

CITY OF INDIANOLA

General and Statistical Information

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

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

Schedule of Findings

Year Ended June 30, 2010



Shull
and Co. P.C.
certified public accountants

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Independent Auditor's Report on Internal Control over

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CITY OF INDIANOLA
Chief Accounting Officer's Report

March 1, 2011

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

This comprehensive annual financial report consists of management's representations concerning the finances of the City of Indianola. Consequently, management assumes 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, management of the City of Indianola has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Indianola's financial statements. Because the cost of internal controls should not outweigh their benefits, the City of Indianola'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. Management asserts to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Indianola's financial statements have been audited by Shull & Co., a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Indianola for the fiscal year ended June 30, 2010 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 that there was a reasonable basis for rendering an unqualified opinion that the City of Indianola's financial statements for the fiscal year ended June 30, 2010 are fairly presented. The independent auditor's report is presented as the first component of the financial section of this report.

Rules promulgated by the Iowa State Auditor's Office require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Indianola's MD&A can be found immediately following the statistical section of this report.

Profile of the Government

The City of Indianola, incorporated in 1864, is the county seat of Warren County and is located in the central part of the Iowa 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 14,782. The City of Indianola is empowered to levy a property tax on real properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

CITY OF INDIANOLA
Chief Accounting Officer's Report (Continued)

City Council: The City of Indianola operates under a mayor-council form of government. Policy-making and legislative authority are vested in a governing body consisting of the mayor and six council members. The city council is responsible, among other things, for passing ordinances; adopting the budget; appointing commission and committee members; and, hiring the government's manager. The government's manager, whose duties are set by local ordinance, is responsible for carrying out the policies of the city council; overseeing day-to-day operations; and, appointing the employees of the various departments for the governmental functions under the management control of the governing council. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three of the members elected every two years. Four council members are elected by districts or wards while the two remaining council members and the mayor are elected at large. The mayor is elected to serve a four-year term.

The City of Indianola provides a full range of services, including police and fire protection; ambulance service; the construction and maintenance of highways, streets, and other infrastructure; recycling and organic material removal; and recreational activities and cultural events. The City of Indianola also operates a water pollution control (sewer) department as a utility under the management and control of the city council. The city participates in several non-related jointly governed organizations that provide goods or services including the South Central Iowa Landfill Agency, the Central Iowa Regional Transportation Alliance, the Marion/Warren County Drug Task Force, and the Community Athletic Facility.

Board of trustees: The City of Indianola 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). The authority for management and control of each utility was established by a majority vote of the electorate as provided in the Iowa Code. The trustees 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; however, the utility board has all the powers and authorities of the city with respect to the acquisition or disposition of such property and the management, control, and operation associated with said property is subject to provisions of any outstanding obligations which are payable from the revenues of the city utility. Separate funds are maintained for each utility and operating budgets are subject to final approval by the city council. Utility fund balances deemed by the board of trustees to be in excess of the needs of a utility may be transferred to the city's general fund or other city funds as approved by the city council.

Five trustees serve staggered six-year terms and are appointed by the mayor and approved by the city council. 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.

CITY OF INDIANOLA
Chief Accounting Officer's Report (Continued)

Other officials: The director of finance and administrative services serves as the chief accounting officer for all city services and submits the budget and year-end financial reports required of the city. The director of finance and administrative services has other financial duties and the city clerk has custodial duties as 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 City of Indianola's financial planning and control. The budget process, in general, is as follows:

- The city council sets its budget objectives and reviews major known factors.
- The city manager and the general manager each submit 5-year capital improvement project budgets to the respective managing authority for review and adoption.
- Departments submit operating budget requests to the city manager or general manager as appropriate.
- The city manager and the general manager compile their respective annual budgets for review. Budgets are prepared by fund (e.g. general), function (e.g. public safety), and department (e.g. police).
- The board of trustees adopts budgets for the electric, water and telecommunications utilities. These are compiled with governmental services and sewer utility budgets and are provided to the public by publication.
- The city council sets and conducts a public hearing on the budget.
- The city council adopts the budget and the budget is filed with the county auditor and the State of Iowa no later than March 15 of each year.

The State of Iowa limits expenditures to the total amount budgeted by function. Expenditures for individual departments, services or line items 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. In this report, the current year's budget is compared to the actual expenses by function.

Cash management policies and practices: The city annually reviews and adopts an investment policy outlining the roles and responsibilities in making investments using available cash balances. The director of finance and administrative services and the treasurer are jointly responsible for the investment of funds with oversight by the council and board of trustees.

Cash, which is temporarily idle during the year, is invested in bank deposits; money market funds; repurchase agreements; and/or the Iowa Public Agency Investment Trust. These temporary cash deposits were maintained in stable value investments with an average rate of return of .25%.

CITY OF INDIANOLA
Chief Accounting Officer's Report (Continued)

The city 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; preferred stock; 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 is 2.1 years with a current yield of 3.9%. Reported returns may include changes in fair value during the year but do not necessarily represent continuing returns; therefore, it is not 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 City of Indianola's cash management can be found in notes to the financial statements.

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

Pension and other post-employment benefits: The City of Indianola provides pension benefits for its employees. With the exception of Police officers, these benefits are provided through a statewide plan managed by the Iowa Public Employees Retirement System (IPERS). Benefits for police officers are provided through a statewide plan managed by the Municipal Fire & Police Retirement System of Iowa (MFPRSI). The city makes periodic payments based on earned compensation by active employees; however, the city has no obligation in connection with employee benefits offered through these plans.

The City of Indianola 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 the city on a monthly basis.

The City of Indianola maintains a health reimbursement arrangement (HRA) for the benefit of employees. The city makes a fixed annual contribution that allows each employee to be reimbursed for any medical expense allowed under IRS Code. If the employee does not utilize the full amount provided in any fiscal year, the balance is carried forward for use in a future period, even after retirement. Disbursements are paid out of operating funds and not held in trust. They are, however, accounted for in a sub-fund that is separate from other operating funds for budgetary control. Unpaid HRA balances totaled \$152,899 as of June 30, 2010.

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

CITY OF INDIANOLA
Chief Accounting Officer's Report (Continued)

Closing

State law requires that all general-purpose local governments publish within nine months of the close of each fiscal year a complete set of financial statements that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. As allowed under Iowa Code and administrative rules, the City of Indianola issues its financial statements on the basis of cash receipts and disbursements. Cash basis is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). Pursuant to these requirements, I hereby issue the comprehensive annual financial report of the City of Indianola for the fiscal year ended June 30, 2010.

Jean Furler
Director of Finance and Administrative Services

Acknowledgment to the following staff for their valued assistance in the preparation of this report:
Diana Bowlin, City Clerk
Staff: Lu Ann Kappelman, Skye Jacobs, Vicki Herold, Lindsey Offenburger and
Mary Zimmerman

**CITY OF INDIANOLA
CITY OFFICIALS AND BOARD OF TRUSTEES
JUNE 30, 2010**

Name of Official	Official Title	Term Expires December 31	Amount Of Bond
Kenan Bresnan	Mayor	2013	100,000
Randy Gathers	Councilperson First Ward	2011	100,000
Shirley Clark	Councilperson Third Ward	2011	100,000
Mark Vickroy	Councilperson At-Large	2011	100,000
Steve Richardson	Councilperson At-Large	2013	100,000
Pete Berry	Councilperson Fourth Ward	2013	100,000
Bob Kreamer	Councilperson Second Ward	2013	100,000
Timothy A. Zisoff	City Manager		100,000
Laurie Hebl	Director of Finance & Community Services		100,000
RoxAnne Hunerdosse	Human Resource Director		100,000
Diana Bowlin	City Clerk		100,000
Doug Shull	City Treasurer		100,000
John Hoyman	City Solicitor		100,000

Indianola Municipal Utilities Board of Trustees
Authority: Indianola Code of Ordinances Section 25.02

Pat Reding		2012	100,000
Clark Raney	Chairperson	2012	100,000
Chris Boone		2014	100,000
Eric Vander Linden		2015	100,000
Bob Lester		2016	100,000
Todd Kielkopf	General Manager of Utilities		100,000

All other city employees are bonded under the Allied Insurance Co., "Faithful Performance Blanket Position Bond," # BD7900570225 in the amount of \$100,000.

Council Committee

Council Study Committee

Pete Berry
Shirley Clark
Randy Gathers
Bob Kreamer
Steve Richardson
Mark Vickroy

**CITY OF INDIANOLA
CITY BOARD AND COMMISSIONS
JUNE 30, 2010**

LIBRARY BOARD

Authority: Indianola Ordinance Chapter 17.3

Term - 6 Years

Meeting: 2nd Tuesday of every month

<u>Name</u>	<u>Term Expires</u>
Dick Kerr	July 1, 2010
Kathy Farris	July 1, 2010
Dan Hoffa	July 1, 2010
Mary Jane Cassady	July 1, 2012
Theresa VanderLinden	July 1, 2012
Dr. Joe Walt	July 1, 2014
Marge Thomas	July 1, 2014

PARK AND RECREATION COMMISSION

Authority: Indianola Ordinance No. 520

Term - 3 Years

Meeting: 1st Wednesday of every month

Heather Palmer	January 1, 2011
Jay Byers	January 1, 2011
Jill Johnson	January 1, 2012
John Sirianni	January 1, 2012
Eric Mathieu	January 1, 2013
Jennifer Leech	January 1, 2013

PLANNING AND ZONING COMMISSION

Authority: Indianola Ordinance Chapter 16.2

Term - 5 Years

Meeting: 2nd Tuesday of every month

Mary Donaghy	February 1, 2011
Rich Piper	February 1, 2011
Tiffany Coleman	February 1, 2012
Dan Wood	February 1, 2012
Pam Pepper	February 1, 2013
Duane Dixon	February 1, 2013
Jeff Jensen	February 1, 2014
Mike Coppess	February 1, 2014
Karla Roush	February 1, 2015
Ivan Richert	February 1, 2015

**CITY OF INDIANOLA
CITY BOARDS AND COMMISSIONS
JUNE 30, 2010**

BOARD OF ADJUSTMENT

Authority: Indianola Ordinance No. 341 - Code of Iowa 414.7

Term - 5 Years

Meeting: 1st Wednesday of month on call

<u>Name</u>	<u>Term Expires</u>
James Sullivan	December 31, 2010
Dennis Parker	December 31, 2011
Doug Dowie	December 31, 2012
Jim Garrett	December 31, 2013
Marty Miller	December 31, 2014

MEMORIAL BUILDING COMMISSION

Authority: Code of Iowa Chapter 37.9

Term - 3 Years - Meeting: On Call

Robert Guilford	July 1, 2010
Dan Aldridge	July 1, 2011
Ron Werling	July 1, 2013

CIVIL SERVICE COMMISSION

Authority: Indianola Ordinance No. 378

Term - 4 Years

Meeting: On Call

Wayne Petersen	First Monday in April, 2011
Fred Jones	First Monday in April, 2012
Celeste Gebhart	First Monday in April, 2014

FINE ARTS & COMMUNITY BEAUTIFICATION COMMISSION

Authority: Indianola Ordinance No. 423

Term - 3 Years

Meeting: 1st Tuesday of every month

John Benoit	January 1, 2011
Jon Vernon	January 1, 2011
Pat Bunnell Kelley	January 1, 2011
Aaron Tinder	January 1, 2011
Katie Byers	January 1, 2011
Tara Starr	January 1, 2011
Nancy Byrd	January 1, 2011
Steven Griffith	January 1, 2012
Gabrielle Curti	January 1, 2012
Jeff Tadsen	January 1, 2014

CITY OF INDIANOLA Operational Review

City operations are divided into many departments and offices, all of which work toward the common goal of providing superior services to the citizens of Indianola. While the functions of each department may be varied, it is a cooperative effort on everyone's part that enables us to reach this goal. It's not uncommon to see two or more departments working together to solve some problem or complete a project. The Mayor, Council, boards and administrative staff encourage teamwork and it results in an enhanced quality of life for the citizens of Indianola.

The following summary provides a brief review of the various Departmental operations during the 2009-10 fiscal year.

Public Safety: The major Public Safety activities are police, fire, ambulance services and building and zoning regulation.

