an electric cost of service study and reviewed water utility financial performance; implemented plan to adjust rates accordingly.
- Expanded utility use of the document imaging system; worked to restructure utility paper files.
- Participated with other city staff on a committee to improve customer service; began trial use of the Request Partner program to interact with customers.
- Participated with the Midwest Municipal Transmission Group to review transmission investment opportunities.
- Began participation in the MEAN renewable energy resource pool to issue renewable energy credits to customers; began voluntary customer program.
- Maintained American Public Power Association designation as a Reliable Public Power Provider (RP3).
- Maintained A2 bond rating.
- Began investigation into the legal and operational feasibility of starting a geothermal utility.
- Expanded participation in the Iowa Stored Energy Agency Plant, a potential future generation source.
- Revised the Personnel Management Guide, which applies to all non-union employees.
- Recognized and rewarded employees for Safety and merit performance.
- Authorized staff and crews to attend general electric training.
- Eligible employees achieved advancement in the electric apprenticeship program.
- Budgeted for and demonstrated new accounting, billing, and HR software.
- Researching costs and began planning for re-design of web site, performance report, and service brochures.
- Implemented new e-newsletter for commercial customers.
- Met with boiler & machinery insurance underwriter and sales reps. to discuss coverage and claims process.
- Participated in the Employee Insurance Committee with other city departmental staff and facilitator Debbie Dean (Benefit Source, Inc.).
- Employee evaluations performed and direction provided for the coming year.



Shull

and Co. P.C.
certified public accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited the accompanying statement of net assets of the Indianola Municipal Utilities, a component unit of the City of Indianola, Iowa, as of June 30, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indianola Municipal Utilities as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009, on our consideration of the Indianola Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2009. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 13 through 19 and 34 through 35, are not a required part of the basic financial statements, but are supplementary information required by Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Skull & Co., P.C.

December 18, 2009

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A)

Indianola Municipal Utilities offers readers of its financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in this report.

2009 Financial Highlights

- Indianola Municipal Utilities has ending cash balances totaling \$4,437,998 to meet the utility's ongoing obligations to citizens, creditors, for capital reinvestment in utility operations, and for emergency repairs.
- The utility annually uses prior years' positive cash flow and balances to reinvest in capital assets, as detailed in the "Long term financial planning" section of this MD&A.
- As reported on the Statement of Cash Flows, total cash balances decreased by \$204,131. Cash provided by operating activities was \$1,811,462; however, it was primarily used for capital investments in the electric utility (\$1,272,385), water utility (\$357,066), and debt service (\$620,409).
- At the end of the current fiscal year, unrestricted and undesignated net assets totaled \$6,080,587, which decreased by \$62,139 over the prior year. Net assets invested in capital assets, net of related debt, increased \$506,587 reflecting reinvestments through utility system improvement projects.
- The utility's total liabilities decreased by \$395,343 during the current fiscal year.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows:

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

The Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. These statements provide information about the activities of the utility as a whole and present an overall view of the utility's finances.

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

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Basis of accounting. Indianola Municipal Utilities maintains its financial records on the accrual basis and the financial statements presented in this report are prepared on that basis. The financial statements present the financial position and changes in financial position of the funds in accordance with U.S. generally accepted accounting principles.

Reporting the Utility's Financial Activities

One of the most important questions asked about the utility's finances is, "Is Indianola Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Financial Statements reports information which helps answer this question.

Fund Accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Separate funds are maintained for each utility. These funds are classified as business type, or proprietary, funds for reporting purposes.

Financial Statements. The Statement of Net Assets presents information on each utility's assets, liabilities, and equity. Over time, increases or decreases in unrestricted and undesignated net assets may serve as a useful indicator of whether the financial position of the utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets details the financial operating results of the utility during the most recent fiscal year, with a comparison to the prior year.

The Statement of Cash Flows provides the net increase or decrease in cash and investments as a result of operating, financing, and investment activities.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Analysis of Financial Activities

This section of the MD&A summarizes the financial data contained in the utility's financial statements. It also provides an analysis of the major activities affecting changes from the previous fiscal year.

