



# **Cedar Falls Utilities**

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

**Including Independent Auditors' Reports**

**For The Years Ended  
December 31, 2009 and 2008**

MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES  
OF THE CITY OF CEDAR FALLS, IOWA  
(Component Units of the City of Cedar Falls, Iowa)

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Cedar Falls Utilities – Municipal Electric Utility

We have audited the accompanying balance sheets of the Municipal Electric Utility of Cedar Falls, Iowa, (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2010, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress for the Other Postemployment Benefits Plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

March 29, 2010  
Dubuque, Iowa

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

The following discussion and analysis of the Municipal Electric Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the year ended December 31, 2009, 2008 and 2007. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

- The Utility's net assets increased as a result of 2009 operating income and non-operating revenues. Total assets at year-end 2009 were \$156,821,297 and total liabilities were \$56,312,057 resulting in net assets of \$100,509,240. In 2008, total assets were \$154,155,141 and total liabilities were \$58,527,157 resulting in net assets of \$95,627,984. In 2007, total assets were \$140,290,817 and total liabilities were \$55,971,653 resulting in net assets of \$84,319,164.
- In 2009, operating revenues decreased 2.5% to \$38,417,765 from \$39,390,063 in 2008, while operating expenses increased 2.3% to \$35,745,824 from \$34,956,886 in 2008. In 2008, operating revenues increased 13.8% to \$39,390,063 from \$34,598,982 in 2007, while operating expenses increased 22.6% to \$34,956,886 from \$28,522,764 in 2007.
- In 2009, the Utility had operating income of \$2,671,941 compared to \$4,433,177 in 2008. In 2008, the Utility had operating income of \$4,433,177 compared to \$6,076,218 in 2007.
- The Utility delivered approximately 456,492,000 kilowatt hours (kWh) of electricity to its retail customers in 2009 as compared to approximately 450,760,000 kWh in 2008 and 447,325,000 kWh in 2007.
- On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, building furnishings and equipment, meters, switches, relays, tools and rendered the Streeter Station power plant units 6 and 7 and coal handling systems inoperable and in need of major repair. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. Additional detail on the 2008 Flood Event can be found in Note 12.
- On July 10, 2009, the City of Cedar Falls experienced a storm with extreme winds of approximately 106 MPH. The extreme winds uprooted and sheared trees snapping Electric Utility poles and distribution lines destroying them. The Utility began immediate clean up and also began working with the Federal Emergency Management Agency (FEMA) for reconstruction and repair of destroyed Utility distribution assets. Additional detail on the 2009 Wind Event can be found in Note 13.

**Overview of the Financial Statements**

Management's discussion and analysis (MDA) serves as an introduction to the financial statements, and the MDA represents management's examination and analysis of the Utility's financial condition and performance. The financial statements

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report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

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

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

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

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

Condensed Financial Information

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

Condensed Balance Sheet Information

|  | <u>2009</u>          | <u>2008</u>          | <u>2007</u>          |
|--|----------------------|----------------------|----------------------|
| Current assets                                     | \$ 46,305,981        | \$ 47,424,381        | \$ 40,016,680        |
| Capital assets, net                                | 108,356,428          | 102,633,879          | 92,127,766           |
| Other noncurrent assets                            | 2,158,888            | 4,096,881            | 8,146,371            |
| Total assets                                       | <u>\$156,821,297</u> | <u>\$154,155,141</u> | <u>\$140,290,817</u> |
| Current liabilities                                | \$ 7,177,332         | \$ 7,865,707         | \$ 5,379,075         |
| Noncurrent liabilities                             | 3,233,937            | 2,989,913            | 1,457,887            |
| Long-term debt                                     | 45,900,788           | 47,671,537           | 49,134,691           |
| Total liabilities                                  | <u>\$ 56,312,057</u> | <u>\$ 58,527,157</u> | <u>\$ 55,971,653</u> |
| Invested in capital assets,<br>net of related debt | \$ 62,794,814        | \$ 59,428,620        | \$ 55,265,234        |
| Restricted   | 6,716,184            | 6,846,798            | 5,650,205            |
| Unrestricted                                       | 30,998,242           | 29,352,566           | 23,403,725           |
| Total net assets                                   | <u>\$100,509,240</u> | <u>\$ 95,627,984</u> | <u>\$ 84,319,164</u> |

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Condensed Revenues, Expenses and Changes in Net Assets

|   | 2009                 | 2008                | 2007                |
|---|----------------------|---------------------|---------------------|
| Sales of electricity                    | \$34,700,713         | \$33,258,403        | \$31,874,887        |
| Other                                   | 3,717,052            | 6,131,660           | 2,724,095           |
| Total operating revenues                | <u>38,417,765</u>    | <u>39,390,063</u>   | <u>34,598,982</u>   |
| Fuel and Purchased Power                | 13,887,910           | 12,263,862          | 11,238,080          |
| Operation and maintenance               | 8,373,285            | 7,520,945           | 7,186,091           |
| Depreciation and amortization           | 4,220,126            | 3,829,474           | 3,081,507           |
| Services and administrative             | 9,264,503            | 11,342,605          | 7,017,086           |
| Total operating expenses                | <u>35,745,824</u>    | <u>34,956,886</u>   | <u>28,522,764</u>   |
| Operating Income                        | <u>2,671,941</u>     | <u>4,433,177</u>    | <u>6,076,218</u>    |
| Interest income                         | 562,606              | 1,252,687           | 1,379,228           |
| Other, net                              | 1,646,709            | 5,622,956           | (384,752)           |
| Total non-operating revenues (expenses) | <u>2,209,315</u>     | <u>6,875,643</u>    | <u>994,476</u>      |
| Change in net assets                    | 4,881,256            | 11,308,820          | 7,070,694           |
| Net assets, beginning of year           | <u>95,627,984</u>    | <u>84,319,164</u>   | <u>77,248,470</u>   |
| Net assets, end of year                 | <u>\$100,509,240</u> | <u>\$95,627,984</u> | <u>\$84,319,164</u> |

Financial Analysis

Current assets decreased 2.4% in 2009. Cash and investments - unrestricted increased by 15.2% primarily due to an increase in short term investments of \$3,593,434. Cash and investments - restricted decreased by 18.8% in 2009 due to construction fund investments maturing and funding authorized projects. Receivables decreased 23.9%, \$2,923,712, in 2009. Customer accounts receivable, less allowance for doubtful accounts, increased in 2009 by 3.0%, \$109,114, and Other receivables increased \$786,186, 94.4% primarily due to a receivable for MISO sales for Resale of \$1,170,663, offset by a decrease in Government grants receivable for FEMA assistance of \$3,813,041. Fuel inventory increased \$1,419,818, (30.5%), during 2009 due to an increase in Streeter Station inventories of \$1,435,361 and Walter Scott Generating Station Unit 3 (WS3) of \$10,979 over 2008 for coal and allowances offset by decreases in inventories for Walter Scott Generating Station Unit 4 (WS4) of \$20,350 and George Neal Unit 4 (Neal 4) of \$6,172. The Streeter Station average coal cost per ton increased \$3.71 in 2009.

Current assets increased 18.6% in 2008. Cash and investments - unrestricted increased 23.4% and cash and investments - restricted decreased 21.0%. Receivables increased 127.6%, \$6,850,582, primarily due to a Government grant receivable of \$7,160,336 for FEMA assistance for the flood disaster of 2008. Customer accounts receivable, less allowance for doubtful accounts, decreased in 2008 by 3.4%. Fuel inventory increased \$260,753, (5.9%), during 2008 due to a decrease in Streeter Station inventories of \$528,725 over 2007 for coal and allowances offset by increases in inventories for Walter Scott Energy Center Unit 4 (WS4) of \$62,950, for Walter Scott Energy Center Unit 3 (WS3) of \$108,793 and George Neal Generating Station Unit 4 (Neal 4) of \$617,735. The Streeter Station average coal cost per ton increased \$14.20 in 2008.

Other noncurrent assets decreased 53.1% in 2009 primarily due to \$1,992,511 of long-term restricted investments from the 2007 bonds issued becoming current.

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Other noncurrent assets also includes the long-term note receivable from the Municipal Communications Utility. The total noncurrent outstanding balance on this note at December 31, 2009 was \$1,233,090, a decrease of 20.1% over 2008.

Other noncurrent assets decreased 51.7% in 2008 primarily due to \$3,918,860 of long-term restricted investments from the 2007 bonds issued becoming current. Other noncurrent assets also includes the long-term note receivable from the Municipal Communication Utility. The total noncurrent outstanding balance on this note at December 31, 2008 was \$1,543,090, a decrease of 16.7% over 2007.

Current liabilities decreased 8.8% in 2009 primarily as a result of a decrease in accounts payable of 22.8% (\$871,295).

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

Retail kWh sales increased in 2009 by 1.3% (5,732,656 kWh). Retail revenue increased 4.3% in 2009 primarily due to the increase in sales for resale. Sales for resale increased \$1,862,126 (66.8%) over 2008 due to two offsetting factors. Wholesale sales for resale decreased \$2,107,832 due to the Utility being unable to generate power, due to the flood, from its Streeter Units to sell to the wholesale market when the price was favorable. In addition, the Utility turned over functional control of its transmission system to the non-profit Midwest Independent System Operator (MISO) effective September 1, 2009. The Utility is now a transmission owner in MISO and will receive revenue from MISO for its share of transmission revenue collected by MISO. In addition the Utility now must sell its generation from its jointly owned Western Units (Water Scott Energy Center Unit 3 and Unit 4 and the George Neal Generating Station Unit 4) into the MISO market and purchase all of its local power needs from MISO. The sales from the Western Units into MISO for the four months ending December 2009 were \$3,969,957.

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

Other operating revenues decreased 39.4% in 2009 primarily as a result of a decrease of \$2,899,186 in FEMA grant revenue to reimburse expenses to repair operational flood damage compared to 2008.

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

Fuel costs decreased 20.2% in 2009 due to Streeter not becoming operational until March 2009 and then operating only when the wholesale market was favorable. Since joining MISO on September 1, 2009, Streeter now generates to offset high purchased power costs when conditions are favorable. Purchased Power costs increased 49.5% in 2009 due to the Utility buying more electricity from the wholesale market for native load to substitute for being unable to generate from Streeter Station, due

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to flood damage, until March 2009. As discussed above, since joining MISO, the Electric Utility now buys all energy, except what it generates locally to serve its native load, from MISO. This new arrangement increases purchased power costs as well as MISO Sales for Resale as discussed above.