- **Police:** The Indianola Police Department answered 6,307 calls for service in calendar year 2010. Officers Luke Buhrow and Brian Stern were hired in March of 2010 and both completed Iowa Law Enforcement Academy certification and departmental field training.

In late 2010 construction of a police/fire storage facility began. This building is funded primarily by drug investigation seizures/forfeitures. The building will be complete in early 2011.

- **Fire and Ambulance:** The Indianola Fire Department experienced a slight decrease for calls in the 2009 calendar year. There were three major loss fires; one in the county with value of \$100,000 and two within the city limits with a value of \$60,000 and \$50,000. The balance of the losses were due to vehicle fire and smaller structure fires. Our total loss for the year was \$661,900 which is decrease of about \$200,000. In addition to regular activities that the full and part-time staff accomplished each day, staff responded to 1,565 fire and EMS alarms. This is a decrease of 3% over last year. The 1,565 alarms consisted of: 66 fires; 22 Haz-Mat; 47 good intent; 61 false alarms; and, 5 weather-related. The balance accounts for 1,366 EMS calls. We had a slight decrease in all calls; however, we saw the most in weather related standbys and grass fires last year with our calls down 58 calls over the previous year.

As of January 1, 2010, the department had one full-time chief, one full-time training officer, one full-time technician, 6 full-time firefighters/medics, 8 medic only positions, 37 paid on call for a total staff of 59 with no members on leave and 5 probationary members. Staff coverage continues with full-time staff working 24/48 shifts and part-time staff covering Monday through Friday from 8:00 a.m. to 5:00 p.m. The additional staffing through the weekday is due to the shortage of available paid on call (volunteers) which is when we have a higher call volume.

Training is still the largest part of our department time. Training is conducted every Monday night and several attend training on their own including nights and weekends to keep current. The total hours the staff put in for training and responses in 2009-10 was 13,000 hours. This equates to the average person putting in over 200 hours for the community in training and calls each year.

CITY OF INDIANOLA
Operational Review (Continued)

- **Public Works:** The street department staff members are dedicated to providing excellent service to the citizens of Indianola. The street department has kept busy by performing annual street repair; concrete and asphalt replacement/repair; cracksealing; street sweeping; and, snow plowing. These are the major functions which occupy a substantial amount of time for the department. In addition, several storm sewer intakes were replaced or repaired along with maintaining the hundreds of street and traffic signs throughout the city.

Culture and Recreation: Parks and Recreation programs, events, parks and facilities continued to be very important to the majority of Indianola residents. Participation and use were at high levels and many opportunities and enhancements were provided to help keep the quality of life at a high level.

- **Recreation Division:** A variety recreation programs and events were offered to the community. It was a very active year with 7,132 registrations of which 2,279 were done on-line. The Zone (6th-8th grade after school program) exploded over last year with an average of 67 students per day and 350+ different students involved. Many volunteers helped with the recreation programs and events. Over 150 different programs/events were offered during the year including: adult flag football (1st year); a youth flag football league (1st year) with 80 participants; and, the summer swim team was given to the Indianola Swim Club to operate as a partnership. A new 14 passenger van was purchased for recreation program use. 35 program sponsors generated \$12,760 and 36 activity guide advertisers generated \$7,713.
- **Parks & Horticulture Division:** Many improvements were made in the parks including: Pickard parking lot was hard-surfaced and enlarged to 300 spaces; a new 22 acre park was donated and dedicated to the city; a dog playground was officially opened at Downey Park; Buxton Park irrigation Phase IV was completed; new play equipment was installed in Moats Park; an areas at Pickard Park was identified and began being managed as a natural native vegetation area; and, a new storage shed was completed at Pickard Park.
- **Administration Division:** A new department log was developed by employee Kathy Kester which ties in with the new Indianola logo; a trails plan was completed; a recreation strategic action plan was completed; program registration receipts were eliminated to help “go green”; and, a Facebook page (116 fans) and a Twitter Page (49 followers) were started as a new way to communicate with the public. Staff also worked with the Keep Indianola Beautiful Committee with the development of Salem Court and with the Salem Court entertainment. Our email newsletter list grew to 936. We had 24,927 visitors to our website with 15,525 of them first time visitors.
- **Veterans Memorial Aquatic Center:** Attendance at the aquatic center was 36,613 including all use – open swim, events, rentals, lessons. Due to weather, the aquatic center had 19 days when it closed early and 3 days when it was closed for the entire day. Participation included: lap swim/water walk - 573; private pool rental – 1,919; swim lessons - 600; tot swim - 1,369; and, 221 club wet teen parties.

CITY OF INDIANOLA
Operational Review (Continued)

The following table details the park system:

	Acres
Barker Park	1.20
Buxton Park	5.43
Dayton Park	1.08
DeNelsky Park	28.68
Downey Memorial Park	10.62
Easton Park	2.39
Indianola Activity Center Property	9.60
Lions Park	0.61
McCord Park	16.85
McVay Trail	13.30
Memorial Park	13.72
Moats Park	4.14
Pickard Park	160.00
South Park	4.47
Veterans Memorial Pool	3.50
Willow Creek Totlot	0.65
	270.24

- **Indianola Public Library:** The Library replaced two staff members this fiscal year, the Teen and Adult Services Librarian and a part-time Library Assistant. Plans were made to replace the Library's aging and non-repairable HVAC system and update the Library's website. A complete collection review was begun to determine if gaps existed and to ensure materials were up-to-date.

Business-type or proprietary: Indianola has four services that are classified as business-type services. Although the utility operations are divided into departments, they all work toward the common goal of providing superior services to the citizens of Indianola. The electric, water, and telecommunication departments are a discretely reported component unit. However, given their degree of importance to the overall services received by citizens, this operational review contains information pertaining to these activities in the next section of this report. The following summary provides a brief review of the various departmental operations during the 2009-10 fiscal year.

- **Water Pollution Control Department:** The WPC department was at full staff for last year. Full staff includes the Superintendent, 6 operators and a part-time office manager.

We remain under a Consent Order from the Iowa Department of Natural Resources that mandates I&I removal through the entire collection system to eliminate sanitary sewer overflows and basement backups by January 2013. With assistance from V&K Engineering and City Staff, we started construction and repairs on Phase I of a four-phase plan and is now 90% complete.

CITY OF INDIANOLA
Operational Review (Continued)

The Phase II Study is complete and submitted to the IDNR. Engineers have completed the design and are proceeding with bidding documents. Phase III has been delayed due to the FONSI study. Due to these delays, we are requesting an extension to complete the Phase III.

We are continuing to work through residential I&I inspections and testing. NW Service Area #2 has been visually inspected and foundation tested for I&I. We have pre-televised the sewer mains in the NW Service Area #3. All visual inspection have been completed. We have completed about 90% of the foundation testing in the NW Service Area #3.

We replaced two Flygt pumps at the sewer plant. One primary 35 HP pump and 2 10hp Aurora in plant pumps.

Emergency generators are on an annual preventive maintenance program with Ziegler Caterpillar.

- **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:
 - 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)
 - Began design work with contracted engineers for the 2010 Underground Conversion Project, which will convert the entire community north of Hwy 92 and east of Hwy 65/69
 - Underground conversion projects on the East Side of The Square (IUB safety compliance issue), North Howard Street (conflicts with new city trail project), W. Kentucky (deteriorating pole line) and North “Y” St. (street lighting for new paving)
 - Approved electric & telecom extensions to serve the Summercrest Hills project.
 - Completed construction of an 8,000 sq. ft. storage facility at the East Iowa turbine & substation site
 - Completed updating the Long Range Electrical System Conversion Plan and financing plan
 - Completed design work on the 2010 Underground Conversion Project (East Side Conversion); began legal, bidding and financing processes
 - Received study on NERC compliance issues
 - Completed legal, bidding and financing the 2010 Underground Conversion Project (East Side Conversion); a positive bidding and financing environment will allow for more work to be done than expected with .5% lower retail rate impact
 - Initiated engineering work for the Fuel Oil Storage Tank Painting Project
 - Began design work on Westside Substation 69kV Line Terminal Addition; negotiated interconnection with CIPCO and MEC
 -

CITY OF INDIANOLA
Operational Review (Continued)

- **Water Utility:** The water utility provides reliable water service by pumping it from wells, treating it, keeping enough in storage to meet daily needs, and distributing it to customers. Significant progress towards implementing operational strategies include:
 - Completed installation for the US Cellular antennae at the Simpson water tower
 - Approved construction of variable speed drives at the treatment plant that may delay the need for a 3rd water tower and relieve excess pressure on older mains
 - Worked with the contractor for painting the Simpson water tower to delay until next year due to the need to install variable speed drives at the water plant
 - Hired engineer to study Hillcrest water tower.
 - Began centralizing storage of departmental equipment within Water Dept. facilities
 - Worked on plant repairs and installed new variable speed drives on 2 high service pumps
 - Worked on installing radio read meters
 - Repaired several water main breaks
 - Completed study on the condition of the Hillcrest water tower
 - Prepared rules & regs. to declare non-functioning stop boxes a public nuisance where electricity has been disconnected
 - Worked with the contractor to start repainting the Simpson water tower, reviewed additional scope of work for interior repairs and issued a significant change order to ensure the continued integrity of the steel envelope
 - Performed major plant maintenance on the re-carb tank
 - Implemented electronic work-order system with IMU administration
 - Attended IAMU session on status of the Jordan Aquifer

- **Communications Utility:** The communications utility provides the infrastructure that transmits affordable, competitive, and technologically advanced telecommunications service for both retail and other public uses. Telephone and Internet services are offered to commercial customers through a contractual private/public partnership. Significant progress towards implementing operational strategies include:
 - Completed the ownership transition process of transferring telecom infrastructure assets to the electric utility through a buyout of private parties
 - Established Service Plan containing Rules & Regulations and licensing agreements; issued license to Mahaska Communications Group
 - Held meetings with MCG to begin planning for an expansion of the fiber-to-the-premise system as part of upcoming electric underground conversion projects
 - Added new customers (Simpson College and US Cellular), which improved gross margin collection
 - Informed by MCG of new wholesale telecom contract terms that will improve gross margin collections
 - Worked to develop new list of potential customers with cost/benefits of extending the system
 - Researched federal grant opportunities; performed survey to show lack of eligibility
 - Installed fiber conduits as part of the East Side of the Square and N. Howard projects.

CITY OF INDIANOLA
Operational Review (Continued)

- Installed new services and system extensions around the southwest 65/69 & 92 corner and along Hwy 65/69 between Iowa and Hillcrest avenues.
- Made improvements to City Hall fiber connection
- Assisted with City staff to prepare the fiber for a phone system conversion
 - Completed design work related to the 2010 Underground Conversion Project
 - Submitted an application to Google for their Community Broadband project

Administration: All 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.

General Government: The City of Indianola supports a proactive stance toward economic development, enhancing the local economy, and promoting efficiency. Major programs and events are:

- Continuation of a citywide residential urban revitalization (tax abatement) program that began in February 1998 has encouraged development and continues to strengthen the tax base.
- An aggressive schedule of improvements to infrastructure and facilities including sewer main extensions along highway corridors.
- Purchase and sale of real estate for redevelopment under the Dangerous & Dilapidated building program.
- Removal of storm water from entering the sanitary sewer system (I&I program). The council began the process of identifying areas where problems exist. Property owners are given 3 years to remedy the situation. The entire community will benefit through decreased operation and maintenance expenses, decreased capital expenses, and increased sewer plant capacity.
- Financial support for the Indianola Development Association working with the Chamber, Warren County and the Des Moines Partnership.

City staff takes a proactive role in communicating community events with staff and citizens. The Government Access Channel, established in January 1995, provides agendas, schedules, public safety and promotional information for government sponsored programs. Meetings are broadcast live to cable subscribers and re-broadcast throughout the week. The City of Indianola also regularly invests resources to enhance communications through its web sites which includes programming information, links to other community resources, and minutes of meetings. Utility payments, recreation program fees, parking tickets and certain other fees can be paid online.

CITY OF INDIANOLA
Operational Review (Continued)

Departments have learned to utilize electronic information systems to improve services. Each building is connected by a high-speed data network over fiber optic lines. Internet access and e-mail systems are also shared. In addition, the City Clerk's Office has a document imaging system to improve the retrieval of information.