Statement of Net Assets	Year ended June 30,	
	2009	2008
	<u> </u>	<u> </u>
Assets		
Current	\$ 7,606,344	7,593,467
Restricted	958,941	961,949
Other	25,975	29,623
Capital	<u>37,749,004</u>	<u>37,695,266</u>
Total Assets	<u><u>46,340,264</u></u>	<u><u>46,280,305</u></u>
 Liabilities		
Current	1,873,519	1,811,013
Long Term	<u>3,541,235</u>	<u>3,999,084</u>
Total Liabilities	<u><u>5,414,754</u></u>	<u><u>5,810,097</u></u>
 Net Assets		
Invested Capital Assets	34,122,769	33,616,182
Restricted	562,923	569,328
Designated	159,231	141,972
Unrestricted & Undesignated	<u>6,080,587</u>	<u>6,142,726</u>
Total Net Assets	<u><u>\$ 40,925,510</u></u>	<u><u>40,470,208</u></u>

As shown above, total utility assets remained relatively stable. Liabilities decreased by approximately \$395,000 as bonds were retired. Utility capital assets (net of depreciation) increased \$506,000 through new infrastructure projects relatively balanced between the electric and water utilities.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Net Income	Year ended June 30,	
	2009	2008
Operating revenues		
Sales of electricity	\$ 8,423,835	8,050,588
Electrical capacity contract fees	224,175	238,184
Sales of water	1,801,922	1,835,390
Fiber communications rental fees	91,053	69,387
Other	100,622	194,783
Total operating revenue	10,641,607	10,388,332
Operating expenses		
Electric utility	7,133,502	7,312,994
Water utility	1,087,784	1,049,813
Fiber communications utility	92,397	95,279
Administrative and general	1,485,379	1,224,128
Transfer to city for Clerk's operations	261,800	259,600
Transfer to city in lieu of property taxes	482,450	481,050
Total operating expenses	10,543,312	10,422,864
Income from operations	98,295	(34,532)
Nonoperating revenue (expenses)		
Revenue	453,175	468,268
Expenses	(170,956)	(184,723)
Net Income	\$ 380,514	249,013

Income from operations improved from a loss of \$34,532 to a gain of \$98,295 as a result of electric rate increases in November 2008 and April 2009.

Budgetary Highlights

The board of trustees annually adopts a budget for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level (i.e. proprietary) for the city as a whole, not at the fund or fund type level. Notice is given and a public hearing is held on the budget. The budget may be amended during the year utilizing similar statutorily prescribed procedures. None of the amendments made, if any, negatively affect the following year's budget.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Information pertaining to budgetary to actual receipts, disbursements, and changes in balances is provided in the financial statements on a cash basis. Highlights include:

- Charges for services were \$478,507 less than budgeted, primarily due to a decrease in the cost of energy adjustment passed on to customers and unanticipated charges to customers. The cost of energy adjustment was set to zero in November, 1999.
- Disbursements were \$324,337 less than budgeted due to reduced cost of purchased energy.
- Ending balances were \$145,040 less than budgeted, but still within the board's reserve policy.

Capital Asset and Debt Administration

The utility did not add any additional debt during the fiscal year.

The city's overall bond rating including that of the utility remained at A2.

	Outstanding Debt at Year ended June 30,	
	<u>2009</u>	<u>2008</u>
Electric utility		
Revenue bonds	\$ 1,085,000	1,525,000
Water utility		
Revenue bonds	2,050,000	2,270,000
General Obligation bonds (issued by city)	880,000	960,000
Fiber communications utility	-	-
 Total	 <u>\$ 4,015,000</u>	 <u>4,755,000</u>
 Internal loan from Electric utility to Water utility	 <u>\$ 3,404,077</u>	 <u>3,552,914</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Economic Factors and Next Year's Budgets and Rates

Local economy. The City of Indianola currently enjoys a favorable economic environment and local indicators point to continued moderate growth. The projection in 2010 is for Indianola to grow to a population of approximately 16,600, which represents an increase of 17% from the 2005 special census. Although a primarily residential community, the varied nature of the educational, light manufacturing, agriculture services, and retail sectors of the local economy provides relative employment stability. Close proximity to the Des Moines metro area, the state capital with a combined population of approximately 460,000, provides employment for approximately 60% of the available workforce. Over the past 5 years, retail sales have grown at an annual average of over 5% and new single-family dwellings have been constructed at an average annual rate in excess of 50 units.