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

Operation and maintenance expenses increased 11.3% (\$852,340) in 2009. This is due to a 28.2% (\$523,443) increase in production maintenance due to increased steam turbine and gas turbine maintenance at Streeter and electric plant maintenance in the western generating units and related supervision and engineering costs. Transmission costs increased 4.3% in 2009 primarily due to increased supervision and engineering costs. Distribution costs increased 14.7% (\$296,428) in 2009 primarily due to expenses for line, pole, and equipment maintenance and repair due to damage caused by the July 2009 wind storm.

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

Depreciation and amortization expense increased by 10.2% (\$390,652) primarily due to changes made in the useful lives, and depreciation rates resulting from a 2009 depreciation study and the addition of assets.

Depreciation and amortization expense increased by 24.3% (\$747,967) in 2008 primarily due to Walter Scott Energy Center Unit 4 beginning operations.

Services and administrative expenses decreased by 18.3% in 2009. The Utility began its House Call energy efficiency program in 2008 offering customers' rebates for selected energy efficiency measures. This program increased expenses by 72.8% or \$257,047 in 2009. Administrative and general expenses decreased 25.3% in 2009 primarily due to a decrease of \$3,047,622 in flood-related operational expenses offset by an 18.8% (\$305,938) increase in employee insurance and benefits expenses.

Services and administrative expenses increased by 61.6% in 2008. The Utility began its House Call energy efficiency program in 2008 offering customer's rebates for selected energy efficiency measures. Due in part to the House Call program, Customer Service and Informational expenses increased by 9.0% or \$44,151. Sales expense decreased by 54.6% (\$50,007) due to a decrease in advertising expenses. Administrative and general expenses increased 82.0% in 2008 primarily due to an increase of \$3,742,146 due to flood-related operational expenses and a 23.1% (\$305,530) increase in employee insurance and benefits expenses. Other Taxes increased 36.3% in 2008 due to the inclusion of Streeter Station generation in the calculation of generation tax.

Interest Income decreased 55.1% due to a reduction in investments because of very low interest rates and difficulty getting banks to bid on placement of the investments during 2009. Funds that would have been invested were deposited into money market accounts waiting a strengthening in the investment markets.

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

Other, net decreased 70.7% (\$3,976,247) in 2009 primarily due to a \$3,540,722 decrease in FEMA grant revenue for its costs for restoring and/or replacing capital assets due to the 2008 flood event offset.

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

Capital Assets and Debt Administration

Net capital assets represent 69.1% of total assets for the Utility in 2009. Net capital assets increased 5.6% from 2008 due to flood recovery capital projects, and WS3 environmental and upgrade projects. Net capital assets represented 66.6% of total assets for the Utility in 2008. Net capital assets increased 11.4% from 2007 due to transmission system upgrades additions and WS3 environmental and upgrade projects. Additional detail on the change in capital assets can be found in Note 4.

The Utility's total long-term debt at year end 2009 was \$45,900,788 compared to \$47,671,537 at year end 2008 and \$49,134,691 at year end 2007. The change in total long-term debt is due to the principal debt payments of \$1,535,000 in 2009 and \$1,075,000 in 2008 plus amortization of debt discounts and premiums. On September 12, 2007 the Board of Trustees authorized the issuance of \$17,825,000 in revenue bonds for electric system improvements and extensions, and environmental upgrades to the Utility's generation units, transmission, and distribution assets. The Utility recalled the 1999A and 1999B series bonds in 2007 with cash on hand. Additional detail on the outstanding loan can be found in Note 5.

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Balance Sheets  
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| <u>Assets</u>   | <u>2009</u>           | <u>2008</u>           |
|---|-----------------------|-----------------------|
| Capital assets: (note 4)  |                       |                       |
| Capital assets, in service  | \$ 174,309,170        | \$ 158,642,184        |
| Less accumulated depreciation   | <u>70,082,314</u>     | <u>66,820,398</u>     |
| Capital assets, net (note 8)  | 104,226,856           | 91,821,786            |
| Construction work in progress   | <u>4,129,572</u>      | <u>10,812,093</u>     |
| Total capital assets, net   | <u>108,356,428</u>    | <u>102,633,879</u>    |
| Noncurrent assets:  |                       |                       |
| Investments - Restricted (note 2 and 3)   | -                     | 1,992,511             |
| Note receivable (note 9)  | 1,233,090             | 1,543,090             |
| Loans receivable  | <u>524,853</u>        | <u>212,452</u>        |
| Total noncurrent assets   | <u>1,757,943</u>      | <u>3,748,053</u>      |
| Current assets:   |                       |                       |
| Cash and cash equivalents (note 3)  | 13,797,916            | 14,745,857            |
| Cash - Restricted (note 2 and 3)  | 975,083               | 1,304,628             |
| Investments - Unrestricted (note 3)   | 6,285,058             | 2,691,624             |
| Investments - Restricted (note 2 and 3)   | 8,500,321             | 10,361,517            |
| Receivables:  |                       |                       |
| Customer accounts, less allowance for doubtful<br>accounts of \$34,535 in 2009 and \$36,150 in 2008 | 3,734,922             | 3,625,808             |
| Loans receivable  | 112,898               | 44,870                |
| Interest (note 9)   | 171,647               | 245,646               |
| Current installment of note receivable (note 9)   | 310,000               | 310,000               |
| Government grants - FEMA (note 12 and 13)   | 3,347,295             | 7,160,336             |
| Other   | 1,618,688             | 832,502               |
| Inventories:  |                       |                       |
| Fuel  | 6,073,032             | 4,653,214             |
| Material and supplies   | 1,206,281             | 1,213,252             |
| Prepayments and other   | <u>172,840</u>        | <u>235,127</u>        |
| Total current assets  | <u>46,305,981</u>     | <u>47,424,381</u>     |
| Deferred costs  | <u>400,945</u>        | <u>348,828</u>        |
| Total assets  | <u>\$ 156,821,297</u> | <u>\$ 154,155,141</u> |

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Balance Sheets  
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| <u>Liabilities</u>                                 | <u>2009</u>               | <u>2008</u>               |
|--|---------------------------|---------------------------|
| Long-term debt, less current installments (note 5) | \$ 45,900,788             | \$ 47,671,537             |
| Current liabilities:                               |                           |                           |
| Accounts payable                                   | 2,946,371                 | 3,817,666                 |
| Reserve for surplus declaration (note 9)           | 1,500,000                 | 1,450,000                 |
| Accrued wages and vacations                        | 698,807                   | 590,348                   |
| Accrued interest                                   | 178,575                   | 181,382                   |
| Other accrued expenses                             | 258,579                   | 291,311                   |
| Current installments of long-term debt (note 5)    | 1,595,000                 | 1,535,000                 |
| Total current liabilities                          | <u>7,177,332</u>          | <u>7,865,707</u>          |
| Noncurrent liabilities: (note 5)                   |                           |                           |
| Customer advances for construction                 | 1,357,947                 | 1,312,926                 |
| Other liabilities (note 5 and 11)                  | 1,875,990                 | 1,676,987                 |
| Total noncurrent liabilities                       | <u>3,233,937</u>          | <u>2,989,913</u>          |
| <br>Total liabilities                              | <br><u>56,312,057</u>     | <br><u>58,527,157</u>     |
| <br><u>Net Assets</u>                              |                           |                           |
| Invested in capital assets, net of related debt    | 62,794,814                | 59,428,620                |
| Restricted   | 6,716,184                 | 6,846,798                 |
| Unrestricted                                       | 30,998,242                | 29,352,566                |
| Total net assets                                   | <u>100,509,240</u>        | <u>95,627,984</u>         |
| <br>Total liabilities and net assets               | <br><u>\$ 156,821,297</u> | <br><u>\$ 154,155,141</u> |

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

Statements of Revenues, Expenses and Changes in Net Assets  
Years ended December 31, 2009, and 2008

|  | <u>2009</u>           | <u>2008</u>          |
|--|-----------------------|----------------------|
| Operating revenues:                                      |                       |                      |
| Sales of electricity:                                    |                       |                      |
| Residential  | \$ 11,999,929         | \$ 12,720,435        |
| Large industrial & commercial                            | 2,106,892             | 2,026,858            |
| Small industrial & commercial                            | 12,688,369            | 12,456,015           |
| Governmental (note 9)                                    | 3,054,145             | 3,078,546            |
| Sales for resale   | 4,651,380             | 2,789,254            |
| Interdepartmental  | 199,998               | 187,295              |
| Total sales of electricity                               | <u>34,700,713</u>     | <u>33,258,403</u>    |
| Other operating revenues (note 12 and 13)                | 3,717,052             | 6,131,660            |
| Total operating revenues                                 | <u>38,417,765</u>     | <u>39,390,063</u>    |
| <br>Operating expenses:                                  |                       |                      |
| Production and generation:                               |                       |                      |
| Fuel   | 5,085,636             | 6,375,042            |
| Purchased power  | 8,802,274             | 5,888,820            |
| Other  | 4,691,825             | 4,192,991            |
| Transmission   | 1,373,659             | 1,316,581            |
| Distribution   | 2,307,801             | 2,011,373            |
| Depreciation and amortization                            | 4,220,126             | 3,829,474            |
| Customer accounts  | 760,256               | 727,693              |
| Customer service and information expenses                | 807,666               | 536,583              |
| Sales  | 33,596                | 41,565               |
| Administrative and general (note 9)                      | 6,759,474             | 9,049,227            |
| Taxes other than income taxes                            | 903,511               | 987,537              |
| Total operating expenses                                 | <u>35,745,824</u>     | <u>34,956,886</u>    |
| <br>Operating income                                     | <u>2,671,941</u>      | <u>4,433,177</u>     |
| <br>Non-operating revenues (expenses):                   |                       |                      |
| Interest income (note 9)                                 | 562,606               | 1,252,687            |
| Net increase (decrease) in the fair value of investments | (176,870)             | 36,307               |
| Miscellaneous revenue (expense), net (note 9)            | 2,257,186             | 2,815,037            |
| Intergovernmental grant funds (note 12 and 13)           | 1,082,097             | 4,722,787            |
| Interest expense on long-term debt                       | (1,780,424)           | (2,258,539)          |
| AFUDC (note 1)   | 269,680               | 311,621              |
| Interest income (expense) on security deposits           | (4,960)               | (4,257)              |
| Total nonoperating revenues (expenses)                   | <u>2,209,315</u>      | <u>6,875,643</u>     |
| <br>Change in net assets                                 | <u>4,881,256</u>      | <u>11,308,820</u>    |
| <br>Net assets, beginning of year                        | <u>95,627,984</u>     | <u>84,319,164</u>    |
| <br>Net assets, end of year                              | <u>\$ 100,509,240</u> | <u>\$ 95,627,984</u> |