The following table summarizes the activities of the Clerk's Office (calendar year):

Permits/Licenses	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Water	81	152	82	80	80	90	11
Plumbing	133	118	93	137	106	62	75
Electric	147	150	118	169	113	60	93
Mechanical	136	135	102	110	104	62	42
Sewer	80	157	84	81	95	61	19
Warrants Written	9,041	9,145	9,037	9,037	8,865	8,883	8,921
Ordinance Adopted	31	36	39	22	19	22	24
Cigarette	22	23	20	20	18	18	20
Bicycle	20	54	19	9	5	5	2
Beer	16	16	14	15	15	15	15
Beer-Liquor	15	15	15	15	15	15	15
Sunday Beer & Liquor	29	30	29	29	29	29	29
Beer-Wine	2	2	2	3	3	3	3

Internal Service: The City of Indianola maintains a fund for employees' health insurance with premiums paid from each departmental fund. Premiums are targets at 75% of maximum cost exposure. Reserves are targeted at 25% of annual claims plus 2 times the difference between expected claims and maximum costs.

CITY OF INDIANOLA
Statistical Section

To compliment the financial review of the City of Indianola, the following statistical tables are attached. Below you will find a list of tables with some explanatory information:

Government-Wide Expenditures. These are the cash-based expenditures for the past 10 fiscal years. The State of Iowa City Finance Committee adopted new functional group classifications in FY 2003. The historical expenses are not a formal restatement, but they do approximate the “best fit” as determined by management. Capital projects are expensed in the function in which they occur, not solely in capital projects funds.

Governmental Revenues by Source. These are the sources of revenue for the non-proprietary activities of the City of Indianola.

Tax Revenues by Source. These are the sources of tax revenue for the City of Indianola.

Tax Collection Trend. This table shows how effective Warren County collects the property taxes levied for the City of Indianola.

Separate & Consolidated Rates. This table lists the property tax rates of the taxing authorities that govern the citizens within the City of Indianola. Agricultural land within cities is taxed at a different rate than other types of property.

100% Valuations. These are the approximate market values of the different types of property within the City of Indianola. The Operating Levy Total and Debt Levy Total do not contain Agricultural property values, since these values are taxed at a different rate. The Debt Capacity Total does contain the Agricultural property value.

Taxable Valuations. These are the property values that are subject to the property tax levies.

Debt Margin. Iowa Code limits cities’ General Obligation debt to 5% of the total valuation of property. This table shows the amount of debt outstanding subject to this limitation and the capacity of the City of Indianola to assume more debt.

Building permits. This table shows the trend of new construction in the City of Indianola, the number of new housing units, and the amount of commercial or industrial construction.

Demographics. This is an attempt to show the growth of the community, its level of prosperity, and economic conditions over various historical periods.

CITY OF INDIANOLA
Statistical Section (Continued)

History of Government-Wide Expenditures

Fiscal Year	Public Safety	Public Works	Health & Social Services	Culture & Recreation	Community Economic Development	General Government (Adm.)	Debt Service	Capital Projects	(Business- type) Enterprises	Total
2001	2,116,202	3,081,981	-	1,440,579	270,202	1,050,084	1,187,310	501,406	14,021,293	23,669,057
2002	2,113,988	1,143,680	-	1,646,318	50,452	1,130,305	1,780,166	778,955	12,187,645	20,831,509
2003 *	2,424,530	1,205,650	-	1,810,745	121,353	789,787	1,547,691	224,080	9,045,729	17,169,565
2004	2,575,157	1,236,314	-	1,681,481	109,684	838,593	1,412,173	194,328	12,433,507	20,481,237
2005	3,064,420	1,159,047	-	1,661,909	90,030	931,371	1,538,643	1,790,458	12,716,343	22,952,221
2006	3,098,730	1,338,627	-	1,937,224	65,386	972,894	1,623,792	958,781	16,858,260	26,853,694
2007	3,085,938	1,256,816	-	1,943,116	617,772	965,144	1,974,772	3,035,031	13,936,478	26,815,067
2008	3,173,199	1,348,228	-	1,904,951	83,781	995,408	1,956,788	966,952	13,123,248	23,552,555
2009	3,269,051	1,282,170	-	2,316,774	104,155	1,037,373	2,219,139	1,678,814	13,608,628	25,516,104
2010	3,356,420	1,151,365	-	1,970,347	146,617	1,144,193	2,276,338	2,713,018	15,766,541	28,524,839

Notes:

Transfers not included as expenditures.

*Change in functional classifications by the State of Iowa City Finance Committee beginning FY 2003. Prior years are grouped into the new functional classifications in a consistent manner, but are not intended to be a complete restatement of prior periods

CITY OF INDIANOLA
Statistical Section (Continued)

Governmental Revenues by Source

Fiscal Year	Taxes	Licenses & Permits	Inter-governmental	Charges for Services	Fines	Use of Money & Property	Special Assessment	Misc.*	Total
2001	-	108,624	2,199,411	610,213	23,944	332,089	306,511	647,037	4,227,829
2002	-	146,721	1,580,449	749,041	16,837	261,776	198,685	604,544	3,558,053
2003	-	153,366	1,689,238	740,181	28,524	196,635	140,938	772,486	3,721,368
2004	-	209,890	1,540,566	720,225	78,004	160,430	101,884	1,002,420	3,813,419
2005	-	194,540	2,082,365	765,904	100,226	161,169	310,620	940,741	4,555,565
2006	4,549,048	163,875	1,366,839	897,130	115,328	163,875	148,054	1,226,974	8,631,123
2007	4,832,068	198,689	2,255,915	867,211	110,906	362,480	284,420	1,465,204	10,376,893
2008	5,152,853	187,498	1,813,521	1,033,928	92,912	320,015	331,949	1,495,550	10,428,226
2009	5,488,299	66,923	1,648,354	1,117,293	81,114	339,169	161,882	270,351	9,173,385
2010	5,657,732	96,392	2,337,365	888,562	67,589	366,428	197,299	351,202	9,962,569

*Excludes self-insurance pool (classified as business-type internal service fund beginning in 2003), proceeds from fixed asset sales, and issuance of debt. Includes only transfers in for utility payment in lieu of taxes and administrative office cost allocations from utilities.

Tax Revenues By Source

Fiscal Year	Franchise				Total
	Property	TIF	Fees	Hotel/Motel	
2001	2,779,424	145,087	44,407	51,634	3,020,552
2002	2,957,680	85,525	59,910	45,406	3,148,521
2003	3,337,492	101,614	46,272	45,507	3,530,885
2004	3,657,046	104,611	55,079	63,637	3,880,373
2005	3,953,157	188,396	55,505	72,048	4,269,106
2006	4,193,386	242,399	54,120	59,143	4,549,048
2007	4,302,701	414,117	54,605	60,645	4,832,068
2008	4,380,621	652,572	57,417	62,243	5,152,853
2009	4,739,284	632,566	58,208	58,241	5,488,299
2010	4,826,350	712,476	61,406	57,500	5,657,732

CITY OF INDIANOLA
Statistical Section (Continued)

Tax Collection Trend

(Collection) Fiscal Year	Total Levied	Amount Collected*	% Collected
2001	2,693,500	2,779,424	103.2%
2002	3,091,500	2,957,680	95.7%
2003	3,332,300	3,337,492	100.2%
2004	3,664,800	3,657,046	99.8%
2005	3,921,085	3,953,157	100.8%
2006	4,186,938	4,193,386	100.2%
2007	4,322,757	4,302,701	99.5%
2008	4,348,256	4,380,621	100.7%
2009	4,717,671	4,739,284	100.5%
2010	4,786,023	4,826,350	100.8%

* includes delinquent taxes, if any.

CITY OF INDIANOLA
Statistical Section (Continued)

Property Tax Rates
Separate and Consolidated
Levy Rate per \$1,000 Taxable Valuation

Fiscal Year	City of Indianola				County			School District				
	Operating	Benefits & Ins.	Debt Service	Total	Operating	Debt Service	Total	Operating	Debt Service	Total	Other	Total
2001	8.10	0.54	2.86	11.50	5.35	0.46	5.81	15.83	3.25	19.08	1.26	37.65
2002	8.05	-	2.44	10.49	4.70	0.39	5.09	15.98	2.82	18.80	1.04	35.42
2003	8.10	0.93	2.02	11.05	4.86	0.37	5.23	14.94	3.86	18.80	1.13	36.21
2004	8.10	1.35	2.20	11.65	4.92	0.32	5.24	15.25	3.55	18.80	1.00	36.69
2005	8.10	1.38	2.17	11.65	5.66	0.36	6.02	15.02	3.38	18.40	1.06	37.13
2006	8.10	1.70	2.10	11.90	5.69	0.34	6.03	15.53	2.87	18.40	1.11	37.44
2007	8.10	1.75	2.10	11.95	6.08	0.35	6.43	16.19	2.70	18.89	1.14	38.41
2008	8.10	1.75	2.00	11.85	6.45	0.34	6.79	16.56	3.63	20.19	1.05	39.88
2009	8.10	1.55	2.00	11.65	6.11	0.30	6.41	16.81	3.24	20.05	1.05	39.16
2010	8.10	1.30	1.90	11.30	5.68	0.30	5.98	16.22	4.67	20.89	0.95	39.12

Ag Land

2000	3.00
2001	3.00
2002	3.00
2003	3.00
2004	3.00
2005	3.00
2006	3.00
2007	3.00
2008	3.00
2009	3.00
2010	3.00

CITY OF INDIANOLA
Statistical Section (Continued)

100% Valuations

Fiscal Year	Residential	Ag/Bldgs	Commercial	Industrial	Personal Property	Rail & Utilities*	Gross Valuation	Exemptions	Total Valuation
1999	n/a	n/a	n/a	n/a	n/a	n/a	368,757,782	n/a	368,757,782
2000	n/a	n/a	n/a	n/a	n/a	n/a	376,538,776	n/a	376,538,776
2001	292,212,391	1,468,400	77,461,447	4,227,482	1,004,845	4,717,238	381,091,803	1,456,598	379,635,205
2002	342,298,806	1,419,226	92,184,406	5,323,634	582,416	4,706,240	446,514,728	1,438,078	445,076,650
2003	384,530,899	1,435,150	95,621,564	5,098,469	211,684	5,103,604	492,001,370	1,453,503	490,547,867
2004	395,938,322	1,534,675	100,904,039	5,109,575	-	5,508,783	508,995,394	1,476,970	507,518,424
2005	445,274,397	1,035,300	114,196,095	5,004,142	-	5,063,217	570,573,151	1,464,932	569,108,219
2006	461,811,540	1,044,700	123,584,680	9,514,780	-	5,266,201	601,221,901	1,415,928	599,805,973
2007	491,599,280	1,117,600	130,585,000	13,051,885	-	5,609,331	641,963,096	1,439,904	640,523,192
2008	518,949,280	1,195,800	132,933,300	13,084,925	-	5,197,890	671,361,195	1,433,422	669,927,773
2009	600,967,220	1,344,000	141,538,420	14,231,700	-	5,354,152	763,435,492	1,499,194	761,936,298
2010	615,960,760	1,365,800	142,844,860	15,142,160	-	5,369,669	780,683,249	1,476,970	779,206,279

*includes gas & electric valuations at rates levied by the State of Iowa

CITY OF INDIANOLA
Statistical Section (Continued)