The region (which includes the City of Indianola and the surrounding unincorporated area within Warren County) has a moderate growth employment outlook over the next several years. New commercial construction is occurring along the four-lane highway between the City of Indianola and the Des Moines metropolitan area. A four-lane bypass to the south of the Des Moines metro, completed in 2002, provides increased commercial development opportunities for the community as it improved traffic flow from Indianola to the western Des Moines suburbs and the interstate highway system. The utility makes annual financial commitments to the Indianola Development Corporation and Warren County Economic Development Corporation, both non-related entities to the city, to support economic development in the region. The utility also offers its own revolving loan program to spur economic development and participates in the Choose Des Moines Communities program of the Greater Des Moines Partnership.

Long-term financial planning. The utility annually adopts a 5-year capital improvement budget that prioritizes foreseen projects. Those with potential long-term significant impacts to the cash balances and financial operations of the utility are:

- Electric underground conversion construction at a cost of \$8 million to be financed with electric revenue debt; additional capital projects of \$400,000 using cash produced from operations.
- Repairs at both water towers totaling \$350,000 over 3 years. Water main replacements estimated at \$800,000 using G.O. bond proceeds issued by the City of Indianola as part of street reconstruction projects.
- Construction of additional fiber optic trunk lines within the next 5 years (amount dependent upon opportunities to obtain adequate financial returns on investment).

Potential regulatory changes over the next 3-5 years with the most fiscal impact is climate control legislation and renewable energy purchasing requirements. Both would affect wholesale energy purchase costs per kwh. However, the cost of energy adjustment could be imposed to recover unanticipated costs without the need for board action.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Budgets and Rates. Indianola Municipal Utilities increased electrical rates in FY 2009 and additional annual rate increases are planned for the foreseeable future to maintain bond coverage for new debt being issued to fund capital projects and pay for projected wholesale energy costs. Water rates increased \$.50/1,000 gallons in FY 2009 and another \$.50/1,000 gallon increase is planned for FY 2011.

Requests for Information

This financial report is designed to provide a general overview of Indianola Municipal Utilities' finances for all those with an interest in the utility's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance & Community Services or to the City Clerk, who serves as the Secretary of the Board of Trustees. Their offices are located at 110 N. First St., PO Box 299, Indianola, IA 50125 with a telephone number of 515-961-9410.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Net Assets
June 30, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current assets		
Cash and investments	\$ 4,437,998	4,642,129
Accounts receivable - customers	1,500,723	1,308,407
Other accounts receivable	1,021	20,631
Accrued interest receivable	42,561	24,118
Inventories	<u>1,624,041</u>	<u>1,598,182</u>
Total current assets	<u>7,606,344</u>	<u>7,593,467</u>
Restricted assets - cash and investments		
Electric revenue note and interest sinking fund	36,107	38,698
Electric revenue note debt service reserve fund	152,500	152,500
Electric revenue note improvement fund	207,691	207,691
Water revenue bond and interest sinking fund	166,943	167,360
Water revenue bond debt service reserve fund	320,700	320,700
Water revenue bond water improvement fund	<u>75,000</u>	<u>75,000</u>
	<u>958,941</u>	<u>961,949</u>
Electric utility plant and equipment, net of accumulated depreciation of \$19,402,302 (2008 - \$18,334,938)	22,946,964	22,681,292
Water utility plant and equipment, net of accumulated depreciation of \$7,932,023 (2008 - \$7,430,710)	14,620,993	14,751,102
Fiber communications utility plant and equipment, net of accumulated depreciation of \$668,664 (2008 - \$586,839)	<u>181,047</u>	<u>262,872</u>
	<u>37,749,004</u>	<u>37,695,266</u>
Bond and note issue costs, net of accumulated amortization of \$15,005 (2008 - \$11,357)	<u>25,975</u>	<u>29,623</u>
	<u>\$ 46,340,264</u>	<u>46,280,305</u>

See accompanying notes to financial statements.