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

Statements of Cash Flows  
Years ended December 31, 2009 and 2008

|  | <u>2009</u>          | <u>2008</u>          |
|--|----------------------|----------------------|
| Cash flows from operating activities:                          |                      |                      |
| Cash received from customers                                   | \$ 42,343,253        | \$ 31,199,562        |
| Intergovernmental grants                                       | 862,454              | 3,418,700            |
| Cash paid to suppliers   | (27,909,542)         | (23,386,309)         |
| Cash paid to employees   | (3,692,035)          | (3,564,383)          |
| Payment in lieu of taxes to the City of Cedar Falls            | (1,450,000)          | (1,400,000)          |
| Property tax paid  | (493,891)            | (423,306)            |
|  | <u>9,660,239</u>     | <u>5,844,264</u>     |
| Cash flows from noncapital financing activities:               |                      |                      |
| Intergovernmental grants                                       | 1,082,097            | 4,722,787            |
| Interest paid on customer deposits                             | (4,960)              | (4,276)              |
| Net cash provided by (used in) noncapital financing activities | <u>1,077,137</u>     | <u>4,718,511</u>     |
| Cash flows from capital and related financing activities:      |                      |                      |
| Principal payments on long-term debt                           | (1,535,000)          | (1,075,000)          |
| Interest paid  | (2,022,350)          | (2,183,331)          |
| Proceeds from customer advances for construction               | 159,521              | 1,001,232            |
| Refunds of customer advances for construction                  | (114,500)            | (129,200)            |
| Acquisition, construction and removal cost of capital assets   | (9,986,665)          | (14,536,324)         |
| Proceeds from sale of capital assets                           | 74,074               | 53,040               |
| Reimbursement of utility construction costs                    | 380,050              | 862,885              |
|  | <u>(13,044,870)</u>  | <u>(16,006,698)</u>  |
| Cash flows from investing activities:                          |                      |                      |
| Proceeds from repayment of loan by associated utility          | 310,000              | 310,000              |
| Proceeds from maturities of investment securities              | 14,892,537           | 26,806,330           |
| Purchase of investment securities                              | (14,809,134)         | (15,461,374)         |
| Interest received  | 636,605              | 1,394,919            |
|  | <u>1,030,008</u>     | <u>13,049,875</u>    |
| Net increase (decrease) in cash and cash equivalents           | (1,277,486)          | 7,605,952            |
| Cash and cash equivalents, beginning of year                   | 16,050,485           | 8,444,533            |
| Cash and cash equivalents, end of year (note 1)                | <u>\$ 14,772,999</u> | <u>\$ 16,050,485</u> |

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

Statements of Cash Flows, Continued  
Years ended December 31, 2009 and 2008

|   | <u>2009</u>         | <u>2008</u>         |
|---|---------------------|---------------------|
| Reconciliation of operating income to net cash provided by operating activities         |                     |                     |
| Operating income  | \$ 2,671,941        | \$ 4,433,177        |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                     |                     |
| Depreciation and amortization of capital assets   | 4,220,126           | 3,829,474           |
| Other Income (expense), net   | 2,116,733           | 2,411,470           |
| (Increase) decrease in accounts receivable  | (895,300)           | 212,392             |
| (Increase) decrease in loans receivable   | (380,429)           | (257,322)           |
| (Increase) decrease in intergovernmental grants   | 3,813,040           | (7,160,336)         |
| (Increase) decrease in inventories  | (1,412,846)         | (324,139)           |
| (Increase) decrease in prepayments and other  | 62,287              | (16,816)            |
| Increase (decrease) in accounts payable   | (871,295)           | 1,979,957           |
| Increase (decrease) in reserve for surplus declaration                                  | 50,000              | 50,000              |
| Increase (decrease) in accrued wages and vacation                                       | 108,459             | 51,578              |
| Increase (decrease) in other accrued expenses   | (21,479)            | (25,165)            |
| Increase (decrease) in other liabilities  | <u>199,002</u>      | <u>659,994</u>      |
| Net cash provided by operating activities   | <u>\$ 9,660,239</u> | <u>\$ 5,844,264</u> |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

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

The Utility's present capacity consists of one wholly owned and three jointly owned coal-fired plants, Walter Scott Energy Center Unit 3, Water Scott Energy Center Unit 4, and George Neal Generating Station Unit 4 (Western Units), with a combined generating capacity of 105 megawatts. The Utility owns two combustion turbines with a generating capacity of 53 megawatts. The Utility also owns 1.5 megawatts of generating capacity in a jointly owned wind turbine facility. The Utility owns a total of 159.5 megawatts of generating capacity.

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

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

(b) Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 4.63% in 2009 and 2008. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets.

The range of estimated service lives for the classes of capital assets are as follows: land improvements - 30 years, infrastructure - 10 to 150 years, buildings and improvements - 20 to 55 years, and equipment - 5 to 25 years. The depreciation provisions were equivalent to an overall composite rate of 2.7% of depreciable assets for 2009 and 2.3% for 2008.

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

(c) Cash and Investments

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies, Continued

(c) Cash and Investments, Continued

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December 31, 2009 and 2008 were \$2,750,000 and \$500,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIF).

(d) Inventories

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

(e) Operating Revenues and Expenses

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

Revenues from the sale of electricity are based on billing rates, which are applied to customers' consumption of electricity. The Utility records estimated unbilled revenue, including amounts to be billed under a fuel adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2009 and 2008, were \$1,607,994, and \$1,400,442 respectively, and are recorded in customer accounts receivable. The Utility uses a fuel adjustment clause whereby increases or decreases in fuel costs and purchase power costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

(f) Bond Issue Costs

Unamortized bond issue costs are amortized over the life of the bonds using the same percentage as the principal paid in a given year is to the total debt issued by issue.

(g) Net Assets

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

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies, Continued

(h) Estimates

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

(i) Budgetary Information

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

Formal and legal budgetary control is based on the total of all four utilities as a whole. During the year 2009 there were no budget amendments.

(j) Reclassifications

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

(2) Restricted Assets

The composition of restricted assets as of December 31, 2009 and 2008 was as follows:

|                                      | Cash      | 2009<br>Investments | Total        |
|--------------------------------------|-----------|---------------------|--------------|
| Current Assets - Restricted          |           |                     |              |
| Bond Reserve                         | \$ -      | \$ 4,570,913        | \$ 4,570,913 |
| Bond and Interest                    | 296,915   | -                   | 296,915      |
| Streeter Landfill                    | 79,345    | 500,000             | 579,345      |
| Self Insured Medical and Dental      | 594,057   | 500,000             | 1,094,057    |
| Construction                         | 4,766     | 1,929,408           | 1,934,174    |
| Improvement and Extension            | -         | 1,000,000           | 1,000,000    |
| Total Current Assets - Restricted    | 975,083   | 8,500,321           | 9,475,404    |
| Total Noncurrent Assets - Restricted | -         | -                   | -            |
| Total restricted assets              | \$975,083 | \$8,500,321         | \$9,475,404  |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(2) Restricted Assets, Continued

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

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

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2009 was \$345 and 2008 was \$345.

Deposits

At December 31, 2009, the Utility's carrying amount of deposits, including \$12,855,971 of certificates of deposits and \$12,022,654 of money market accounts, was \$24,878,625. At December 31, 2008, the Utility's carrying amount of deposits, including \$9,044,375 of certificates of deposits was \$24,594,514.

Investments

The utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

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

Notes to Financial Statements  
December 31, 2009 and 2008

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

As of December 31, 2009, the Utility had the following investments and maturities.  
(The Utility assumes callable bonds will not be called):

| 2009<br>Investment Type       | Investment Maturities (In Years) |        |             |
|-------------------------------|----------------------------------|--------|-------------|
|                               | Less than 1                      | 1 to 3 | Total       |
| Federal Agency<br>Obligations | \$1,929,408                      | \$-    | \$1,929,408 |

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

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

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,750,000 and \$500,000 at December 31, 2009 and 2008, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Notes to Financial Statements  
December 31, 2009 and 2008

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

Custodial Credit Risk - Investments

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

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

|  | 2009          | 2008          |
|--|---------------|---------------|
| Cash on hand   | \$ 345        | \$ 345        |
| Carrying amount of deposits                            | 24,878,625    | 24,594,514    |
| Carrying amount of federal agency obligations          | 1,929,408     | 6,001,278     |
| Carrying amount of Iowa Public Agency Investment Trust | 2,750,000     | 500,000       |
| Total  | \$ 29,558,378 | \$ 31,096,137 |
| <br>Current Assets                                     |               |               |
| Cash and cash equivalents                              | \$ 13,797,916 | \$ 14,745,857 |
| Investments  | 6,285,058     | 2,691,624     |
| Restricted Cash  | 975,083       | 1,304,628     |
| Restricted Investments                                 | 8,500,321     | 10,361,517    |
| Noncurrent Investments                                 |               |               |
| Restricted   | -             | 1,992,511     |
| Total  | \$ 29,558,378 | \$ 31,096,137 |

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

|                                   | 2009          | 2008          |
|-----------------------------------|---------------|---------------|
| Unrestricted Cash and Investments |               |               |
| Board Designated                  |               |               |
| Generation                        | \$ 2,285,058  | \$ 691,624    |
| Western Units Landfill            | 327,228       | 328,261       |
| Security Deposits                 | 172,767       | 152,413       |
| Operating                         | 17,297,921    | 16,265,182    |
| Total Cash and Investments        |               |               |
| Unrestricted                      | \$ 20,082,974 | \$ 17,437,480 |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2009 and 2008 follows:

| 2009  | Beginning<br>Balance | Additions<br>and<br>Transfers<br>In | Deletions<br>and<br>Transfers<br>Out | Ending<br>Balance     |
|---|----------------------|-------------------------------------|--------------------------------------|-----------------------|
| Capital Assets, not being<br>Depreciated:       |                      |                                     |                                      |                       |
| Land  | \$ 991,704           | \$ 80,279                           | \$ -                                 | \$ 1,071,983          |
| Construction,<br>Work-in-progress               | 10,812,093           | 28,437,494                          | 35,120,015                           | 4,129,572             |
| Total capital assets,<br>Not being depreciated  | <u>11,803,797</u>    | <u>28,517,773</u>                   | <u>35,120,015</u>                    | <u>5,201,555</u>      |
| Capital assets,<br>being depreciated:           |                      |                                     |                                      |                       |
| Land improvements                               | 4,683                | -                                   | -                                    | 4,683                 |
| Infrastructure                                  | 126,410,589          | 24,572,401                          | 19,171,387                           | 131,811,603           |
| Buildings and improvements                      | 13,211,579           | 8,787,979                           | 80,995                               | 21,918,563            |
| Equipment                                       | 18,023,629           | 1,679,356                           | 200,647                              | 19,502,338            |
| Total capital assets,<br>being depreciated      | <u>157,650,480</u>   | <u>35,039,736</u>                   | <u>19,453,029</u>                    | <u>173,237,187</u>    |
| Less accumulated depreciation                   | <u>66,820,398</u>    | <u>5,243,744</u>                    | <u>1,981,828</u>                     | <u>70,082,314</u>     |
| Total capital assets,<br>being depreciated, net | <u>90,830,082</u>    | <u>29,795,992</u>                   | <u>17,471,201</u>                    | <u>103,154,873</u>    |
| Capital assets, net                             | <u>\$102,633,879</u> | <u>\$ 58,313,765</u>                | <u>\$ 52,591,216</u>                 | <u>\$103,356,428</u>  |
|   |                      |                                     |                                      |                       |
| 2008  | Beginning<br>Balance | Additions<br>and<br>Transfers<br>In | Deletions<br>and<br>Transfers<br>Out | Ending<br>Balance     |
| Capital Assets, not being<br>Depreciated:       |                      |                                     |                                      |                       |
| Land  | \$ 991,704           | \$ -                                | \$ -                                 | \$ 991,704            |
| Construction,<br>Work-in-progress               | 6,980,715            | 13,758,246                          | 9,926,868                            | 10,812,093            |
| Total capital assets,<br>Not being depreciated  | <u>7,972,419</u>     | <u>13,758,246</u>                   | <u>9,926,868</u>                     | <u>11,803,797</u>     |
| Capital assets,<br>being depreciated:           |                      |                                     |                                      |                       |
| Land improvements                               | 4,683                | -                                   | -                                    | 4,683                 |
| Infrastructure                                  | 118,916,711          | 9,112,658                           | 1,618,780                            | 126,410,589           |
| Buildings and improvements                      | 14,586,098           | 444,786                             | 1,819,305                            | 13,211,579            |
| Equipment                                       | 17,674,766           | 1,368,254                           | 1,019,391                            | 18,023,629            |
| Total capital assets,<br>being depreciated      | <u>151,182,258</u>   | <u>10,925,698</u>                   | <u>4,457,476</u>                     | <u>157,650,480</u>    |
| Less accumulated depreciation                   | <u>67,026,911</u>    | <u>4,371,824</u>                    | <u>4,578,337</u>                     | <u>66,820,398</u>     |
| Total capital assets,<br>being depreciated, net | <u>84,155,347</u>    | <u>6,553,874</u>                    | <u>(120,861)</u>                     | <u>90,830,082</u>     |
| Capital assets, net                             | <u>\$ 92,127,766</u> | <u>\$ 20,312,120</u>                | <u>\$ 9,806,007</u>                  | <u>\$ 102,633,879</u> |

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(A Component Unit of the City of Cedar Falls, Iowa)

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(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2009 and 2008 was as follows:

| 2009   | Beginning<br>Balance | Additions          | Reductions         | Ending<br>Balance   | Amounts<br>Due<br>Within<br>One Year |
|--|----------------------|--------------------|--------------------|---------------------|--------------------------------------|
| Revenue Bonds:                               |                      |                    |                    |                     |                                      |
| Series 2003                                  | \$ 8,775,000         | \$ -               | \$ 265,000         | \$ 8,510,000        | \$ 270,000                           |
| Series 2005                                  | 23,195,000           | -                  | 630,000            | 22,565,000          | 655,000                              |
| Series 2007                                  | 17,620,000           | -                  | 640,000            | 16,980,000          | 670,000                              |
| Unamortized premium                          | 218,627              | 94,263             | 30,402             | 282,488             | -                                    |
| Unamortized discount                         | (602,090)            | (327,925)          | (88,315)           | (841,700)           | -                                    |
|  | <u>49,206,537</u>    | <u>(233,662)</u>   | <u>1,477,087</u>   | <u>47,495,788</u>   | <u>\$ 1,595,000</u>                  |
| Current installments<br>of long-term debt    | (1,535,000)          | (60,000)           | -                  | (1,595,000)         |                                      |
| Long-term debt, less<br>current installments | <u>47,671,537</u>    | <u>(293,662)</u>   | <u>1,477,087</u>   | <u>45,900,788</u>   |                                      |
| Customer advances<br>for construction        | 1,312,926            | 187,366            | 142,345            | 1,357,947           |                                      |
| Other liabilities:                           |                      |                    |                    |                     |                                      |
| Landfill closure                             | 791,059              | -                  | 1,983              | 789,076             |                                      |
| Other deferred                               | 82,885               | 6,359,176          | 6,348,624          | 93,437              |                                      |
| Accrued severance                            | 803,043              | 338,418            | 147,984            | 993,477             |                                      |
| Noncurrent<br>liabilities                    | <u>2,989,913</u>     | <u>6,884,960</u>   | <u>6,640,936</u>   | <u>3,233,937</u>    |                                      |
| Total noncurrent<br>liabilities              | <u>\$50,661,450</u>  | <u>\$6,591,298</u> | <u>\$8,118,023</u> | <u>\$49,134,725</u> |                                      |

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(5) Noncurrent Liabilities, Continued

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

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

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

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

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(5) Noncurrent Liabilities, Continued

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

| Year      | Series 2003 Electric Revenue Bonds |                             | Series 2005 Electric Revenue Bonds |                             |
|-----------|------------------------------------|-----------------------------|------------------------------------|-----------------------------|
|           | December 1 Principal Amount        | 3.25%-4.50% Interest Amount | December 1 Principal Amount        | 3.00%-4.25% Interest Amount |
| 2010      | \$ 270,000                         | \$ 349,363                  | \$ 655,000                         | \$ 911,438                  |
| 2011      | 280,000                            | 339,913                     | 670,000                            | 888,513                     |
| 2012      | 295,000                            | 330,113                     | 690,000                            | 864,225                     |
| 2013      | 555,000                            | 319,787                     | 1,370,000                          | 838,350                     |
| 2014      | 580,000                            | 300,363                     | 1,420,000                          | 786,975                     |
| 2015-2019 | 3,290,000                          | 1,133,384                   | 8,010,000                          | 3,035,275                   |
| 2020-2024 | 3,240,000                          | 369,175                     | 9,750,000                          | 1,266,780                   |
|           | <u>\$8,510,000</u>                 | <u>\$3,142,098</u>          | <u>\$22,565,000</u>                | <u>\$8,591,556</u>          |

| Year      | Series 2007 Electric Revenue Bonds |                              |
|-----------|------------------------------------|------------------------------|
|           | December 1 Principal Amount        | 4.00%-4.375% Interest Amount |
| 2010      | \$ 670,000                         | \$ 707,169                   |
| 2011      | 700,000                            | 680,369                      |
| 2012      | 735,000                            | 652,369                      |
| 2013      | 765,000                            | 622,969                      |
| 2014      | 805,000                            | 592,369                      |
| 2015-2019 | 4,635,000                          | 2,446,231                    |
| 2020-2024 | 5,860,000                          | 1,393,500                    |
| 2025-2026 | 2,810,000                          | 185,937                      |
|           | <u>\$16,980,000</u>                | <u>\$ 7,280,913</u>          |

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

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(5) Noncurrent Liabilities, Continued

Iowa Administrative Code requires the Utility to place a final cover on its ash landfill site for its Streeter Station Generating Facility when it is closed and thereupon to have in place surveying monuments and an approved groundwater monitoring system. Iowa Administrative Code also requires the Utility to maintain the final cover, monitor ground water, and file reports with the Iowa Department of Natural Resources for ten years following closure of the site. Although closure and post closure costs are paid only near or after the date that the landfill is closed, the Utility reports a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$462,798 reported as landfill closure and post closure care liability at December 31, 2009, represents the cumulative amount reported to date based on the use of 100% of the estimated capacity of the landfill. This is based on what it would cost to perform all closure and post closure care in 2009. The Utility expects to close the landfill during 2010. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. In 2008 the Utility created a Landfill Closure liability of \$271,475 for its ownership share of Walter Scott Energy Center - Unit 3, and \$54,804 for its ownership share of George Neal Generating Station - Unit 4 generating units. The Walter Scott Energy Center - Unit 3 dry ash landfill is expected to be closed December 1, 2010 and its wet ash landfill is expected to be closed December 1, 2024. The Neal - Unit 4 land fill is expected to be closed December 1, 2015.

(6) Pension and Retirement Benefits

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

Plan members were required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll through June 30, 2009. Beginning July 1, 2009 plan members are required to contribute 4.30% of their annual covered salary and the Utility is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2009, 2008, and 2007 were \$427,457; \$388,089; and \$341,288; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit will be phased out by June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it will be reduced to 50% and zero thereafter. The Utility recognized liability of \$98,480 and \$130,134, respectively, for the years ended December 31, 2009 and 2008.

(7) Income Tax Status

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

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(8) Jointly-Owned Capital Assets

The Utility's share of jointly owned electric facilities at December 31, 2009 and 2008 is reflected in the following table. These facilities provide approximately 27% of the Utility's total generating capacity. The Utility is required to provide financing for its share of the facilities. The Utility's share of expenses associated with these facilities is included with the appropriate operating expenses in the statements of revenues, expenses and changes in net assets.

| Facility                                 | Percentage Ownership | Capacity MW | Capital Assets, Net |              |
|--|----------------------|-------------|---------------------|--------------|
|  |                      |             | 2009                | 2008         |
| Walter Scott Energy Center Unit 3        | 3.10%                | 20.90       | \$11,718,667        | \$ 5,455,474 |
| Walter Scott Energy Center Unit 4        | 2.02%                | 15.97       | 26,818,810          | 27,210,342   |
| George Neal Generating Station Unit 4    | 2.50%                | 15.60       | 2,280,600           | 2,405,647    |
| Iowa Distributed Wind Generation Project | 65.80%               | 1.50        | 702,413             | 745,513      |

(9) Related Party Transactions

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2009 and 2008 were \$1,500,000 and \$1,450,000, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2009, the Utility's Board of Trustees approved a payment of \$1,500,000 related to payments in lieu of taxes for 2009.

In addition, the Utility provides electric service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$525,175 and \$553,389 in 2009 and 2008, respectively.

The Electric Utility has extended a loan to the Municipal Communications Utility of the City of Cedar Falls, Iowa (Communications Utility), with an outstanding balance of \$1,543,090 and \$1,853,090 as of December 31, 2009 and 2008, respectively. Interest accrues on the loan at 3.10% and is paid semi-annually during January and July. Semi-annual principal payments continue through 2016. Accrued interest receivable was \$26,518 and \$31,421 at December 31, 2009 and 2008, respectively. Interest income for the years ended December 31, 2009 and 2008 was \$54,862 and \$64,622 respectively.