Taxable Valuations

Fiscal Year	Residential	Ag/Bldgs	Commercial	Industrial	Personal Property	Rail & Utilities*	Gross Valuation	Exemptions	Total Taxable Valuation
2001	160,285,703	1,414,646	76,511,148	4,227,482	1,004,845	4,715,730	248,159,554	1,456,598	246,702,956
2002	192,598,008	1,430,100	92,184,406	5,323,634	582,416	4,706,240	296,824,804	1,438,078	295,386,726
2003	198,645,718	1,435,150	93,470,399	5,098,469	211,684	5,103,604	303,965,024	1,453,503	302,511,521
2004	203,460,846	1,534,675	100,904,039	5,109,575	-	5,508,783	316,517,918	1,476,970	315,040,948
2005	215,594,811	1,035,300	113,325,316	5,004,142	-	5,009,405	339,968,974	1,464,932	338,504,042
2006	221,243,341	1,044,700	120,608,343	4,641,582	-	5,065,357	352,603,323	1,415,928	351,187,395
2007	224,958,069	1,117,600	122,612,610	7,773,332	-	5,211,239	361,672,850	1,439,904	360,232,946
2008	255,353,906	1,195,800	120,608,343	4,641,582	-	5,354,152	387,153,783	1,499,194	385,654,589
2009	264,907,974	1,207,178	128,092,470	10,422,723	-	4,780,591	409,410,936	1,499,194	407,911,742
2010	282,834,466	1,258,303	127,784,297	10,578,951	-	2,721,118	425,177,135	1,493,638	423,683,497

*includes gas & electric valuations at rates levied by the State of Iowa

**military

	Operating Levy Total	TIF District Valuation	Debt Levy Total	100% Valuation Total	Ratio of Taxable to 100%
2001	245,288,310	2,380,000	247,668,310	379,635,205	65.2%
2002	293,956,626	3,523,503	297,480,129	445,076,650	66.8%
2003	301,076,371	3,523,503	304,599,874	490,547,867	62.1%
2004	313,506,273	3,349,917	316,856,190	507,518,424	62.4%
2005	337,468,742	7,369,169	344,837,911	569,108,219	60.6%
2006	350,142,695	8,110,407	358,253,102	599,805,973	59.7%
2007	359,115,346	13,303,403	372,418,749	640,523,192	58.1%
2008	365,510,016	20,144,573	385,654,589	669,927,773	57.6%
2009	403,600,366	19,978,653	423,579,019	761,936,298	55.6%
2010	419,994,546	22,769,004	442,763,550	780,683,249	56.7%

CITY OF INDIANOLA
Statistical Section (Continued)

Computation of Legal Debt Margin

Fiscal Year	5% of Debt Capacity Valuation	Less: Outstanding G.O. Debt	Legal Debt Margin	Debt Capacity Used
2001	19,054,590	5,925,000	13,129,590	31.1%
2002	22,325,736	7,995,000	14,330,736	35.8%
2003	24,600,069	7,016,000	17,584,069	28.5%
2004	25,449,770	8,331,000	17,118,770	32.7%
2005	28,528,658	8,940,000	19,588,658	31.3%
2006	30,061,095	13,018,000	17,043,095	43.3%
2007	32,098,155	11,248,000	20,850,155	35.0%
2008	33,496,389	11,318,165	22,178,224	33.8%
2009	38,096,815	9,440,000	28,656,815	24.8%
2010	38,960,314	11,268,384	27,691,930	28.9%

CITY OF INDIANOLA
Statistical Section (Continued)

Building Permit Trends

Calendar Year	Construction Value of new Single Family Dwellings		Construction Value of Multi-Family Dwellings			Total New Residential Construction	Total No. of Units	Construction Value of Alterations & Additions		Total Residential Construction Value
	No. of Dwelling Permits	No. of Dwelling Permits	No. of Dwelling Permits	No. of Dwelling Permits	No. of Dwelling Permits			No. of Dwelling Permits		
1999	11,261,262	79	3,122,806	9	54	14,384,068	133	1,063,943	93	15,448,011
2000	7,141,034	44	2,621,300	7	18	9,762,334	62	1,255,154	119	11,017,488
2001	10,279,579	69	1,150,072	4	8	11,429,651	77	1,251,575	135	12,681,226
2002	10,832,832	77	1,954,846	7	18	12,787,678	95	958,460	105	13,746,138
2003	10,622,051	66	2,345,779	5	11	12,967,830	77	1,582,908	93	14,550,738
2004	13,307,271	77	7,025,148	12	36	20,332,419	113	985,626	78	21,318,045
2005	10,029,458	70	1,956,509	7	14	11,985,967	84	826,263	82	12,812,230
2006	12,603,520	71	5,847,400	12	27	18,450,920	98	539,100	66	18,990,020
2007	10,568,484	63	2,687,887	9	19	13,256,371	82	743,942	63	14,000,313
2008	3,617,146	22	8,355,796	34	68	11,972,942	90	670,221	59	12,643,163
2009	3,676,598	23	4,417,800	1	62	8,094,398	85	278,426	35	8,372,824

Calendar Year	Construction Value of Commercial/Industrial		Construction Value of Non-taxable Construction		Total Construction Value of Construction	Total No. of Permits
	No. of Permits	No. of Permits	No. of Permits	No. of Permits		
1999	10,499,960	32	-	0	25,947,971	213
2000	4,509,895	35	7,000,000	1	22,527,383	206
2001	2,713,484	17	-	0	15,394,710	225
2002	5,578,320	25	2,556,347	1	21,880,805	215
2003	5,516,469	25	3,714,345	2	23,781,552	191
2004	6,908,368	23	6,090,500	2	34,316,913	192
2005	3,876,148	31	1,325,200	1	18,013,578	191
2006	4,788,835	37	2,293,717	2	26,072,572	188
2007	11,405,065	9	14,262,433	2	34,729,175	193
2008	3,764,616	22	71,000	2	16,718,743	157
2009	4399823	21	1616980	6	12975239	101

CITY OF INDIANOLA
Statistical Section (Continued)

Demographic Information

Trends:	<u>Calendar Year</u>	<u>Iowa Unemployment</u>
	2000	2.7%
	2001	3.0%
	2002	3.7%
	2003	4.2%
	2004	4.5%
	2005	4.5%
	2006	3.9%
	2007	3.6%
	2008	3.8%
	2009	6.3%

History:	<u>Calendar Year</u>	<u>Population</u>	<u>10 year % increase</u>	<u>Median Family Income</u>
	1930	3,488		
	1940	4,100	17.5%	
	1950	5,145	25.5%	
	1960	7,062	37.3%	
	1970	8,976	27.1%	
Special	1975	9,611		
	1980	10,843	20.8%	
	1990	11,340	4.6%	\$ 34,684
Special	1995	12,339		
	2000	12,998	14.6%	\$ 52,235
Annexation	2004	13,044		
Special	2005	14,156	14.7%	
	2010	14,782	13.7%	



Shull

and Co. P.C.
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Indianola, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Indianola's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards of 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 opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than the generally accepted accounting principles of the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Indianola as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards we have also issued our report dated November 22, 2010 on our consideration of the City of Indianola's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 28 through 35 and 62 through 64 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. 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 the City of Indianola's 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 nine years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Shull & Co., P.C.

November 22, 2010

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A)

The City of Indianola offers readers of the City of Indianola's financial statements this narrative overview and analysis of the financial activities of the City of Indianola for the fiscal year ended June 30, 2010. 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.

2010 Financial Highlights

- The City of Indianola has an ending cash balance of \$23,628,738 to meet the government's ongoing obligations to citizens and creditors. Of this, \$9,376,759 is under the direct management and control of the primary government with \$8,529,981 for governmental activities and \$846,778 for business-type activities. The remaining \$14,251,979 from the component unit, Indianola Municipal Utilities.
- Total cash balances increased \$2,441,826 for the primary government and increased \$8,622,452 for the component unit. The primary reason for the increase in both is bond proceeds for capital project expenses to be complete in FY2011.
- At the end of the fiscal year, the unrestricted cash balance for governmental activities was \$4,270,279 or 38% of governmental activities' total disbursements.

Using this Annual Report

The annual report consists of a series of financial statements and 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 Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending (fund balance). Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is 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 City's budget for the year.

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

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Reporting the City's Financial Activities

Basis of accounting: The City of Indianola maintains its financial records on the basis of cash receipts and disbursements and the financial statements presented in this report are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Government-wide Financial Statement: The Combined Statement of Cash Transactions presents information on all of the City of Indianola's cash balances. Over time, increases or decreases in balances may serve as a useful indicator of whether the financial position of the City of Indianola is improving or deteriorating. This statement details how cash balances changed during the most recent fiscal year.

This statement distinguishes functions of the City of Indianola that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities).

Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property taxes, charges for service, state and federal allocations and grants, and special assessments finance most of these activities.

Business type activities of the City include both internal service funds and sanitary sewer system funds.

The component unit of the City of Indianola is the combined transactions of the electric, water, and telecommunications utilities. Separate financial statements are issued for these activities under the report of Indianola Municipal Utilities.

Fund Financial Statements. 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. The fund financial statements provide detailed information about individual, significant funds—not the City as a whole. Some funds are required to be established in Iowa Code and by bond covenants. The City of Indianola has established other funds to help it control and manage financial resources for particular purposes. The city has two types of funds:

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

1. Governmental funds account for most of the City of Indianola’s basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) Special Revenue Funds, 3) the Debt Service Fund, and 4) Capital Projects Funds. The Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Governmental Funds provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more, or less, financial resources available.

2. Business type funds account for the City of Indianola’s Enterprise Funds and Internal Services Funds. As shown on the “Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds” Enterprise Funds are maintained for the sanitary sewer funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among various functions. The City of Indianola uses Internal Service Funds to account for employee group health & short-term disability insurance and property & liability deductibles.

Financial Analysis

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

Net assets: As shown on the following page, unrestricted net assets on a cash basis totaled \$4,270,279 for the primary government. These net assets exclude those of the component unit, which are under the management and control of a board of trustees.

Net Assets (Cash Basis)

	<u>Year ended June 30,</u>		<u>Change</u>
	<u>2010</u>	<u>2009</u>	
Governmental Activities			
Restricted	4,949,021	2,594,634	2,354,387
Unrestricted	3,580,960	3,408,071	172,889
Business Type Activities			
Restricted	157,459	266,989	(109,530)
Unrestricted	689,319	757,244	(67,925)
Total Primary Government			
Restricted	5,106,480	2,861,623	2,244,857
Unrestricted	4,270,279	4,165,315	104,964
Component Unit			
Restricted	874,082	778,149	95,933
Unrestricted	13,377,897	4,851,378	8,526,519

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

Governmental funds: Governmental funds ended the fiscal year with a balance of \$7,696,165 an increase of \$2,416,835 over the prior year. This is mainly due to bond proceeds received in the prior fiscal year.

The increase of \$87,439 in the General Fund was primarily the result of higher than anticipated interest income and the transfer of funds from the capital projects fund for general fund capital projects.

The table on the following page summarizes changes in net assets.

Changes in Net Assets Governmental Funds

	Year ended June 30,	
	2010	2009
Receipts		
Property tax	\$ 4,826,350	4,739,284
Tax increment financing collections	712,476	632,566
Other city tax	118,906	116,449
Licenses and permits	96,392	66,923
Use of money and property	366,427	339,169
Intergovernmental	2,337,365	1,648,354
Charges for service	888,563	1,117,293
Special assessments	197,299	161,882
Miscellaneous	418,791	351,465
Total Receipts	9,962,569	9,173,385
Disbursements		
Public safety	3,356,421	3,269,051
Public works	1,151,366	1,282,170
Culture and recreation	2,020,345	2,316,774
Community and economic development	96,617	104,155
General government	1,144,194	1,037,373
Debt service	2,276,339	2,219,139
Capital projects	2,713,016	1,678,814
Total disbursements	12,758,298	11,907,476
Other financing sources (uses)		
Bond proceeds	-	-
Sale of capital assets	160,380	10,381
Operating transfers in (out)	1,976,500	1,689,262
Total other financing sources (uses)	2,136,880	1,699,643
Net change in cash balances	(658,849)	(1,034,448)
Cash balances, beginning of year	5,279,330	6,313,778
Cash balances, end of year	\$ 4,620,481	5,279,330

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

Business type funds: Business type funds ended the fiscal year with \$846,778 in cash basis fund balances, a decrease of (\$202,446) over the prior year.

Sources and uses of funds: The following table summarizes how the operations of the city were financed and the programs in which they were expended.