	LIABILITIES	2009	2008
Current liabilities			
Accounts payable		\$ 1,224,148	1,179,112
Wages and benefits payable		128,270	118,418
Sales tax payable		15,494	11,199
Deferred rental fees		24,589	29,663
General obligation bonds payable within one year		85,000	80,000
Total current liabilities		1,477,501	1,418,392
Current liabilities payable from restricted assets			
Accrued interest payable		16,018	17,621
Electric revenue capital loan notes payable within one year		155,000	155,000
Water revenue refunding capital loan notes payable within one year		225,000	220,000
Current liabilities payable from restricted assets		396,018	392,621
Electric revenue capital loan notes payable after one year (net of unamortized discount of \$3,798 (2008 - \$6,192))		926,202	1,078,808
General obligation bonds payable after one year (net of unamortized discount of \$7,683 (2008 - \$8,596))		787,317	871,404
Water revenue refunding capital loan notes payable after one year (net of unamortized premium of \$2,716 (2008 - discount of \$1,128))		1,827,716	2,048,872
Total long term liabilities		3,541,235	3,999,084
 Total liabilities		 \$ 5,414,754	 5,810,097
	NET ASSETS		
Invested in capital assets, net of related debt		\$ 34,122,769	33,616,182
Restricted for debt service		280,232	286,637
Restricted for electric utility improvements		207,691	207,691
Restricted for water utility improvements		75,000	75,000
Unrestricted			
Designated for payment of insurance coverage deductibles		22,937	22,922
Designated for economic development revolving loan fund		136,294	119,050
Undesignated		6,080,587	6,142,726
Total unrestricted		6,239,818	6,284,698
 Total net assets		 \$ 40,925,510	 40,470,208

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues		
Sales of electricity	\$ 8,423,835	8,050,588
Sales of water	1,801,922	1,835,390
Fiber communications rental fees	91,053	69,387
Capacity contract fees	224,175	238,184
Other	<u>100,622</u>	<u>194,783</u>
Total operating revenues	<u>10,641,607</u>	<u>10,388,332</u>
 Operating expenses		
Electric utility		
Purchased energy	4,926,823	5,139,938
Plant operation and maintenance	277,412	269,670
Distribution operation and maintenance	859,768	863,138
Depreciation and amortization	1,069,499	1,040,248
Water utility		
Plant operation and maintenance	420,311	351,500
Distribution operation and maintenance	164,648	195,898
Depreciation and amortization	502,825	502,415
Fiber communications utility		
Operation and maintenance	10,572	14,270
Depreciation and amortization	81,825	81,009
Administrative and general	1,485,379	1,224,128
Transfer to city for Clerk's operations	261,800	259,600
Transfer to city in lieu of property taxes	<u>482,450</u>	<u>481,050</u>
Total operating expenses	<u>10,543,312</u>	<u>10,422,864</u>
 Income (loss) from operations	 <u>98,295</u>	 <u>(34,532)</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets - Continued
Years Ended June 30, 2009 and 2008

Nonoperating revenues (expenses)		
Investment income	249,701	232,040
Connection fees	34,463	43,513
Gain on sale of capital assets	-	5,612
Other	169,011	187,103
Interest expense	<u>(170,956)</u>	<u>(184,723)</u>
	<u>282,219</u>	<u>283,545</u>
Net income	380,514	249,013
Capital contributions from customers and developers	72,762	290,036
Capital contributions from water main connection fees	<u>2,026</u>	<u>30,707</u>
Change in net assets	455,302	569,756
Net assets, beginning of year	<u>40,470,208</u>	<u>39,900,452</u>
Net assets, end of year	<u>\$ 40,925,510</u>	<u>40,470,208</u>

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Cash received from customers	\$10,401,243	10,664,167
Cash paid to suppliers	(7,065,140)	(6,957,700)
Cash paid to employees	(1,728,115)	(1,572,875)
Other nonoperating fees and revenues received	203,474	230,616
Net cash provided by operating activities	<u>1,811,462</u>	<u>2,364,208</u>
Cash flows from capital and related financing activities		
Purchases and construction of electric utility plant and equipment	(1,272,385)	(1,362,529)
Purchases and construction of water utility plant and equipment	(357,066)	(200,920)
Purchases and construction of fiber communications utility plant and equipment	-	(16,308)
Proceeds from sale of capital assets	-	5,612
Water main connection fees received	-	30,707
General obligation bond principal paid	(80,000)	(80,000)
General obligation bond interest paid	(35,900)	(37,900)
Electric revenue capital loan notes principal paid	(155,000)	(155,000)
Electric revenue capital loan notes interest paid	(48,491)	(51,103)
Water revenue refunding capital loan notes principal paid	(220,000)	(215,000)
Water revenue refunding capital loan notes interest paid	(81,018)	(86,949)
Net cash used by capital and related financing activities	<u>(2,249,860)</u>	<u>(2,169,390)</u>
Cash flows from investing activities		
Investment income received	<u>231,259</u>	<u>250,948</u>
Net cash provided by investing activities	<u>231,259</u>	<u>250,948</u>
Net increase (decrease) in cash and investments	(207,139)	445,766
Cash and investments, beginning of year	<u>5,604,078</u>	<u>5,158,312</u>
Cash and investments, end of year	<u>\$ 5,396,939</u>	<u>5,604,078</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows - Continued
Years Ended June 30, 2009 and 2008