For the years ended December 31, 2009 and 2008, the Utility earned a management fee of \$69,863 from the Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous nonoperating revenue.

(10) Risk Management

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2009 plan year for aggregate claims exceeding \$2.2 million.

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(10) Risk Management, Continued

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

|   | 2009        | 2008        |
|---|-------------|-------------|
| Unpaid claims and IBNR, beginning of year | \$ 293,600  | \$ 185,000  |
| Current year costs including IBNR         | 2,725,783   | 1,544,287   |
| Claims paid                               | (2,694,383) | (1,435,687) |
| Unpaid claims and IBNR, end of year       | \$ 325,000  | \$ 293,600  |

The Utility has recorded \$198,250 and \$179,096 in accounts payable for its share of these unpaid claims at December 31, 2009 and 2008, respectively.

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

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2009.

|   |              |
|---|--------------|
| Cash and cash equivalents and investments | \$46,324,489 |
| Receivables                               | 1,857,808    |
| Other assets                              | 826,016      |
| Total assets                              | \$49,008,313 |
| <br>                                      |              |
| Total liabilities                         | \$22,626,518 |
| Total equity                              | 26,381,795   |
| Total liabilities and equity              | \$49,008,313 |
| <br>                                      |              |
| Total revenues                            | \$ 6,163,033 |
| Total expenses                            | 3,623,619    |
| Distribution to members                   | -            |
| Net increase in equity                    | \$ 2,539,414 |

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

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(11) Other Post Employment Benefits (OPEB)

Plan Description

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

Funding Policy

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2009, the Utilities contributed \$155,722 and retirees receiving benefits contributed \$138,682 through their required contributions.

Annual OPEB and Net OPEB Obligations

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

|  | <u>2009</u>              |
|--|--------------------------|
| Annual required contribution               | \$ 302,004               |
| Interest on Net OPEB Obligation            | -                        |
| Adjustment to annual required contribution | -                        |
| Annual OPEB expense                        | <u>302,004</u>           |
| Contributions and payments made            | <u>17,040</u>            |
| Increase in net OPEB obligation            | \$ 284,964               |
| Net OPEB obligation, December 31, 2008     | <u>301,799</u>           |
| Net OPEB obligation, December 31, 2009     | <u><u>\$ 586,763</u></u> |

The Electric Utility's share of the December 31, 2009 Net OPEB obligation is \$360,958.

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Notes to Financial Statements  
December 31, 2009 and 2008

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

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the years ended December 31, 2009 and 2008:

| <u>Fiscal Year Ended</u> | <u>Annual<br/>OPEB Cost</u> | <u>Percentage<br/>Of Annual<br/>OPEB Cost<br/>Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|--------------------------|-----------------------------|---|--------------------------------|
| December 31, 2009        | \$302,004                   | 5.64%   | \$586,763                      |
| December 31, 2008        | \$289,428                   | -4.27%  | \$301,799                      |

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$2,967,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$11,587,064, in 2009 and the ratio of the UAAL to the covered payroll was 25.6%.

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

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

Significant methods and assumptions were as follows:

|                                |                                       |
|--------------------------------|---------------------------------------|
| Actuarial valuation date:      | January 1, 2009                       |
| Actuarial cost method:         | Projected Unit Credit                 |
| Amortization method:           | Level Percentage Of Projected Payroll |
| Remaining amortization period: | 30 years                              |
| Actuarial assumptions:         |                                       |
| Discount Rate                  | 5.0%                                  |
| Healthcare Trend Rate          | 11.0% declining .5% annually to 6%    |
| Projected Salary Increases     | 4.0%                                  |

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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(12) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, building furnishings and equipment, meters, switches, relays, tools and rendered the Streeter Station power plant units 6 and 7 and coal handling systems inoperable and in need of major repair. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2009, Utility administrative facilities were repaired and operational. Generation units were repaired and operational, but power plant office facilities were still not completely repaired and operational. As of December 31, 2009 and 2008, the Electric Utility has spent \$600,862 and \$3,682,418, respectively, in operational expense for flood recovery and \$2,429,429 and \$4,534,766, respectively, in asset repair and replacement. As of December 31, 2009 and 2008, the Utility has recognized \$519,515 and \$3,418,700, respectively, in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$967,056 and \$4,507,778, respectively, in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2009 and 2008, the Utility recognized a receivable of \$2,915,405 and \$7,160,336, respectively, for FEMA flood disaster reimbursement.

(13) Wind Event

On July 10, 2009, the City of Cedar Falls experienced a storm with extreme winds of approximately 106 MPH. The extreme winds uprooted and sheared trees, blew over poles and lines, and slammed trees and branches into Electric Utility distribution facilities doing millions of dollars worth of damage. The Utility began immediate clean up and also began working with the Federal Emergency Management Agency (FEMA) for reconstruction and repair of severely damaged Utility distribution assets. As of December 31, 2009, the damaged assets have been temporarily repaired; however, they will be permanently repaired, restored, or replaced in the upcoming years. As of December 31, 2009, the Electric Utility has spent \$382,931 in operational expense for wind damage recovery and \$163,017 in asset repair and replacement. The Utility has recognized \$336,696 in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$115,041 in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2009, the Utility recognized a receivable of \$425,647 for FEMA wind storm disaster reimbursement.

(14) Commitments and Contingencies

The Utility has joint ownership interest in Walter Scott Energy Center Units 3 and 4, and the George Neal Generating Station Unit 4 (see note 8). Coal procurements are made by the agent for the joint owners on a system portfolio basis, which are a mix of 1, 2, and 3-year purchases to minimize risk. The Utility is obligated to purchase at least the annual amount of coal to operate the Utility's share at minimum load. The Utility's share of coal purchases for the years 2009 and 2008 were \$3,578,326 and \$4,512,966, respectively.

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

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(14) Commitments and Contingencies, Continued

In 2007, the Utility contracted with Miron Construction Co. Inc (Miron) as its General Contractor, to construct a baghouse for Streeter Station Generating Unit 6 (Unit 6) to capture particulate matter from this unit. The baghouse construction was completed and Unit 6 was returned to operation in June 2007, however, Unit 6 has only been able run at 8-12MW and has not attained its full capacity of 16.5 MW. When exceeding the 8-12 MW range, the bags in the baghouse become clogged, and the normal cleaning process is unable to keep up with the emission particles flowing through the baghouse and the Unit is shut down. Before and since the flood, the Utility continues to work with Miron to determine the root cause of the problem. However, formal arbitration measures have been invoked under the contract and Miron's performance bond carrier, CAN, is noticed and involved.

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

Since the baghouse has not performed as designed and therefore has not achieved substantial completion, the Utility has withheld progress payments to Miron. Miron has disputed this position. The parties have executed an agreement to toll statutes of limitations and allow remediation studies by Miron. If remediation efforts are not successful, arbitration will proceed.

As of December 31, 2009, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$3,115,000 including approximately \$623,000 in flood-related capital projects and \$45,000 in wind storm-related capital projects.

(15) Subsequent Events

Effective January 1, 2010, the Board of Trustees approved a general electric rate increase. The average rate increase is approximately 6.0% for all customer classes.

Municipal Electric, Gas, Water, and Communications Utilities  
of the City of Cedar Falls, Iowa  
Supplemental Information  
December 31, 2009 and 2008

Schedule of Funding Progress for the Other  
Post Employment Benefits Plan

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>AAL<br>(UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage<br>of Covered<br>Payroll |
|--------------------------------|---------------------------------|--|---------------------------|-----------------|--------------------|--|
| January 1, 2009                | \$ -                            | \$2,967,000                                | \$2,967,000               | 0.0%            | \$11,587,064       | 25.6%  |
| January 1, 2007                | \$ -                            | \$3,436,000                                | \$3,436,000               | 0.0%            | \$11,162,424       | 30.8%  |



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

To the Board of Trustees  
Cedar Falls Utilities – Municipal Electric Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Electric Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated March 29, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the Schedule of Findings and Questioned Costs, which has been submitted under separate cover. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We noted certain matters that we reported to management of the Utility in a separate letter dated March 29, 2010.

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

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

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

Dubuque, Iowa  
March 29, 2010



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Cedar Falls Utilities – Municipal Gas Utility

We have audited the accompanying balance sheets of the Municipal Gas Utility of Cedar Falls, Iowa, (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2010, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress for the Other Postemployment Benefits Plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

March 29, 2010  
Dubuque, Iowa

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

The following discussion and analysis of the Municipal Gas Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2009, 2008 and 2007. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

- The Utility's net assets increased as a result of operating income and non-operating revenues in 2009 and 2008. At December 31, 2009 and 2008, total assets were \$23,827,603 and \$23,023,361, respectively, and total liabilities were \$2,803,390 and \$3,404,678, respectively, resulting in net assets of \$21,024,213 and \$19,618,683, respectively.
- The Utility's net assets increased as a result of operating income and non-operating revenues in 2008 and 2007. At December 31, 2008 and 2007, total assets were \$23,023,361 and \$20,774,671, respectively, and total liabilities were \$3,404,678 and \$3,473,006, respectively, resulting in net assets of \$19,618,683 and \$17,301,665, respectively.
- In 2009 operating revenues decreased over 2008 by 27.4% to \$15,048,764 and operating expenses decreased over 2008 by 25.1% to \$14,277,451. In 2008 operating revenues were \$20,739,508 while operating expenses were \$19,065,793.
- In 2008 operating revenues increased over 2007 by 18.5% to \$20,739,508 while operating expenses increased over 2007 by 9.6% to \$19,065,793. In 2007 operating revenues were \$17,507,949 while operating expenses were \$17,398,757.
- In 2009, the Utility had net operating income of \$771,313 compared to net operating income of \$1,673,715 in 2008.
- In 2008, the Utility had net operating income of \$1,673,715 compared to net operating income of \$109,191 in 2007.
- On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, regulators, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. Additional detail on the 2008 Flood Event can be found in Note 11.