	<u>2010</u>	<u>2009</u>
Receipts		
Property tax	0%	51%
Tax increment financing collections	0%	7%
Other city tax	0%	1%
Licenses and permits	0%	1%
Use of money and property	0%	4%
Intergovernmental	0%	18%
Charges for service	0%	12%
Special assessments	0%	2%
Miscellaneous	0%	4%
Total Receipts	<u>0%</u>	<u>100%</u>
Disbursements		
Public safety	0%	27%
Public works	0%	11%
Culture and recreation	0%	19%
Community and economic development	0%	1%
General government	0%	9%
Debt service	0%	19%
Capital projects	0%	14%
Total disbursements	<u>0%</u>	<u>100%</u>

Property taxes revenues increased due to taxable valuation growth—the tax rate decreased from \$11.65 to \$11.30. The majority of the remaining revenues held relatively stable in comparison to total receipts. Capital project and public safety disbursements increased between the two years; however, as a percentage of total disbursements—public safety decreased.

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

Budgetary Highlights

In accordance with Iowa Code, the city council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. 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.

The FY 2010 budget was amended in May of 2010 to reflect the following items:

- Revenues
 - Other Financing Sources increased by \$9,579,800 including:
 - \$7,305,000 in Electric Revenue Bond revenue for the East Side Conversion Project
 - \$2,274,800 transfers in (which is off-set by transfers out under expenditures) are partially due to the conversion of our chart of accounts and the way transfers are accounted for (i.e. many of the internal service funds are "funded" by transfers in from the appropriate fund and department)
- Expenditures
 - Community & Economic Development, General Government and Debt Service increased a combined total of \$20,700 for adjustments such as actual versus estimated debt service obligations for the FY09 issuance
 - Capital Projects increased \$2,969,800 due mainly to the following:
 - Carried amounts forward from previous fiscal year or increased for: \$59,900--Fire equipment; \$10,000--Comp Plan; \$42,000--Trail Project; \$491,500-- Memorial Park Improvements; \$112,500--Financial Software; \$515,000--Public Safety/City Hall Renovation Project; \$125,000--Storm Sewer Projects; \$1,175,000--North "Y" Street; \$22,000--Hwy 65/69 Hillcrest to North City Limits study; and, \$436,600--National Balloon Museum Culvert Extension.

Business Type/Enterprise increased \$2,785,100 due mainly to Electric Capital Projects including an increase of \$2,425,000 for the East Side Conversion Project. Timing and funding for capital improvement projects for both proprietary and governmental is the main reason for the larger overall balance.

Capital Asset and Debt Administration

In FY 2010, the City issued \$3,120,000 in debt with proceeds used for street improvements and Public Safety and City Hall renovations. Tax increment financing revenue, special assessments and property taxes will pay the annual debt service obligations for this issuance. The city's bond rating remained at A2.

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

Factors Affecting Financial Condition

Local economy: The City of Indianola currently has a stable economic environment and local indicators point to slight growth. Although a primarily residential community, the varied nature of the educational, light manufacturing, agriculture services, and retail sectors of the local economy provides 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 Indianola's available workforce. Over the past 5 years single-family dwellings have been constructed at an average rate in excess of 50 units.

The region (which includes the City of Indianola and the surrounding unincorporated area within Warren County) has a relatively stable 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. New utility services to recently annexed areas along its highway corridors have been installed to open new ground for development in these areas where commercial or industrial growth has started. 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 city makes annual financial commitments to the Indianola Development Corporation and Warren County Economic Development Corporation to support economic development in the region. The component unit also offers its own revolving loan program to spur economic development.

Long-term financial planning: The city has adopted a Comprehensive Plan, last updated in 2003, to help determine future infrastructure needs. City authorities annually adopt 5-year capital improvement budgets that prioritize foreseen projects. Those with potential long-term significant impacts to the financial operations of the city are:

- The city received a federal stimulus allocation of approximately \$495,000 for paving North "Y" Street. The project was funded with a combination of general obligation debt, special assessments, TIF and the federal allocation. The project significantly improved traffic flow in the area around the new Wilder Elementary School.
- The city is proceeding with the Infiltration and Inflow Program. The main objective of the program is to reduce storm water from entering the sanitary sewer system. The total program consists of four project phases at a cost of over \$9,000,000. The program will be funded with a low interest State Revolving Fund loan that will be paid back with sewer service fees. Phase 3 should be complete in FY11.
- The city continues to support the Community Redevelopment (D&D) fund to improve the aesthetics of the community especially on the main highway corridors. This fund is being maintained using TIF from the Downtown district.

Regulatory changes: It is expected that the State of Iowa will enact new regulations on sewer treatment quality that could take effect within 5 years. Plant upgrades and gravity line improvements, which will reduce infiltration and inflow of storm water, will help the City of Indianola meet these regulations.

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

Other regulatory impacts under consideration by the State of Iowa also include increased monitoring and controlling storm water pollution levels. The City has entered into a contract to study our storm sewer system and make recommendations regarding whether to establish a storm water utility, with an appropriate fee structure, to finance infrastructure improvements and treatment controls.

The City Council makes a concerted effort to maintain effective services while keeping tax rates affordable, especially in light of current economic conditions. Indianola continues to have growth in population, retail sales, and new home construction, which is above the norm for the state as a whole. The city property tax rate for FY 2010 decreased from \$11.65 to \$11.30 per \$1,000 in taxable valuation. The City Council has adjusted sewer rates to pay the debt service for sewer capital projects and to cover increased operational costs.

Requests for Information

This financial report is designed to provide a general overview of the City of Indianola's finances for all those with an interest in the government'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, 110 N. First St., PO Box 299, Indianola, IA 50125. City Hall's telephone number is 515-961-9410.

BASIC FINANCIAL STATEMENTS

CITY OF INDIANOLA
Statement of Activities and Net Assets – Cash Basis
As of and for the Year Ended June 30, 2010

		Program	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions / Programs			
Primary Government:			
Governmental activities			
Public safety	\$ 3,304,821	664,202	249,134
Public works	1,137,428	172,836	1,315,184
Culture and recreation	1,996,838	381,606	240,625
Community and economic development	96,617	4,530	10,156
General government	1,123,185	81,748	9,820
Debt service	2,276,339	-	-
Capital projects	<u>2,713,016</u>	<u>42,168</u>	<u>-</u>
Total governmental activities	<u>12,648,244</u>	<u>1,347,090</u>	<u>1,824,919</u>
Business type activities			
Sewer	2,770,311	2,048,563	28,197
Other nonmajor - Recycling	133,060	173,386	-
Total business type activities	<u>2,903,371</u>	<u>2,221,949</u>	<u>28,197</u>
Total Primary Government	<u>\$ 15,551,615</u>	<u>3,569,039</u>	<u>1,853,116</u>
Component Unit:			
Municipal Utilities	<u>\$ 11,524,668</u>	<u>11,691,838</u>	<u>56,069</u>
General Receipts			
Property tax levied for			
General purposes			
Tax increment financing			
Debt service			
Employee benefits			
Utility tax replacement excise tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Capital loan note proceeds			
Rent			
Sale of assets			
Transfers			
Total general receipts and transfers			

Receipts	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Primary Government			Component Unit
Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	Municipal Utilities
-	(2,391,485)	-	(2,391,485)	-
-	350,592	-	350,592	-
-	(1,374,607)	-	(1,374,607)	-
-	(81,931)	-	(81,931)	-
-	(1,031,617)	-	(1,031,617)	-
-	(2,276,339)	-	(2,276,339)	-
<u>801,246</u>	<u>(1,869,602)</u>	-	<u>(1,869,602)</u>	-
<u>801,246</u>	<u>(8,674,989)</u>	-	<u>(8,674,989)</u>	-
-	-	(693,551)	(693,551)	-
-	-	40,326	40,326	-
-	-	(653,225)	(653,225)	-
<u>801,246</u>	<u>(8,674,989)</u>	<u>(653,225)</u>	<u>(9,328,214)</u>	-
-	-	-	-	<u>223,239</u>
	3,130,897	-	3,130,897	-
	712,476	-	712,476	-
	1,126,260	-	1,126,260	-
	569,192	-	569,192	-
	61,712	-	61,712	-
	57,194	-	57,194	-
	318,758	23,163	341,921	220,612
	3,100,675	1,465,135	4,565,810	9,022,001
	13,212	39,981	53,193	54,600
	160,380	-	160,380	1,000
	<u>1,976,500</u>	<u>(1,077,500)</u>	<u>899,000</u>	<u>(899,000)</u>
	<u>11,227,256</u>	<u>450,779</u>	<u>11,678,035</u>	<u>8,399,213</u>

CITY OF INDIANOLA
Statement of Activities and Net Assets – Cash Basis
As of and for the Year Ended June 30, 2010

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

 Restricted

 Expendable:

 Streets

 Debt service

 Other purposes

 Unrestricted

 Total cash basis net assets

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Municipal Utilities</u>
2,552,267	(202,446)	2,349,821	8,622,452
<u>5,977,714</u>	<u>1,049,224</u>	<u>7,026,938</u>	<u>5,629,527</u>
<u>\$ 8,529,981</u>	<u>846,778</u>	<u>9,376,759</u>	<u>14,251,979</u>
359,865	-	359,865	-
1,536,477	157,459	1,693,936	874,082
3,052,679	-	3,052,679	-
<u>3,580,960</u>	<u>689,319</u>	<u>4,270,279</u>	<u>13,377,897</u>
<u>\$ 8,529,981</u>	<u>846,778</u>	<u>9,376,759</u>	<u>14,251,979</u>

See notes to financial statements.

CITY OF INDIANOLA

Statement of Cash Receipts, Disbursements
 And Changes in Cash Balances
 Governmental Funds
 As of and for the Year Ended June 30, 2010

	<u>General</u>	<u>Special Revenue</u> Road Use Tax
Receipts		
Property tax	\$ 3,413,942	-
Tax increment financing collections	-	-
Other city tax	118,906	-
Licenses and permits	96,392	-
Use of money and property	355,610	-
Intergovernmental	265,786	1,314,156
Charges for service	888,563	-
Special assessments	-	-
Miscellaneous	347,724	2,904
Total receipts	<u>5,486,923</u>	<u>1,317,060</u>
Disbursements		
Operating		
Public safety	3,356,399	-
Public works	124,765	1,026,601
Culture and recreation	2,020,345	-
Community and economic development	93,480	-
General government	1,144,194	-
Debt service	204,738	-
Capital projects	-	-
Total disbursements	<u>6,943,921</u>	<u>1,026,601</u>
Excess of receipts over disbursements	<u>(1,456,998)</u>	<u>290,459</u>
Other financing sources (uses)		
Bond proceeds	-	-
Sale of capital assets	11,645	-
Operating transfers in (out)	1,532,792	(159,500)
Total other financing sources (uses)	<u>1,544,437</u>	<u>(159,500)</u>

Debt Service	Capital Projects		Other Nonmajor Governmental Funds	Total
	Capital Projects	Street Construction		
843,216	-	-	569,192	4,826,350
-	-	-	712,476	712,476
-	-	-	-	118,906
-	-	-	-	96,392
-	1,500	149	9,168	366,427
-	-	757,423	-	2,337,365
-	-	-	-	888,563
155,131	-	42,168	-	197,299
-	22,148	21,675	24,340	418,791
<u>998,347</u>	<u>23,648</u>	<u>821,415</u>	<u>1,315,176</u>	<u>9,962,569</u>
-	-	-	22	3,356,421
-	-	-	-	1,151,366
-	-	-	-	2,020,345
-	-	-	3,137	96,617
-	-	-	-	1,144,194
2,071,601	-	-	-	2,276,339
-	1,369,634	1,211,428	131,954	2,713,016
<u>2,071,601</u>	<u>1,369,634</u>	<u>1,211,428</u>	<u>135,113</u>	<u>12,758,298</u>
<u>(1,073,254)</u>	<u>(1,345,986)</u>	<u>(390,013)</u>	<u>1,180,063</u>	<u>(2,795,729)</u>
-	1,315,099	1,785,576	-	3,100,675
-	-	-	148,735	160,380
<u>1,426,359</u>	<u>453,486</u>	<u>9,379</u>	<u>(1,286,016)</u>	<u>1,976,500</u>
<u>1,426,359</u>	<u>1,768,585</u>	<u>1,794,955</u>	<u>(1,137,281)</u>	<u>5,237,555</u>

CITY OF INDIANOLA

Statement of Cash Receipts, Disbursements
 And Changes in Cash Balances
 Governmental Funds
 As of and for the Year Ended June 30, 2010

	<u>General</u>	<u>Special Revenue Road Use Tax</u>
Net change in cash balances	87,439	130,959
Cash balances beginning of year	<u>2,659,705</u>	<u>228,906</u>
Cash balances end of year	<u>\$ 2,747,144</u>	<u>359,865</u>
Cash Basis Fund Balances		
Reserved		
Debt service	\$ -	-
Unreserved		
General fund	2,747,144	-
Special revenue funds	-	359,865
Capital projects funds	-	-
Total cash basis fund balances	<u>\$ 2,747,144</u>	<u>359,865</u>

See notes to financial statements.