	2009	2008
Reconciliation of income (loss) from operations to net cash provided by operating activities		
Income (loss) from operations	\$ 98,295	(34,532)
Adjustments		
Other nonoperating fees and revenues	203,474	230,616
Depreciation and amortization	1,654,149	1,623,672
(Increase) decrease in accounts receivable - customers	(172,706)	328,500
(Increase) decrease in inventories	(25,859)	327,958
Increase (decrease) in accounts, wages and benefits, and sales tax payable	59,183	(106,932)
Decrease in deferred rental fees	(5,074)	(5,074)
Net cash provided by operating activities	\$ 1,811,462	2,364,208
Noncash capital and related financing and investing activities		
Developer contributions of electric utility plant and equipment	\$ 60,650	150,326
Developer contributions of water utility plant and equipment	12,112	139,710

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements present the financial position, changes in financial position and cash flows of the Indianola Municipal Utilities of the City of Indianola, Iowa. The Utilities are governed by a five member board appointed by the City Council and is considered a component unit of the City of Indianola, Iowa. These financial statements are not intended to present the financial position of the City of Indianola, Iowa, and the changes in its financial position and cash flows of its proprietary fund types.

Accounting method - The accounting records of the Utilities are maintained on a cash basis. The accompanying financial statements have been prepared, after giving effect to all material adjustments including amounts due from utility customers and due to suppliers of goods and services, to reflect the account balances and results of operations on the accrual basis.

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

Inventories - Inventories, which consist of fuel oil and supplies, are stated at the lower of cost (first-in, first-out basis) or net realizable value.

Depreciation - Depreciation expense is computed using the straight-line method and estimated useful lives as follows:

Electric utility	
Power plant building	50 years
Generating units	25 years
Transmission and distribution systems	40 years
Vehicles	10 years
Computer equipment	5 years
Water utility	
Buildings and plant	40 years
Wells and towers	30-50 years
Mains and hydrants	50 years
Meters	20 years
Machinery and equipment	15 years
Vehicles	10 years
Fiber communications utility	
Distribution and connection systems	10 years

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Investments and Interest Income - Cash balances available from each of the funds of the City of Indianola, Iowa are pooled for investment and cash management purposes. Investments purchased by the pool are stated at cost or amortized cost. Interest earned on pooled investments is allocated monthly on the basis of the funds' ending cash and investment balances. Because the cash of Indianola Municipal Utilities is deposited with or withdrawn from the cash and investment pool without restriction the allocated share of the pool has been treated as a cash equivalent in the accompanying statement of cash flows.

2. UTILITY PLANT AND EQUIPMENT

The following is a summary of utility plant and equipment in service as of June 30, 2009 and 2008:

	2009	2008
Electric utility		
Land	\$ 359,207	359,207
Service territory	446,000	225,000
Generating units	15,161,374	15,161,374
Transmission and distribution systems	22,363,617	22,041,338
Power plant building	1,981,505	1,368,737
Computer equipment	380,666	326,068
Equipment	718,211	703,707
Vehicles	938,686	830,799
	\$ 42,349,266	41,016,230
 Water utility		
Land	\$ 416,270	416,270
Service territory	328,412	255,545
Buildings and plant	7,595,528	7,595,528
Wells and towers	3,893,194	3,782,151
Mains, hydrants and meters	9,619,812	9,548,865
Machinery and equipment	591,697	518,042
Vehicles	108,103	65,411
	\$ 22,553,016	22,181,812
 Fiber communications utility		
Distribution and connection systems	\$ 849,711	849,711

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2009 and 2008

3. REVENUE BONDS AND NOTES PAYABLE

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

The Electric Revenue Capital Loan Note resolution requires the establishment of revenue bond operation and maintenance, sinking, reserve fund and improvement funds and require the accumulation of funds in the accounts and restrict the use of such funds as follows:

Operation and maintenance- Amount that results from the monthly accumulation of current expenses plus one-twelfth of expenses paid on an annual basis. Use of funds is for paying current operating expenses.