Overview of the Financial Statements

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

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

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

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

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

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

**Condensed Financial Information**

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

**Condensed Balance Sheet Information**

|  | <u>2009</u>         | <u>2008</u>         | <u>2007</u>         |
|--|---------------------|---------------------|---------------------|
| Current assets                                     | \$11,696,663        | \$11,163,943        | \$ 9,315,035        |
| Capital assets, net                                | 11,855,970          | 11,747,450          | 11,434,658          |
| Other noncurrent assets                            | 274,970             | 111,968             | 24,978              |
| Total assets                                       | <u>\$23,827,603</u> | <u>\$23,023,361</u> | <u>\$20,774,671</u> |
| Current liabilities                                | \$ 2,326,265        | \$ 2,996,533        | \$ 3,114,049        |
| Noncurrent liabilities                             | 477,125             | 408,145             | 358,957             |
| Total liabilities                                  | <u>\$ 2,803,390</u> | <u>\$ 3,404,678</u> | <u>\$ 3,473,006</u> |
| Invested in capital assets,<br>net of related debt | \$11,855,970        | \$11,747,450        | \$11,034,983        |
| Restricted   | 251,963             | 295,675             | 203,000             |
| Unrestricted                                       | 8,916,280           | 7,575,558           | 6,063,682           |
| Total net assets                                   | <u>\$21,024,213</u> | <u>\$19,618,683</u> | <u>\$17,301,665</u> |

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

Condensed Revenues, Expenses and Changes in Net Assets

|   | 2009                | 2008                | 2007                |
|---|---------------------|---------------------|---------------------|
| Sales of gas                            | \$14,966,948        | \$20,415,953        | \$17,471,805        |
| Other                                   | 81,816              | 323,555             | 36,144              |
| Total operating revenues                | <u>15,048,764</u>   | <u>20,739,508</u>   | <u>17,507,949</u>   |
| Natural gas purchased for resale        | 9,986,088           | 14,853,389          | 13,501,541          |
| Operation and maintenance               | 1,156,526           | 1,059,681           | 1,150,142           |
| Depreciation                            | 697,521             | 692,695             | 663,899             |
| Service and administrative              | 2,437,316           | 2,460,028           | 2,083,175           |
| Total operating expenses                | <u>14,277,451</u>   | <u>19,065,793</u>   | <u>17,398,757</u>   |
| Operating Income                        | <u>771,313</u>      | <u>1,673,715</u>    | <u>109,192</u>      |
| Interest income                         | 23,062              | 191,345             | 320,569             |
| Other, net                              | 611,155             | 451,958             | 303,514             |
| Total non-operating revenues (expenses) | <u>634,217</u>      | <u>643,303</u>      | <u>624,083</u>      |
| Change in net assets                    | 1,405,530           | 2,317,018           | 733,275             |
| Net assets, beginning of year           | <u>19,618,683</u>   | <u>17,301,665</u>   | <u>16,568,390</u>   |
| Net assets, end of year                 | <u>\$21,024,213</u> | <u>\$19,618,683</u> | <u>\$17,301,665</u> |

Financial Analysis

Current assets increased 4.8% in 2009. Cash and investments - unrestricted increased by 29.1%, \$1,939,739. Receivables decreased by 34.0%, \$1,360,062, primarily due to a decrease in Customer accounts receivable, less allowance for doubtful accounts, of \$1,123,469 and a decrease in Government grants receivable for FEMA assistance of \$260,383 offset by an increase of loans receivable of \$22,308 issued for customer energy efficiency initiatives.

Current assets increased 19.8% in 2008. Receivables increased by 22.8%, \$742,368, primarily due to an increase in Customer accounts receivable, less allowance for doubtful accounts, of \$247,526 and Government grants receivable for FEMA assistance for the flood disaster of \$569,908.

Current liabilities decreased 22.4% (\$670,268) in 2009 primarily as a result of a decrease in accounts payable of 25.1% (\$657,711).

Current liabilities decreased 3.8% (117,516) in 2008 primarily as a result of a decrease in current installments of long term debt of \$399,675 due to making the final payment on the 2005 Gas Refunding Capital Loan Notes, offset by an increase of \$255,621 in accounts payable.

Gas revenues decreased 27.4% in 2009 because of a decrease in Purchase Gas Adjustment (PGA) revenues. The average PGA decreased in 2009 to \$4.90 per MCF from \$8.74 per MCF during 2008, an average decrease of \$3.84 per MCF.

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

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

Natural gas purchased for resale expense decreased 32.8% in 2009 primarily due to the decrease in wholesale gas prices as reflected in the \$3.84 per MCF decrease in the average PGA from 2008.

Natural gas purchased for resale expense increased 10.0% in 2008 primarily due to the increase in retail gas usage of 13.0% and the increase in wholesale gas prices as reflected in the \$1.55 per MCF increase in the average PGA from 2007 to 2008.

Operation and maintenance expenses increased 9.1% in 2009. This increase is primarily attributable to an overall increase in meter and regulator installation and maintenance costs.

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

Service and Administrative expenses decreased by .9% from 2008 primarily due to flood expenses related to operations of \$21,358 for 2009 compared to \$395,791 for 2008. Also, uncollectible accounts expense decreased by \$32,015 in 2009. These decreases were offset by increases in the Utility's House Call energy efficiency program of \$128,087 in 2009 and an increase in employee benefits and pensions of \$112,187 in 2009.

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

Interest income decreased 87.9% in 2009 primarily due to a reduction in investments of \$550,000 due to very low interest rates and difficulty getting banks to bid on placement of the investments. Funds were deposited into money market accounts waiting a strengthening in the investment markets.

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

Other, net increased in 2009 by 35.2% primarily due to an increase of \$330,783 in miscellaneous non-operating income and \$251,680 increase in contributions in aid of construction-TIF (Tax Increment Financing funds received from the City of Cedar Falls, Iowa). These increases were offset by \$437,963 decrease in recognized FEMA grant revenue for the Utility's costs for restoring and/or replacing capital assets in 2009.

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

Capital Assets and Debt Administration

Net capital assets represent 49.8% of total assets for the Utility in 2009. Net capital assets increased .9% from the prior year primarily due to the completion of capital projects during 2009. In 2008, net capital assets represented 51.0% of total assets for the Utility. Net capital assets increased 2.7% during 2008 from 2007 primarily due to an increase in capital projects. Additional detail on the change in capital assets can be found in Note 4.

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

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

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

Balance Sheets  
December 31, 2009 and 2008

| <u>Assets</u>                                     | <u>2009</u>          | <u>2008</u>          |
|---|----------------------|----------------------|
| Capital assets: (note 4)                          |                      |                      |
| Capital assets, in service                        | \$ 19,808,964        | \$ 18,844,555        |
| Less accumulated depreciation                     | <u>8,184,326</u>     | <u>7,610,731</u>     |
|   | 11,624,638           | 11,233,824           |
| Construction work in progress                     | <u>231,332</u>       | <u>513,626</u>       |
| Net capital assets                                | <u>11,855,970</u>    | <u>11,747,450</u>    |
| Noncurrent assets:                                |                      |                      |
| Loans receivable                                  | <u>274,970</u>       | <u>111,968</u>       |
| Total noncurrent assets                           | <u>274,970</u>       | <u>111,968</u>       |
| Current assets:                                   |                      |                      |
| Cash and cash equivalents (note 3)                | 8,594,324            | 6,104,585            |
| Cash - Restricted (note 2 and 3)                  | 310,463              | 354,262              |
| Investments (note 3)                              | -                    | 550,000              |
| Receivables:                                      |                      |                      |
| Customer accounts, less allowance for doubtful    |                      |                      |
| accounts of \$21,631 in 2009 and \$35,150 in 2008 | 2,206,950            | 3,330,419            |
| Loans receivable                                  | 73,592               | 51,284               |
| Interest  | 301                  | 6,866                |
| Trade   | 30,549               | 3,924                |
| Government grants - FEMA (note 11)                | 309,525              | 569,908              |
| Other   | 17,388               | 35,966               |
| Inventories:                                      |                      |                      |
| Material and supplies                             | 120,519              | 123,625              |
| Prepayments and other                             | <u>33,052</u>        | <u>33,104</u>        |
| Total current assets                              | <u>11,696,663</u>    | <u>11,163,943</u>    |
| Total assets                                      | <u>\$ 23,827,603</u> | <u>\$ 23,023,361</u> |

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

Balance Sheets  
December 31, 2009 and 2008

| <u>Liabilities</u>                              | <u>2009</u>              | <u>2008</u>              |
|---|--------------------------|--------------------------|
| Current liabilities:                            |                          |                          |
| Accounts payable                                | \$ 1,962,302             | \$ 2,620,013             |
| Accrued wages and vacations                     | 238,894                  | 205,132                  |
| Other accrued expenses                          | 125,069                  | 171,388                  |
| Current installments of long-term debt (note 5) | -                        | -                        |
| Total current liabilities                       | <u>2,326,265</u>         | <u>2,996,533</u>         |
| Noncurrent liabilities: (note 5)                |                          |                          |
| Customer advances for construction              | 181,161                  | 175,641                  |
| Other liabilities (note 5 and 10)               | 295,964                  | 232,504                  |
| Total noncurrent liabilities                    | <u>477,125</u>           | <u>408,145</u>           |
| <br>Total liabilities                           | <br><u>2,803,390</u>     | <br><u>3,404,678</u>     |
| <br><u>Net Assets</u>                           |                          |                          |
| Invested in capital assets, net of related debt | 11,855,970               | 11,747,450               |
| Restricted                                      | 251,963                  | 295,675                  |
| Unrestricted                                    | 8,916,280                | 7,575,558                |
| Total net assets                                | <u>21,024,213</u>        | <u>19,618,683</u>        |
| <br>Total liabilities and net assets            | <br><u>\$ 23,827,603</u> | <br><u>\$ 23,023,361</u> |

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

Statements of Revenues, Expenses and Changes in Net Assets  
Years ended December 31, 2009 and 2008

|   | <u>2009</u>          | <u>2008</u>          |
|---|----------------------|----------------------|
| Operating revenues:                           |                      |                      |
| Sales of gas:                                 |                      |                      |
| Residential                                   | \$ 8,208,598         | \$ 11,262,766        |
| Industrial                                    | 1,699,007            | 2,515,372            |
| Commercial                                    | 3,580,705            | 5,211,604            |
| Governmental (note 8)                         | 1,165,554            | 1,295,445            |
| Interdepartmental                             | 313,084              | 130,766              |
| Total sales of gas                            | <u>14,966,948</u>    | <u>20,415,953</u>    |
| Other operating revenues                      | 81,816               | 323,555              |
| Total operating revenues                      | <u>15,048,764</u>    | <u>20,739,508</u>    |
| Operating expenses:                           |                      |                      |
| Production:                                   |                      |                      |
| Natural gas purchased for resale              | 9,986,088            | 14,853,389           |
| Other   | 1,341                | 2,000                |
| Distribution                                  | 1,155,185            | 1,057,681            |
| Depreciation                                  | 697,521              | 692,695              |
| Customer accounts                             | 406,161              | 421,629              |
| Customer service and information expenses     | 267,543              | 139,287              |
| Sales   | 10,111               | 10,950               |
| Administrative and general (note 8)           | 1,614,087            | 1,752,217            |
| Taxes other than income taxes                 | 139,414              | 135,945              |
| Total operating expenses                      | <u>14,277,451</u>    | <u>19,065,793</u>    |
| Operating income                              | <u>771,313</u>       | <u>1,673,715</u>     |
| Non-operating revenues (expenses):            |                      |                      |
| Interest income                               | 23,062               | 191,345              |
| Miscellaneous revenue (expense), net (note 8) | 543,291              | (47,751)             |
| Intergovernmental grant funds (note 11)       | 67,864               | 505,827              |
| Interest expense on long-term debt            | -                    | (6,118)              |
| Total non-operating revenues (expenses)       | <u>634,217</u>       | <u>643,303</u>       |
| Change in net assets                          | 1,405,530            | 2,317,018            |
| Net assets, beginning of year                 | <u>19,618,683</u>    | <u>17,301,665</u>    |
| Net assets, end of year                       | <u>\$ 21,024,213</u> | <u>\$ 19,618,683</u> |