Exhibit B
(Continued)

Debt Service	Capital Projects		Other Nonmajor Governmental Funds	Total
	Capital Projects	Street Construction		
353,105	422,599	1,404,942	42,782	2,441,826
<u>1,183,372</u>	<u>261,125</u>	<u>595,205</u>	<u>326,026</u>	<u>5,254,339</u>
<u>1,536,477</u>	<u>683,724</u>	<u>2,000,147</u>	<u>368,808</u>	<u>7,696,165</u>
1,536,477	-	-	-	1,536,477
-	-	-	-	2,747,144
-	-	-	230,026	589,891
-	683,724	2,000,147	138,782	2,822,653
<u>1,536,477</u>	<u>683,724</u>	<u>2,000,147</u>	<u>368,808</u>	<u>7,696,165</u>

CITY OF INDIANOLA

Exhibit C

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash
Balances to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the Year Ended June 30, 2010

Total government funds cash balances	\$ 7,696,165
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

833,816

Cash basis net assets of governmental activities	<u>\$ 8,529,981</u>
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Net change in cash balances	\$ 2,441,826
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

110,441

Change in cash balance of governmental activities	<u>\$ 2,552,267</u>
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See notes to financial statements.

CITY OF INDIANOLA

Exhibit D

Statement of Cash Receipts, Disbursements and Changes in Cash Balances -
 Proprietary Funds
 As of and for the Year Ended June 30, 2010

	Sewer	Enterprise Funds Other Nonmajor Recycling
Operating receipts		
Use of money and property	\$ 63,047	-
Intergovernmental	2,143	-
Charges for service	2,007,944	173,386
Special assessments	40,351	-
Miscellaneous	26,322	-
Total operating receipts	2,139,807	173,386
Operating disbursements		
Governmental activities		
Public safety	-	-
Public works	-	-
Culture and recreation	-	-
General government	-	-
Business type activities	2,787,963	133,060
Component Unit:		
Municipal Utilities	-	-
Total operating disbursements	2,787,963	133,060
Excess (deficiency) of receipts over (under) disbursements	(648,156)	40,326
Other financing sources (uses)		
Capital loan note proceeds	1,465,135	-
Operating transfers in (out)	(1,061,800)	(15,700)
Total other financing sources (uses)	403,335	(15,700)
Net change in cash balances	(244,821)	24,626
Cash balances beginning of year	941,913	24,991
Cash balances end of year	\$ 697,092	49,617
Cash Basis Fund Balances		
Reserved for debt service	\$ 266,989	-
Unreserved	430,103	49,617
Total cash basis fund balances	\$ 697,092	49,617

See notes to financial statements.

	<u>Internal Service</u>
<u>Total</u>	<u>Funds</u>
63,047	484
2,143	-
2,181,330	1,410,168
40,351	-
<u>26,322</u>	<u>38,388</u>
<u>2,313,193</u>	<u>1,449,040</u>
-	402,369
-	107,053
-	165,297
-	150,106
2,921,023	120,865
-	<u>331,725</u>
<u>2,921,023</u>	<u>1,277,415</u>
<u>(607,830)</u>	<u>171,625</u>
1,465,135	-
<u>(1,077,500)</u>	<u>-</u>
<u>387,635</u>	<u>-</u>
(220,195)	171,625
<u>966,904</u>	<u>994,760</u>
<u>746,709</u>	<u>1,166,385</u>
266,989	-
<u>479,720</u>	<u>1,166,385</u>
<u>746,709</u>	<u>1,166,385</u>

CITY OF INDIANOLA

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash
Balances to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the Year Ended June 30, 2010

Total enterprise funds cash balances	\$ 746,709
--------------------------------------	------------

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

100,069

Cash basis net assets of business type activities	<u>\$ 846,778</u>
---	-------------------

Net change in cash balances	\$ (220,195)
-----------------------------	--------------

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

17,749

Change in cash balance of business type activities	<u>\$ (202,446)</u>
--	---------------------

See notes to financial statements.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2010

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Indianola is a political subdivision of the State of Iowa located in Warren County. It was incorporated in 1864 and operates under the home rule provisions of the constitution of Iowa.

The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services.

A. REPORTING ENTITY

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's 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 the City 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 the City.

These financial statements present the City of Indianola (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit - The financial information for the Indianola Municipal Utilities is presented as a Component Unit to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utilities are governed by a five-member board appointed by the City Council and the Utilities' operating budget is subject to the approval of the City Council.

Jointly Governed Organizations - The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: South Central Iowa Landfill Agency Board, Central Iowa Regional Transportation Planning Alliance Board, Metropolitan Planning Organization Committee, Marion/Warren County Drug Task Force, Community Athletic Facilities Board.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2010

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. **BASIS OF PRESENTATION**

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise fund are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2010

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued) –

The Special Revenue - Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Funds are used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The City of Indianola maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2010

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. **CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2010 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is 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 City council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2010 were as follows:

	<u>CARRYING AMOUNT</u>	<u>MARKET VALUE</u>
Money market accounts	\$ 7,483,542	7,483,542
U.S. treasury bills	1,549,785	1,549,643
U.S. agency bonds and notes	1,731,442	1,742,758
U.S. agency collateralized mortgage obligations	<u>10,553,492</u>	<u>11,028,562</u>
	<u>\$21,318,261</u>	<u>21,804,505</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$110,989 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The City's 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 the City.

Credit risk – The City's investments are held by a bank's trust department in the City's name. Investments with a carrying amount of \$3,631,227 are rated AAA. The balance of the investments are not rated.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2010

3. **BONDS AND NOTES PAYABLE**

Annual debt service requirements to maturity for the City's general obligation bonds and notes, capital loan notes, revenue capital loan notes, and other long-term debt as of June 30, 2010 are as follows:

YEAR ENDING June 30,	GENERAL OBLIGATION		CAPITAL		REVENUE CAPITAL		OTHER		TOTAL	
	BONDS & NOTES		LOAN NOTES		LOAN NOTES		DEBT			
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2011	\$ 1,240,000	304,358	500,000	60,770	119,000	66,149	19,482	1,997	1,878,482	433,274
2012	1,290,000	264,952	337,000	43,212	126,000	62,145	20,456	1,023	1,773,456	371,332
2013	1,325,000	222,655	135,000	29,612	219,000	59,625	-	-	1,679,000	311,892
2014	1,370,000	179,175	145,000	25,035	227,000	53,040	-	-	1,742,000	257,250
2015	1,300,000	132,565	145,000	20,085	234,000	46,215	-	-	1,679,000	198,865
2016	870,000	87,325	150,000	14,675	213,000	39,615	-	-	1,233,000	141,615
2017	540,000	57,463	160,000	8,955	220,000	33,225	-	-	920,000	99,643
2018	555,000	39,277	75,000	2,437	227,000	26,625	-	-	857,000	68,339
2019	275,000	19,610	-	-	234,000	19,815	-	-	509,000	39,425
2020	285,000	10,260	-	-	242,000	12,795	-	-	527,000	23,055
2021	-	-	-	-	184,507	5,535	-	-	184,507	5,535
	<u>\$ 9,050,000</u>	<u>1,317,640</u>	<u>1,647,000</u>	<u>204,781</u>	<u>2,245,507</u>	<u>424,784</u>	<u>39,938</u>	<u>3,020</u>	<u>12,982,445</u>	<u>1,950,225</u>

Revenue Notes

In June 1995 the Utility issued \$383,000 Sewer Revenue Capital Loan Notes, Series 1995, of Indianola, Iowa, under the Iowa Sewage Treatment Works Financing Program pursuant to which the Iowa Finance Authority agreed to purchase the City's notes. Principal payments in increasing amounts are due annually beginning in December 1995. Interest on the notes at the rate of 3.00% per annum is due semi-annually. Final maturity of the notes is December 1, 2014.

In January 2004 the Utility issued \$725,000 Sewer Revenue Refunding Capital Loan Notes. The proceeds from the notes were used to retire the outstanding amount of the 1991 Sewer Revenue Capital Loan Notes. Principal payments in increasing amounts are due annually beginning in December 2004. Interest on the notes at rates of 1.50% to 3.45% (a weighted average rate of 2.55%) per annum is due semi-annually beginning June 1, 2004. Final maturity of the notes is December 1, 2012.

In May 2009 the Utility issued \$9,090,000 Sewer Revenue Capital Loan Notes, Series 2009. Principal payments in increasing amounts are due annually beginning in June 2012. Interest on the notes at the rate of 3.00% per annum is due semi-annually. Final maturity of the notes is June 1, 2041.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2010

3. **BONDS AND NOTES PAYABLE (CONTINUED)**

Revenue Notes (Continued)

The sewer revenue capital loan notes are payable solely and only out of the net earnings of the sewer enterprise and constitute a first lien on the future net earnings of the utility. These bonds are not general obligations of the City, nor are they payable in any manner by taxation and the City is not liable if the net earnings of the utility are not sufficient for the repayment of the notes.

The sewer revenue capital loan note resolutions require the establishment of revenue bond operation and maintenance, and sinking 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.

General Obligation Bonds and Notes

In August 2009 the City issued \$2,500,000 of General Obligation Bonds. The proceeds from the bonds were used to pay costs of street and storm sewer improvements, park improvements, city hall improvements and to pay costs of fire equipment, all essential corporate purposes.

In August 2009 the City issued \$620,000 of General Obligation Capital Loan Notes. The proceeds from the bonds were used to pay costs of construction, reconstruction, enlargement, improvement and equipping of the municipal building, including the expansion of the police and fire departments.

4. **PENSION AND RETIREMENT BENEFITS**

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2010

4. **PENSION AND RETIREMENT BENEFITS (CONTINUED)**

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (Continued)

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2010, 2009 and 2008 were \$164,708, \$186,950 and \$231,966, respectively, which met the required minimum contribution for each year.

IPERS - The City 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 plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$202,939, \$180,580 and \$167,205, equal to the required contributions for each year.

5. **OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 91 active and 2 retired members in the plan. Participants must be 55 or older at retirement. Some Fire/Rescue participants qualify at age 50 with 22 years of service.

The medical/prescription drug benefits are provided through a self-funded plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$510 for single coverage and \$1,260 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$0 and plan members eligible for benefits contributed approximately \$22,300 to the plan.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2010

6. **COMPENSATED ABSENCES**

City employees accumulate vacation hours and sick leave for subsequent use. Unused vacation hours are payable upon termination, retirement or death. Sick leave hours are payable only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits as of June 30, 2010, primarily relating to the General Fund, was as follows:

Vacation	\$ 313,125
Sick leave	<u>905,563</u>
	\$ <u>1,218,688</u>

This liability has been computed based on rates of pay as of June 30, 2010.