Sinking – Amount that results from the monthly accumulation of one-sixth of the next semi-annual interest payment, plus one-twelfth of the next annual principal payment. Use of funds is restricted to paying current principal and interest on bonds.

Reserve – Amount that results from 25% of the amount required to be deposited in the sinking account. However, after a reserve amount equal to the maximum amount of principal and interest coming due in any succeeding year, no further deposits are required. Use of funds is restricted to funding any deficit in the sinking account.

Improvement – Amount that results from the monthly accumulation of \$3,500 until \$200,000 has been accumulated. Use of funds is restricted to funding any deficit in the sinking and reserve accounts or paying the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, payments of rentals on any part of the system, and for capital improvements to the system.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2009 and 2008

4. REVENUE BONDS AND NOTES PAYABLE - Continued

Revenue capital loan note debt service requirements are as follows as of June 30, 2009:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 155,000	40,610	200,880
2011	155,000	35,185	195,610
2012	155,000	29,605	190,185
2013	155,000	23,870	184,605
2014	155,000	18,057	178,870
2015-2016	310,000	18,368	501,425
	<u>\$ 1,085,000</u>	<u>165,695</u>	<u>1,451,575</u>

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

The capital loan notes require the establishment of revenue note operation and maintenance, sinking, reserve, and improvement funds and require the accumulation of funds in the accounts and restrict the use of such funds as follows:

Operation and maintenance - Amount that results from the monthly accumulation of current expenses plus one-twelfth of expenses paid on an annual basis. Use of funds is for paying current operating expenses.

Sinking - Amount that results from the monthly accumulation of one-sixth of the next semi-annual interest payment, plus one-twelfth of the next annual principal payment. Use of funds is restricted to paying current principal and interest on bonds.

Reserve - Amount that results from 25% of the amount required to be deposited in the sinking account. However, after a reserve amount equal to the maximum amount of principal and interest coming due in any succeeding year, no further deposits are required. Use of funds is restricted to funding any deficit in the sinking account.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2009 and 2008

4. REVENUE BONDS AND NOTES PAYABLE - Continued

Improvement - Amount that results from an initial deposit of \$50,000, then the monthly accumulation of \$2,000 until \$75,000 has been accumulated. Use of funds is restricted to funding any deficit in the sinking and reserve accounts or paying the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, payments of rentals on any part of the system, and for capital improvements to the system.

The revenue capital loan notes mature in annual installments of \$215,000 to \$290,000 through December 2016 and bear interest at rates of 2.55% to 4.20% payable semiannually. Debt service requirements were as follows as of June 30, 2009:

Year ending June 30,	Principal	Interest	Total
2010	\$ 225,000	73,884	300,617
2011	235,000	66,345	298,884
2012	240,000	58,030	301,345
2013	250,000	49,023	298,030
2014	260,000	39,330	299,023
2015-2017	840,000	53,002	1,192,332
	<u>\$2,050,000</u>	<u>339,614</u>	<u>2,389,614</u>

5. GENERAL OBLIGATION BONDS PAYABLE

In October 2003 the City of Indianola issued \$2,410,000 General Obligation Bonds, a portion of which was transferred to the Municipal Water Utility to finance a portion of the costs of constructing water system improvements. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest as payments come due, it is the intention of the Trustees and the City Council that the payments of \$1,275,000 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds are reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in amounts of \$10,000 to \$115,000 from June 1, 2004 through June 1, 2018. Interest on the notes at rates of 2.25% to 3.9% (a weighted average rate of 3.4%) per annum is due semiannually beginning June 1, 2004.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2009 and 2008

5. GENERAL OBLIGATION BONDS PAYABLE - Continued

The Municipal Water Utility portion of general obligation bond debt service requirements are as follows as of June 30, 2009:

Year ending June 30,	Principal	Interest	Total
2010	\$ 85,000	33,563	118,563
2011	85,000	30,927	115,927
2012	90,000	28,122	118,122
2013	95,000	24,973	119,973
2014	95,000	21,410	116,410
2015-2018	430,000	45,750	475,750
	<u>\$ 880,000</u>	<u>184,745</u>	<u>1,064,745</u>

6. COMPENSATED ABSENCES

Indianola Municipal Utilities employees accumulate vacation hours, compensating time off and sick leave for subsequent use. Unused vacation hours and compensating time off are payable upon termination, retirement or death. These amounts are included in wages and benefits payable as of June 30, 2009 and 2008. Accrued sick leave benefits as of June 30, 2009 of approximately \$251,091 (2008 - \$223,937) are payable only when used and have not been accrued.