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

Statements of Cash Flows  
Years ended December 2009 and 2008

|   | <u>2009</u>   | <u>2008</u>   |
|---|---------------|---------------|
| Cash received from customers                                    | \$ 16,741,613 | \$ 19,543,128 |
| Intergovernmental grants  | 67,864        | 277,309       |
| Cash paid to suppliers  | (13,031,669)  | (16,896,510)  |
| Cash paid to employees  | (1,185,298)   | (1,137,873)   |
|   | 2,592,510     | 1,786,054     |
| Net cash provided by operating activities                       |               |               |
| <br>Cash flows from capital and related financing activities:   |               |               |
| Principal payments on long-term debt                            | -             | (400,000)     |
| Interest paid   | -             | (12,000)      |
| Proceeds from customer advances for construction                | 26,340        | 32,700        |
| Refunds of customer advances for construction                   | (20,820)      | (34,325)      |
| Acquisition, construction<br>and removal cost of capital assets | (813,438)     | (1,098,998)   |
| Proceeds from sale of capital assets                            | 936           | -             |
| Reimbursement of utility construction costs                     | 12,921        | 102,819       |
| Intergovernmental grants  | 67,864        | 505,827       |
|   | (726,197)     | (903,977)     |
| Net cash used in capital and related<br>financing activities    |               |               |
| <br>Cash flows from investing activities:                       |               |               |
| Proceeds from maturities of investment securities               | 550,000       | 3,765,000     |
| Purchase of investment securities                               | -             | (2,430,000)   |
| Interest received   | 29,627        | 230,603       |
|   | 579,627       | 1,565,603     |
| Net cash provided by investing activities                       |               |               |
| Net increase (decrease) in cash and cash equivalents            | 2,445,940     | 2,447,680     |
| Cash and cash equivalents, beginning of year                    | 6,458,847     | 4,011,167     |
| Cash and cash equivalents, end of year (note 1)                 | \$ 8,904,787  | \$ 6,458,847  |

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued  
Years ended December 2009 and 2008

|   | <u>2009</u>         | <u>2008</u>         |
|---|---------------------|---------------------|
| Reconciliation of operating income to net cash provided by operating activities         |                     |                     |
| Operating income  | \$ 771,313          | \$ 1,673,715        |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                     |                     |
| Depreciation of capital assets  | 697,521             | 692,695             |
| Other Income (expense), net   | 536,831             | (55,664)            |
| (Increase) decrease in accounts receivable  | 1,096,844           | (216,829)           |
| (Increase) decrease in loans receivable   | (185,310)           | (84,352)            |
| (Increase) decrease in intergovernmental grants   | 260,383             | (569,908)           |
| (Increase) decrease in inventory  | 3,106               | 9,671               |
| (Increase) decrease in prepayments and other  | 18,630              | (3,531)             |
| Increase (decrease) in accounts payable   | (657,711)           | 255,621             |
| Increase (decrease) in accrued wages and vacation                                       | 33,762              | 1,577               |
| Increase (decrease) in accrued expenses   | (46,319)            | 30,961              |
| Increase (decrease) in other liabilities  | <u>63,460</u>       | <u>52,098</u>       |
| Net cash provided by operating activities   | <u>\$ 2,592,510</u> | <u>\$ 1,786,054</u> |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

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

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

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

(b) Capital Assets and Depreciation

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

The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 15 to 65 years, buildings and improvements - 30 to 45 years, and equipment - 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 3.6% of depreciable assets for 2009 and 3.6% for 2008.

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

(c) Cash and Investments

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

The Utility considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2009 and 2008 were \$2,300,000 and \$500,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

(d) Inventories

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies, Continued

(e) Natural Gas Commodity Purchases

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

(f) Operating Revenues and Expenses

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

Revenues from the sale of gas are based on billing rates, which are applied to customers' consumption of gas. The Utility records estimated unbilled revenue, including amounts to be billed under a purchased gas adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2009 and 2008 were \$1,546,766 and \$1,863,177, respectively, and are recorded in customer accounts receivable. The Utility uses a purchased gas adjustment clause whereby increases and decreases in fuel costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

(g) Debt Discount and Bond Issue Costs

Unamortized bond issue costs are amortized over the life of the bonds using the same percentage as the principal paid in a given year is to the total debt issued by issue.

(h) Net Assets

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

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

(i) Reclassifications

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

(j) Estimates

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies, Continued

(k) Budgetary Information

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

Formal and legal budgetary control is based on the total of all four utilities as a whole. During the year 2009 there were no budget amendments.

(2) Restricted Assets

The composition of restricted assets as of December 31, 2009 and 2008 was as follows:

|                                   | 2009              |             |                   |
|-----------------------------------|-------------------|-------------|-------------------|
|                                   | Cash              | Investments | Total             |
| Current Assets - Restricted       |                   |             |                   |
| Self Insured Medical and Dental   | \$ 310,463        | \$ -        | \$ 310,463        |
| Total Current Assets - Restricted | 310,463           | -           | 310,463           |
| <br>                              |                   |             |                   |
| Total restricted assets           | <u>\$ 310,463</u> | <u>\$ -</u> | <u>\$ 310,463</u> |
|                                   |                   |             |                   |
|                                   | 2008              |             |                   |
|                                   | Cash              | Investments | Total             |
| Current Assets - Restricted       |                   |             |                   |
| Self Insured Medical and Dental   | \$ 354,262        | \$ -        | \$ 354,262        |
| Total Current Assets - Restricted | 354,262           | -           | 354,262           |
| <br>                              |                   |             |                   |
| Total restricted assets           | <u>\$ 354,262</u> | <u>\$ -</u> | <u>\$ 354,262</u> |

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

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2009 and 2008 was \$100, respectively.

Deposits

At December 31, 2009, the Utility's carrying amount of deposits, including \$3,250,000 of money market accounts, was \$6,604,587. At December 31, 2008, the Utility's carrying amount of deposits, including \$550,000 of certificates of deposits, was \$6,508,747.

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

Notes to Financial Statements  
December 31, 2009 and 2008

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

Investments

The utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of December 31, 2009 and 2008, the Utility had no Federal Agency Obligation investments or maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,300,000 and \$500,000 at December 31, 2009 and 2008, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Custodial Credit Risk - Investments

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

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

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

|  | 2009         | 2008         |
|--|--------------|--------------|
| Cash on hand   | \$ 100       | \$ 100       |
| Carrying amount of deposits                            | 6,604,587    | 6,508,747    |
| Carrying amount of Iowa Public Agency Investment Trust | 2,300,000    | 500,000      |
| Total  | \$ 8,904,687 | \$ 7,008,847 |

|                           | 2009         | 2008         |
|---------------------------|--------------|--------------|
| Current Assets            |              |              |
| Cash and cash equivalents | \$ 8,594,224 | \$ 6,104,585 |
| Investments               | -            | 550,000      |
| Restricted Cash           | 310,463      | 354,262      |
| Total                     | \$ 8,904,687 | \$ 7,008,847 |

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

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2009 and 2008 follows:

|  | 2009 | Beginning Balance | Additions and Transfers In | Deletions and Transfers Out | Ending Balance |
|--|------|-------------------|----------------------------|-----------------------------|----------------|
| Capital Assets, not being depreciated:       |      |                   |                            |                             |                |
| Land   |      | \$ 41,350         | \$ -                       | \$ -                        | \$ 41,350      |
| Construction, Work-in-progress               |      | 513,626           | 797,563                    | 1,079,857                   | 231,332        |
| Total capital assets, not being depreciated  |      | 554,976           | 797,563                    | 1,079,857                   | 272,682        |
| Capital assets, being depreciated:           |      |                   |                            |                             |                |
| Infrastructure                               |      | 16,867,021        | 351,432                    | 71,602                      | 17,146,851     |
| Buildings and improvements                   |      | 1,269,118         | 707,937                    | 34,146                      | 1,942,909      |
| Equipment                                    |      | 667,066           | 20,487                     | 9,699                       | 677,854        |
| Total capital assets, being depreciated      |      | 18,803,205        | 1,079,856                  | 115,447                     | 19,767,614     |
| Less accumulated depreciation                |      | 7,610,731         | 698,677                    | 125,082                     | 8,184,326      |
| Total capital assets, being depreciated, net |      | 11,192,474        | 381,179                    | (9,635)                     | 11,583,288     |
| Capital assets, net                          |      | \$11,747,450      | \$1,178,742                | \$1,070,222                 | \$11,855,970   |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(4) Capital Assets, Continued

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

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2009 and 2008 was as follows:

| 2009                               | Beginning<br>Balance | Additions  | Reductions | Ending<br>Balance |
|------------------------------------|----------------------|------------|------------|-------------------|
| Customer advances for construction | \$ 175,641           | \$ 29,808  | \$ 24,288  | \$ 181,161        |
| Other liabilities                  | 232,504              | 97,381     | 33,921     | 295,964           |
| Other current liabilities          | 408,145              | 127,189    | 58,209     | 477,125           |
| Total noncurrent liabilities       | \$ 408,145           | \$ 127,189 | \$ 58,209  | \$ 477,125        |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(5) Noncurrent Liabilities, Continued

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

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

(6) Pension and Retirement Benefits

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

Plan members were required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll through June 30, 2009. Beginning July 1, 2009 plan members are required to contribute 4.30% of their annual covered salary and the Utility is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2009, 2008, and 2007 were \$128,938; \$119,626; and \$111,999; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit will be phased out by June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it will be reduced to 50% and zero thereafter. The Utility recognized liability of \$29,060 and \$33,415, respectively, for the years ended December 31, 2009 and 2008.