7. **HEALTH REIMBURSEMENT ARRANGEMENT**

The City maintains a health reimbursement arrangement (HRA) for the benefit of employees. The City makes a fixed annual commitment that employees may use to offset premium contributions or cash payments for any medical expense allowed under current income tax provisions. If the employee does not utilize the full amount provided in the fiscal year, the balance is carried forward to the following year and is available in any future period, including after retirement. Disbursements are paid out of operating funds and not held in trust. They are, however, accounted for in a sub-fund that is separate from other operating funds for budgetary control. Unpaid HRA balances totaled \$152,899 as of June 30, 2010.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2010

8. **INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 135,000
	Employee Benefits Levy	569,192
	Industrial Park Urban Renewal Tax Increment	28,500
	Police Retirement	12,500
	Enterprise:	
	Sewer	311,700
	Recycling	15,700
	Component Unit	<u>745,200</u>
		<u>1,817,792</u>
	Debt Service	General
Special Revenue:		
Industrial Park Urban Renewal Tax Increment		202,489
Downtown Tax Increment		256,733
East 92 Tax Increment		102,737
Enterprise:		
Sewer		712,000
Component Unit		<u>118,600</u>
	<u>1,426,359</u>	

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2010

8. INTERFUND TRANSFERS (CONTINUED)

Transfer to	Transfer from	Amount
Capital Projects:		
Capital Projects Fund	General	241,200
	Special Revenue:	
	Road Use Tax	18,800
	Capital Projects:	
	Community Redevelopment	124,486
	Enterprise:	
	Sewer	22,500
	Component Unit	<u>56,500</u>
		<u>463,486</u>
Street Construction	Special Revenue:	
	Sunset Terrace Paving	<u>9,379</u>
Community Redevelopment	General	10,000
	Capital Projects:	
	Capital Projects Fund	<u>10,000</u>
		<u>20,000</u>
Community Redevelopment	Special Revenue:	
	Industrial Park Urban Renewal Tax Increment	<u>125,000</u>
Enterprise:		
Sewer	Capital Projects:	
	Unspent Bond Proceeds	<u>60,000</u>
Component Unit	Special Revenue:	
	Road Use Tax	5,700
	Enterprise:	
	Sewer	<u>15,600</u>
		<u>21,300</u>
		<u>\$ 3,943,316</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2010

9. **RISK MANAGEMENT**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include 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/machinery. There have been no reductions in insurance coverage from prior years.

Each members' 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 City's 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 City's annual contributions to the Pool for the year ended June 30, 2010 were \$122,738 (2009 - \$125,600).

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 \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

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. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2010

9. **RISK MANAGEMENT (CONTINUED)**

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.

The City 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. The City has executed a Worker's Compensation coverage Agreement with the Association which extends through June 30, 2010 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2010, the City paid workers' compensation insurance premiums of \$122,822 (2009 - \$122,682) to the Association.

10. **COMMITMENTS**

The City has entered into contracts for a street improvement project, a city hall maintenance project, a wastewater collection system rehabilitation project, and a sewer extension project totaling approximately \$3,909,289. The remaining commitment on these contracts at June 30, 2010 is \$444,762.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF INDIANOLA

Budgetary Comparison Schedule of Receipts, Disbursements
and Changes in Balances – Budget and Actual (Cash Basis) -
All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property tax	\$ 4,826,350	-
Tax increment financing collections	712,476	-
Other city tax	118,906	-
Licenses and permits	96,392	-
Use of money and property	366,427	63,531
Intergovernmental	2,337,365	-
Charges for service	888,563	3,418,112
Special assessments	197,299	40,351
Miscellaneous	418,791	64,710
Total receipts	<u>9,962,569</u>	<u>3,586,704</u>
Disbursements		
Public safety	3,356,421	402,369
Public works	1,151,366	107,053
Culture and recreation	2,020,345	165,297
Community and economic development	96,617	-
General government	1,144,194	150,106
Debt service	2,276,339	-
Capital projects	2,713,016	-
Business type activities	-	2,908,828
Total disbursements	<u>12,758,298</u>	<u>3,733,653</u>
Excess of receipts over disbursements	(2,795,729)	(146,949)
Other financing sources, net	<u>5,237,555</u>	<u>403,335</u>
Excess of receipts and other financing sources over disbursements and other financing uses	2,441,826	256,386
Balances beginning of year	<u>5,254,339</u>	<u>1,961,664</u>
Balances end of year	<u>\$ 7,696,165</u>	<u>2,218,050</u>

Less Funds not Required to to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
		Original	Final	
-	4,826,350	4,786,023	4,786,023	40,327
-	712,476	752,900	752,900	(40,424)
-	118,906	144,659	144,659	(25,753)
-	96,392	118,300	118,300	(21,908)
484	429,474	261,200	261,200	168,274
-	2,337,365	1,434,300	1,434,300	903,065
1,410,168	2,896,507	3,121,800	3,121,800	(225,293)
-	237,650	103,000	103,000	134,650
<u>38,388</u>	<u>445,113</u>	<u>1,835,000</u>	<u>1,835,000</u>	<u>(1,389,887)</u>
<u>1,449,040</u>	<u>12,100,233</u>	<u>12,557,182</u>	<u>12,557,182</u>	<u>(456,949)</u>
402,369	3,356,421	3,657,100	3,657,100	300,679
107,053	1,151,366	1,509,900	1,509,900	358,534
165,297	2,020,345	2,099,600	2,099,600	79,255
-	96,617	148,500	157,200	60,583
150,106	1,144,194	1,207,700	1,216,700	72,506
-	2,276,339	2,303,200	2,306,200	29,861
-	2,713,016	878,900	3,848,700	1,135,684
<u>120,865</u>	<u>2,787,963</u>	<u>5,544,200</u>	<u>5,544,200</u>	<u>2,756,237</u>
<u>945,690</u>	<u>15,546,261</u>	<u>17,349,100</u>	<u>20,339,600</u>	<u>4,793,339</u>
503,350	(3,446,028)	(4,791,918)	(7,782,418)	4,336,390
-	<u>5,640,890</u>	<u>3,556,400</u>	<u>3,362,400</u>	<u>2,278,490</u>
503,350	2,194,862	(1,235,518)	(4,420,018)	6,614,880
-	<u>7,216,003</u>	<u>6,442,585</u>	<u>7,259,527</u>	<u>(43,524)</u>
<u>503,350</u>	<u>9,410,865</u>	<u>5,207,067</u>	<u>2,839,509</u>	<u>6,571,356</u>

CITY OF INDIANOLA

Notes to Required Supplementary Information—
Budgetary Reporting
June 30, 2010

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 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, 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. During the year, one budget amendment increased budgeted disbursements by \$2,990,500. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF INDIANOLA

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2010

	Industrial Park Urban Renewal Tax Increment	Employee Benefits Levy	Downtown Tax Increment	Special East 92 Tax Increment
Receipts				
Property tax	\$ -	569,192	-	-
Tax increment financing collections	353,006	-	256,733	102,737
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Charges for service	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	6,120	-	-	-
Total receipts	<u>359,126</u>	<u>569,192</u>	<u>256,733</u>	<u>102,737</u>
Disbursements				
Public safety	-	-	-	-
Community and economic development	3,137	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>3,137</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>355,989</u>	<u>569,192</u>	<u>256,733</u>	<u>102,737</u>
Other financing uses				
Sale of capital assets	-	-	-	-
Operating transfers in (out)	<u>(355,989)</u>	<u>(569,192)</u>	<u>(256,733)</u>	<u>(102,737)</u>
Total other financing sources (uses)	<u>(355,989)</u>	<u>(569,192)</u>	<u>(256,733)</u>	<u>(102,737)</u>
Net change in cash balances	-	-	-	-
Cash balances beginning of year	-	-	-	-
Cash balances end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Basis Fund Balances				
Unreserved				
Special revenue funds	\$ -	-	-	-
Capital project funds	-	-	-	-
Total cash basis fund balances	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying independent auditor's report.

Revenue			Capital Projects		
Sunset Terrace Paving	Police Retirement	Police Seizures	Community Athletic Facility	Community Redevelopment	Total
-	-	-	-	-	569,192
-	-	-	-	-	712,476
-	5,883	-	261	3,024	9,168
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	18,220	-	-	24,340
-	5,883	18,220	261	3,024	1,315,176
-	-	22	-	-	22
-	-	-	-	-	3,137
-	-	-	5,029	126,925	131,954
-	-	22	5,029	126,925	135,113
-	5,883	18,198	(4,768)	(123,901)	1,180,063
-	-	-	-	148,735	148,735
(9,379)	(12,500)	-	20,000	514	(1,286,016)
(9,379)	(12,500)	-	20,000	149,249	(1,137,281)
(9,379)	(6,617)	18,198	15,232	25,348	42,782
9,379	155,567	62,878	4,937	93,265	326,026
-	148,950	81,076	20,169	118,613	368,808
-	148,950	81,076	-	-	230,026
-	-	-	20,169	118,613	138,782
-	148,950	81,076	20,169	118,613	368,808

CITY OF INDIANOLA

Schedule 2

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds
As of and for the Year Ended June 30, 2010

	Internal Service				Total
	Health Insurance Reserve	Property Insurance Council	Health Pool	Health Reimbursement Arrangement	
Receipts					
Use of money and property	\$ -	484	-	-	484
Internal service charges	15,157	-	1,308,661	86,350	1,410,168
Miscellaneous	28,794	8,594	-	1,000	38,388
Total receipts	<u>43,951</u>	<u>9,078</u>	<u>1,308,661</u>	<u>87,350</u>	<u>1,449,040</u>
Disbursements					
Operating					
Public safety	15,033	5,016	356,682	25,638	402,369
Public works	3,662	973	95,687	6,731	107,053
Culture and recreation	5,985	2,465	148,617	8,230	165,297
General government	5,751	(982)	134,556	10,781	150,106
Business type activities					
Sewer	4,184	1,019	109,291	6,371	120,865
Component Unit:					
Municipal Utilities	12,030	-	298,378	21,317	331,725
Total disbursements	<u>46,645</u>	<u>8,491</u>	<u>1,143,211</u>	<u>79,068</u>	<u>1,277,415</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(2,694)</u>	<u>587</u>	<u>165,450</u>	<u>8,282</u>	<u>171,625</u>
Net change in cash balances	(2,694)	587	165,450	8,282	171,625
Cash balances beginning of year	170,510	22,453	681,907	119,890	994,760
Cash balances end of year	<u>\$ 167,816</u>	<u>23,040</u>	<u>847,357</u>	<u>128,172</u>	<u>1,166,385</u>
Cash Basis Fund Balances					
Unreserved	167,816	23,040	847,357	128,172	1,166,385
Total cash basis fund balances	<u>\$ 167,816</u>	<u>23,040</u>	<u>847,357</u>	<u>128,172</u>	<u>1,166,385</u>

See accompanying independent auditor's report.

CITY OF INDIANOLA

Schedule of Indebtedness
Year Ended June 30, 2010

OBLIGATION	DATE OF ISSUE	INTEREST RATES	AMOUNT ORIGINALLY ISSUED
2000 Street & Fire Truck	5/1/2000	4.60-5.05	2,750,000
2003 Sewer & Water Improvements	10/1/2003	2.25-4.25	2,410,000
2004 Ambulance, Sewer & Street Improvements	8/15/2004	2.10-3.90	1,800,000
2006 Sewer & Street Improvements	4/1/2006	3.35-3.75	5,085,000
2008 Street Improvements & Equipment	5/22/2008	2.20-3.80	1,575,000
2009 Street Improvements & Equipment	8/31/2009	2.00-3.60	2,500,000
 Capital Loan Notes			
1995 Sewer Revenue	6/21/1995	3.00	383,000
1999 General Corporate Purpose	11/1/1999	5.35	650,000
2002 Essential Corporate Purpose	2/15/2002	3.10-5.35	350,000
2002 B Refunding and Essential Corporate Purpose	5/1/2002	2.10-4.80	3,430,000
2004 Sewer Revenue Refunding	1/1/2004	1.50-3.45	725,000
2004 General Obligation Refunding	5/1/2004	2.00-3.10	835,000
2009 Sewer Revenue	5/20/2009	3.00	9,090,000
2009 General Obligation	8/31/2009	1.25-3.25	620,000
 Other Debt			
Equipment loan	2/15/2006	4.99	130,502
 Total City of Indianola			
 Indianola Municipal Utilities			
Revenue Bonds and Notes			
2004 Water Revenue Refunding	8/15/2004	2.55-4.20	2,485,000
2006 Electric Revenue Capital Loan Notes	2/15/2006	3.30-4.00	1,525,000
2010 Electric Revenue Capital Loan Notes	6/15/2010	2.00-4.00	9,040,000

See accompanying independent auditor's report.