7. PENSION AND RETIREMENT BENEFITS

The Indianola Municipal Utilities contributes to the Iowa Public Employees Retirement system (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and Indianola Municipal Utilities is required to contribute 6.35% of annual covered salary. Contribution requirements are established by state statute. Indianola Municipal Utilities contribution to IPERS for the year ended June 30, 2009 was \$77,475 (2008 - \$69,958), equal to the required contribution for the year.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2009 and 2008

8. RISK MANAGEMENT

The City of Indianola is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 577 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler and machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basic rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Indianola Municipal Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utilities' annual contributions to the Pool for the year ended June 30, 2009 were \$119,198 (2008 - \$113,419).

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2009 and 2008

8. RISK MANAGEMENT - Continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utilities do not report a liability for losses in excess of reinsurance or excess risk - sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated.

Accordingly, at June 30, 2009, no liability has been recorded in the Utilities financial statements. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one year period following withdrawal.

Indianola Municipal Utilities is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. Indianola Municipal Utilities has executed a Worker's Compensation Coverage Agreement with the Association which extends through June 30, 2009 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2009, Indianola Municipal Utilities paid workers' compensation insurance premiums of \$30,427 (2008 - \$30,125) to the Association.

9. COMMITMENTS

The Indianola Municipal Utilities have entered into contracts for electric underground conversion, an electric rate study, a water tower coating project and a storage building totaling approximately \$1,604,214. The remaining commitment on these contracts at June 30, 2009 is \$272,451.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Budgetary Comparison Schedule of Receipts, Disbursements
And Changes in Balances – Budget and Actual (Cash Basis)
Year Ended June 30, 2009

	Actual	Budget Amounts		Final to Actual Variance
		Original	Final	
Receipts				
Use of money and property	\$ 262,972	235,700	235,700	27,272
Charges for service	10,822,144	11,365,300	11,365,300	(543,156)
Special assessments	2,313	300	300	2,013
Miscellaneous	60,864	25,500	25,500	35,364
Total receipts	11,148,293	11,626,800	11,626,800	(478,507)
Disbursements				
Business type activities	10,550,163	10,874,500	10,874,500	324,337
Excess of receipts over (under) disbursements	598,130	752,300	752,300	(154,170)
Other financing sources (uses)				
Sale of assets	14,130	5,000	5,000	9,130
Operating transfers out	(819,400)	(819,400)	(819,400)	-
Total other financing sources (uses)	(805,270)	(814,400)	(814,400)	9,130
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(207,140)	(62,100)	(62,100)	(145,040)
Balances, beginning of year	5,604,078	5,604,078	5,604,078	-
Balances, end of year	\$ 5,396,938	5,541,978	5,541,978	(145,040)

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Required Supplementary Information –
Budgetary Reporting
Year Ended June 30, 2009

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

In accordance with the code of Iowa, the Board of Trustees with the approval of the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

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



Shull

and Co. P.C.
certified public accountants

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

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited the financial statements of Indianola Municipal Utilities of the City of Indianola, Iowa, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Indianola Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the Indianola Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Indianola Municipal Utilities' internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are considered that are also considered to be material weaknesses. We identified no deficiencies in internal control that we consider to be significant deficiencies or material weaknesses in internal control over financial reporting.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

Shull & Co., P.C.

December 18, 2009

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings

Year ended June 30, 2009

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

- (A) An unqualified opinion was issued on the financial statements.
- (B) The audit did not disclose any significant deficiencies or material weaknesses in internal control over financial reporting.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (F) The Indianola Municipal Utilities did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

None

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

- 09-IV-A Certified Budget – Disbursements during the year ended June 30, 2009 did not exceed amounts budgeted.
- 09-IV-B Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- 09-IV-C Travel Expense - No expenditures of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- 09-IV-D Business Transactions – No business transactions between the Indianola Municipal Utilities officials or employees were noted.

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

Year ended June 30, 2009

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

- 09-IV-E Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- 09-IV-F Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- 09-IV-G Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- 09-IV-H Revenue Bonds and Notes -The requirements of the water revenue bonds and notes resolutions were met during the year ended June 30, 2009.
- 09-IV-I Telecommunications Services -No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.