<u>BALANCE BEGINNING OF YEAR</u>	<u>ISSUED DURING YEAR</u>	<u>REDEEMED DURING YEAR</u>	<u>BALANCE END OF YEAR</u>	<u>INTEREST PAID</u>	<u>INTEREST DUE AND UNPAID</u>
\$ 320,000	-	320,000	-	16,160	-
1,480,000	-	195,000	1,285,000	54,725	-
1,150,000	-	175,000	975,000	40,630	-
3,515,000	-	475,000	3,040,000	126,702	-
1,385,000	-	135,000	1,250,000	45,938	-
-	<u>2,500,000</u>	-	<u>2,500,000</u>	<u>50,910</u>	-
<u>7,850,000</u>	<u>2,500,000</u>	<u>1,300,000</u>	<u>9,050,000</u>	<u>335,065</u>	-
153,000	-	23,000	130,000	4,254	-
80,000	-	80,000	-	4,280	-
120,000	-	38,000	82,000	6,227	-
1,045,000	-	210,000	835,000	45,520	-
290,000	-	95,000	195,000	7,915	-
345,000	-	170,000	175,000	10,525	-
455,372	1,465,135	-	1,920,507	32,608	-
-	<u>620,000</u>	<u>65,000</u>	<u>555,000</u>	<u>11,231</u>	-
<u>2,488,372</u>	<u>2,085,135</u>	<u>681,000</u>	<u>3,892,507</u>	<u>122,560</u>	-
58,493	-	18,555	39,938	2,924	-
<u>\$ 10,396,865</u>	<u>4,585,135</u>	<u>1,999,555</u>	<u>12,982,445</u>	<u>460,549</u>	-
\$ 2,050,000	-	225,000	1,825,000	73,884	-
1,085,000	-	155,000	930,000	40,610	-
-	<u>9,040,000</u>	-	<u>9,040,000</u>	-	-
<u>\$ 3,135,000</u>	<u>9,040,000</u>	<u>380,000</u>	<u>11,795,000</u>	<u>114,494</u>	-

CITY OF INDIANOLA

Bond and Note Maturities
June 30, 2010

YEAR ENDING JUNE 30,	GENERAL			
	SEWER & WATER IMPROVEMENTS		AMBULANCE, SEWER & STREET IMPROVEMENTS	
	ISSUED OCTOBER 1, 2003		ISSUED AUGUST 15, 2004	
	INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT
2011	3.30	\$ 200,000	3.30	\$ 180,000
2012	3.50	210,000	3.45	190,000
2013	3.75	220,000	3.60	195,000
2014	3.90	225,000	3.75	200,000
2015	4.00	100,000	3.90	210,000
2016	4.05	105,000		-
2017	4.15	110,000		-
2018	4.25	115,000		-
2019		-		-
2020		-		-
		<u>\$ 1,285,000</u>		<u>\$ 975,000</u>

YEAR ENDING JUNE 30,	OTHER DEBT	
	EQUIPMENT LOAN	
	ISSUED FEBRUARY 15, 2006	
INTEREST RATE	AMOUNT	
2011	4.99	\$ 19,482
2012	4.99	20,456
		<u>\$ 39,938</u>

OBLIGATION

SEWER & STREET IMPROVEMENTS		STREET IMPROVEMENTS & EQUIPMENT		STREET IMPROVEMENTS & EQUIPMENT		
ISSUED APRIL 1, 2006		ISSUED MAY 22, 2008		ISSUED AUGUST 31, 2009		
INTEREST		INTEREST		INTEREST		
RATE	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	TOTAL
3.50	\$ 495,000	3.60	\$ 140,000	2.00	\$ 225,000	\$1,240,000
3.55	515,000	3.80	145,000	2.00	230,000	1,290,000
3.60	535,000	3.00	145,000	2.00	230,000	1,325,000
3.65	560,000	3.15	150,000	2.20	235,000	1,370,000
3.70	585,000	3.30	160,000	2.50	245,000	1,300,000
3.75	350,000	3.40	165,000	2.75	250,000	870,000
	-	3.50	170,000	2.95	260,000	540,000
	-	3.60	175,000	3.20	265,000	555,000
	-		-	3.40	275,000	275,000
	-		-	3.60	285,000	285,000
	<u>\$ 3,040,000</u>		<u>\$ 1,250,000</u>		<u>\$ 2,500,000</u>	<u>\$9,050,000</u>

CITY OF INDIANOLA

Bond and Note Maturities
June 30, 2010

YEAR ENDING JUNE 30,	CAPITAL					
	SEWER REVENUE		ESSENTIAL CORPORATE PURPOSE		ESSENTIAL CORPORATE PURPOSE	
	ISSUED JUNE 21, 1995		ISSUED FEBRUARY 15, 2002		ISSUED MAY 1, 2002	
	INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT
2011	3.00	\$ 24,000	5.20	\$ 40,000	4.20	\$ 220,000
2012	3.00	25,000	5.35	42,000	4.30	230,000
2013	3.00	26,000	-	-	4.45	70,000
2014	3.00	27,000	-	-	4.50	75,000
2015	3.00	28,000	-	-	4.60	75,000
2016	-	-	-	-	4.70	80,000
2017	-	-	-	-	4.80	85,000
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
		<u>\$ 130,000</u>		<u>\$ 82,000</u>		<u>\$ 835,000</u>

YEAR ENDING JUNE 30,	GENERAL OBLIGATION ISSUED AUGUST 31, 2009		
	INTEREST RATE	AMOUNT	TOTAL
2011	1.25	\$ 65,000	\$ 619,000
2012	2.25	65,000	463,000
2013	2.25	65,000	354,000
2014	2.25	70,000	372,000
2015	2.80	70,000	379,000
2016	2.80	70,000	363,000
2017	3.25	75,000	380,000
2018	3.25	75,000	302,000
		-	234,000
		-	242,000
		-	184,507
		<u>\$ 555,000</u>	<u>\$3,892,507</u>

See accompanying independent auditor's report.

LOAN NOTES

SEWER REVENUE REFUNDING ISSUED JANUARY 1, 2004		GENERAL OBLIGATION REFUNDING ISSUED MAY 1, 2004		SEWER REVENUE ISSUED MAY 20, 2009	
INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT
3.25	\$ 95,000	3.10	\$ 175,000	3.00	\$ -
3.45	100,000		-	3.00	1,000
	-		-	3.00	193,000
	-		-	3.00	200,000
	-		-	3.00	206,000
	-		-	3.00	213,000
	-		-	3.00	220,000
	-		-	3.00	227,000
	-		-	3.00	234,000
	-		-	3.00	242,000
	-		-	3.00	184,507
	<u>\$ 195,000</u>		<u>\$ 175,000</u>		<u>\$ 1,920,507</u>

CITY OF INDIANOLA

Schedule 5

Statement of Receipts By Source
and Disbursements By Function -
All Governmental Funds
For the Last Ten Years

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Receipts					
Property tax	\$ 4,826,350	4,739,284	4,380,621	4,302,700	4,193,385
Tax increment financing collections	712,476	632,566	652,571	414,117	242,398
Other city tax	118,906	116,449	119,660	115,249	113,263
Licenses and permits	96,392	66,923	187,498	198,688	163,875
Use of money and property	366,427	339,169	320,015	377,916	198,498
Intergovernmental	2,337,365	1,648,354	1,813,522	2,252,514	1,366,839
Charges for service	888,563	1,117,293	1,033,928	867,941	897,130
Special assessments	197,299	161,882	331,949	284,420	148,054
Miscellaneous	<u>418,791</u>	<u>351,465</u>	<u>648,262</u>	<u>620,475</u>	<u>410,502</u>
Total	<u>\$ 9,962,569</u>	<u>9,173,385</u>	<u>9,488,026</u>	<u>9,434,020</u>	<u>7,733,944</u>
Disbursements					
Operating					
Public safety	3,356,421	3,269,051	3,173,199	3,085,903	3,098,731
Public works	1,151,366	1,282,170	1,348,228	1,256,853	1,338,626
Culture and recreation	2,020,345	2,316,774	1,904,951	1,936,423	1,933,962
Community and economic development	96,617	104,155	83,781	617,772	65,386
General government	1,144,194	1,037,373	995,407	965,143	972,894
Debt service	2,276,339	2,219,139	1,956,788	2,792,481	1,623,791
Capital projects	<u>2,713,016</u>	<u>1,678,814</u>	<u>966,954</u>	<u>3,041,721</u>	<u>962,040</u>
Total	<u>\$ 12,758,298</u>	<u>11,907,476</u>	<u>10,429,308</u>	<u>13,696,296</u>	<u>9,995,430</u>

See accompanying independent auditor's report.

<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
3,953,158	3,657,046	3,313,265	3,058,458	2,794,029
188,396	104,611	101,614	85,525	145,087
127,553	118,717	116,006	128,958	121,436
194,540	209,890	155,117	152,391	112,144
177,341	160,428	198,625	161,440	275,399
2,082,365	1,514,317	1,610,670	1,391,440	1,420,457
765,904	746,475	859,959	835,398	750,222
310,621	101,884	140,938	198,685	306,511
<u>243,665</u>	<u>246,324</u>	<u>334,933</u>	<u>317,129</u>	<u>1,103,377</u>
<u>8,043,543</u>	<u>6,859,692</u>	<u>6,831,127</u>	<u>6,329,424</u>	<u>7,028,662</u>
3,064,421	2,575,156	2,238,824	2,555,746	2,099,609
1,159,048	1,236,315	1,247,388	1,182,720	3,059,748
1,661,909	1,681,481	1,805,974	1,515,828	1,399,939
90,030	109,684	307,054	375,401	423,696
931,372	838,593	795,336	1,006,773	881,269
1,562,645	1,412,173	1,547,690	2,012,010	1,407,884
<u>1,790,459</u>	<u>194,327</u>	<u>187,119</u>	<u>162,661</u>	<u>365,829</u>
<u>10,259,884</u>	<u>8,047,729</u>	<u>8,129,385</u>	<u>8,811,139</u>	<u>9,637,974</u>

CITY OF INDIANOLA

Schedule 6

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct			
U.S. Department of Justice:			
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.804	2009-SB-B9-0695	\$ 18,345
Indirect			
Federal Highway Administration:			
Iowa Department of Transportation:			
ARRA - Highway Planning and Construction	20.205	ESL-3680(612)--7S-91	494,331
Highway Planning and Construction	20.205	ESL-3680(612)--7S-91	300,000
U.S. Department of Education:			
Iowa Department of Transportation:			
ARRA - State Fiscal Stabilization Fund (SFSF)- Government Services, Recovery Act	84.397		<u>16,917</u>
Total			<u>\$ 819,248</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Indianola and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



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

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Indianola, Iowa, as of and for the Year Ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our reports thereon dated November 22, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 City of Indianola's 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 the City of Indianola's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Indianola's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Indianola's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Indianola's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of control deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the Year Ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. 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 City of Indianola's 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 City's responses, we did not audit the City of Indianola's 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 citizens of the City of Indianola and other parties to whom the City of Indianola 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 City of Indianola 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.

November 22, 2010



Shull and Co. P.C.

certified public accountants

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the City Council

Compliance

We have audited the compliance of the City of Indianola with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. City of Indianola's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion City of Indianola complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of City of Indianola is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Indianola's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis

The City of Indianola's 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 City's responses, we did not audit the City of Indianola's 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 citizens of the City of Indianola and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Shull & Co. P.C.

November 22, 2010

CITY OF INDIANOLA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part I: Summary of the Independent Auditor's Results

- (A) An unqualified opinion was issued on the financial statements, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (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 non-compliance which is material to the financial statements.
- (D) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (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) Major program was as follows:
 - CFDA Number 20.205 – ARRA - Highway Planning and Construction
 - CFDA Number 20.205 - Highway Planning and Construction
- (F) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (G) The City of Indianola 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

None

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-10 Certified Budget - Disbursements during the year ended June 30, 2010, did not exceed the amounts budgeted.

CITY OF INDIANOLA

Schedule of Findings - Continued
Year Ended June 30, 2010

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

- IV-B-10 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.
- IV-C-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-10 Business Transactions - No business transactions between the City and City officials or employees were noted.
- IV-E-10 Bond Coverage - Surety bond coverage of City 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.
- IV-F-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-10 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 City's investment policy were noted.
- IV-H-10 Revenue Bonds - No violations of provisions of revenue bond resolution requirements were noted.