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

Notes to Financial Statements  
December 31, 2009 and 2008

(7) Income Tax Status

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

(8) Related Party Transactions

The Utility provides gas service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$115,317 and \$147,481 in 2009 and 2008, respectively.

For the years ended December 31, 2009 and 2008, the Utility earned a management fee of \$21,424 from the Municipal Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous nonoperating revenue.

(9) Risk Management

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2009 plan year for aggregate claims exceeding \$2.2 million. Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

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

|   | 2009        | 2008        |
|---|-------------|-------------|
| Unpaid Claims and IBNR, beginning of year | \$ 293,600  | \$ 185,000  |
| Current year costs including IBNR         | 2,725,783   | 1,544,287   |
| Claims Paid                               | (2,694,383) | (1,435,687) |
| Unpaid Claims and IBNR, end of year       | \$ 325,000  | \$ 293,600  |

The Utility has recorded \$58,500 and \$52,848 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2009 and 2008, respectively.

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

(9) Risk Management, Continued

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2009.

|   |                     |
|---|---------------------|
| Cash and cash equivalents and investments | \$46,324,489        |
| Receivables                               | 1,857,808           |
| Other assets                              | 826,016             |
| Total assets                              | <u>\$49,008,313</u> |
| Total liabilities                         | \$22,626,518        |
| Total equity                              | <u>26,381,795</u>   |
| Total liabilities and equity              | <u>\$49,008,313</u> |
| Total revenues                            | \$ 6,163,033        |
| Total expenses                            | 3,623,619           |
| Distribution to members                   | -                   |
| Net increase in equity                    | <u>\$ 2,539,414</u> |

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

(10) Other Post Employment Benefits (OPEB)

Plan Description

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

Funding Policy

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2009, the Utilities contributed \$155,722 and retirees receiving benefits contributed \$138,682 through their required contributions.

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

Notes to Financial Statements  
December 31, 2009 and 2008

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

Annual OPEB and Net OPEB Obligations

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

|  | 2009       |
|--|------------|
| Annual required contribution               | \$ 302,004 |
| Interest on Net OPEB Obligation            | -          |
| Adjustment to annual required contribution | -          |
| Annual OPEB expense                        | 302,004    |
| Contributions and payments made            | 17,040     |
| Increase in net OPEB obligation            | \$ 284,964 |
| Net OPEB obligation, December 31, 2008     | 301,799    |
| Net OPEB obligation, December 31, 2009     | \$ 586,763 |

The Gas Utility's share of the December 31, 2009 Net OPEB obligation is \$109,320.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the year ended December 31, 2009 and 2008:

| <u>Fiscal Year Ended</u> | <u>Annual<br/>OPEB Cost</u> | <u>Percentage<br/>Of Annual<br/>OPEB Cost<br/>Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|--------------------------|-----------------------------|---|--------------------------------|
| December 31, 2009        | \$ 302,004                  | 5.64%   | \$ 586,763                     |
| December 31, 2008        | \$ 289,428                  | -4.27%  | \$ 301,799                     |

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$2,967,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$11,587,064, in 2009 and the ratio of the UAAL to the covered payroll was 25.6%.

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Notes to Financial Statements  
December 31, 2009 and 2008

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

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

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

Significant methods and assumptions were as follows:

|                                |                                       |
|--------------------------------|---------------------------------------|
| Actuarial valuation date:      | January 1, 2009                       |
| Actuarial cost method:         | Projected Unit Credit                 |
| Amortization method:           | Level Percentage Of Projected Payroll |
| Remaining amortization period: | 30 years                              |
| Actuarial assumptions:         |                                       |
| Discount Rate                  | 5.0%                                  |
| Healthcare Trend Rate          | 11.0% declining .5% annually to 6%    |
| Projected Salary Increases     | 4.0%                                  |

(11) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, regulators, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation. As of December 31, 2009, Utility facilities and were repaired and operational. As of December 31, 2009 and 2008, the Gas Utility has spent \$16,289 and \$395,791, respectively, in operational expense for flood recovery and \$261,468 and \$616,207, respectively, in asset repair and replacement. As of December 31, 2009 and 2008, The Utility has recognized \$46,058 and \$277,309, respectively, in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$67,864 and \$505,827, respectively, in Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2009 and 2008, the Utility recognized a receivable of \$306,227 and \$569,908, respectively, for FEMA flood disaster reimbursement.

(12) Commitments and Contingencies

The Utility has a natural gas transportation contract with a pipeline, which expires in 2022. Total payments include transportation charges and commodity charges. Minimum transportation payments for 2010 are expected to be approximately \$591,218 at current rates.

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

Notes to Financial Statements  
December 31, 2009 and 2008

(12) Commitments and Contingencies, Continued

The Utility is a member of the Central Plains Energy Project. This organization was created in 2006 to accomplish the members' joint and cooperative action with respect to the acquisition, transportation, storage, management and related services and functions which are necessary to provide the members secure, reliable, and economic supplies of natural gas. This membership allows the Utility to purchase a fixed amount of gas for 30 years at a discount from market prices.

As of December 31, 2009, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$66,000.

(13) Subsequent Events

Effective January 1, 2010, the Board of Trustees approved a general gas rate increase. The average rate increase is approximately 3.0% for all customer classes.

Municipal Electric, Gas, Water, and Communications Utilities  
of the City of Cedar Falls, Iowa  
Supplemental Information  
December 31, 2009 and 2008

Schedule of Funding Progress for the Other  
Post Employment Benefits Plan

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>AAL<br>(UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage<br>of Covered<br>Payroll |
|--------------------------------|---------------------------------|--|---------------------------|-----------------|--------------------|--|
| January 1, 2009                | \$ -                            | \$2,967,000                                | \$2,967,000               | 0.0%            | \$11,587,064       | 25.6%  |
| January 1, 2007                | \$ -                            | \$3,436,000                                | \$3,436,000               | 0.0%            | \$11,162,424       | 30.8%  |



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

To the Board of Trustees  
Cedar Falls Utilities – Municipal Gas Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Gas Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated March 29, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the Schedule of Findings and Questioned Costs, which has been submitted under separate cover. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We noted certain matters that we reported to management of the Utility in a separate letter dated March 29, 2010.

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

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

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

Dubuque, Iowa  
March 29, 2010



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Cedar Falls Utilities – Municipal Water Utility

We have audited the accompanying balance sheets of the Municipal Water Utility of Cedar Falls, Iowa, (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2010, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress for the Other Postemployment Benefits Plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

March 29, 2010  
Dubuque, Iowa

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

The following discussion and analysis of the Municipal Water Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the year ended December 31, 2009, 2008 and 2007. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

- The Utility's net assets increased in 2009 as a result of non-operating revenues of contributions in aid of construction and FEMA reimbursements for flood related capital projects. At December 31, 2009 and 2008, total assets were \$22,236,340 and \$21,323,118, respectively, and total liabilities were \$483,725 and \$695,640, respectively, resulting in net assets of \$21,752,615 and \$20,627,478, respectively.
- The Utility's net assets increased in 2008 as a result of non-operating revenues of contributions in aid of construction and FEMA reimbursements for flood related capital projects. At December 31, 2008 and 2007, total assets were \$21,323,118 and \$20,042,250, respectively, and total liabilities were \$695,640 and \$820,411, respectively, resulting in net assets of \$20,627,478 and \$19,221,839, respectively.
- A water rate increase of approximately 9.0% for all customer classes was effective in January of 2009.
- A water rate increase of approximately 10.8% for all customer classes was effective in January of 2008.
- In 2009, operating revenues increased by 9.3% from 2008 at \$2,884,842 while operating expenses increased 8.5% over 2008 to \$2,834,898. The 2009 increase in operating revenues is due to the 2009 rate increase and increased usage over 2008.
- In 2008, operating revenues increased by 15.0% from 2007 at \$2,640,322 while operating expenses increased 6.8% over 2007 to \$2,612,460. The 2008 increase in operating revenues is due to the 2008 rate increase and \$123,249 in FEMA reimbursement revenue for operation related flood expenses, which is 35.8% of the increase in operating revenue.
- In 2009, the Utility had operating income of \$49,944 compared to operating income of \$27,862 in 2008.
- In 2008, the Utility had operating income of \$27,862 compared to an operating loss of \$149,688 in 2007.
- On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, well equipment, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. Additional detail on the 2008 Flood Event can be found in Note 11.

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

Overview of the Financial Statements

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

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

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

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

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

Condensed Financial Information

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

Condensed Balance Sheet Information

|  | 2009                | 2008                | 2007                |
|--|---------------------|---------------------|---------------------|
| Current assets                                     | \$ 3,751,461        | \$ 3,664,621        | \$ 4,007,948        |
| Capital assets, net                                | 18,461,294          | 17,633,905          | 16,034,302          |
| Other noncurrent assets                            | 23,585              | 24,592              | -                   |
| Total assets                                       | <u>\$22,236,340</u> | <u>\$21,323,118</u> | <u>\$20,042,250</u> |
| Current liabilities                                | \$ 326,554          | \$ 576,541          | \$ 739,598          |
| Noncurrent liabilities                             | 157,171             | 119,099             | 80,813              |
| Total liabilities                                  | <u>\$ 483,725</u>   | <u>\$ 695,640</u>   | <u>\$ 820,411</u>   |
| Invested in capital assets,<br>net of related debt | \$18,461,295        | \$17,633,905        | \$16,034,302        |
| Restricted   | 97,807              | 136,806             | -                   |
| Unrestricted                                       | 3,193,513           | 2,856,767           | 3,187,537           |
| Total net assets                                   | <u>\$21,752,615</u> | <u>\$20,627,478</u> | <u>\$19,221,839</u> |

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

Condensed Revenues, Expenses and Changes in Net Assets

|   | 2009                | 2008                | 2007                |
|---|---------------------|---------------------|---------------------|
| Sales of water                          | \$ 2,742,925        | \$ 2,403,114        | \$ 2,175,197        |
| Other                                   | 141,917             | 237,208             | 120,825             |
| Total operating revenues                | <u>2,884,842</u>    | <u>2,640,322</u>    | <u>2,296,022</u>    |
| System operation and maintenance        | 1,232,708           | 908,406             | 932,496             |
| Depreciation and amortization           | 505,120             | 534,789             | 494,712             |
| Service and administrative              | 1,097,070           | 1,169,265           | 1,018,502           |
| Total operating expenses                | <u>2,834,898</u>    | <u>2,612,460</u>    | <u>2,445,710</u>    |
| Operating income (loss)                 | <u>49,944</u>       | <u>27,862</u>       | <u>(149,688)</u>    |
| Interest income                         | 14,729              | 101,633             | 146,225             |
| Other, net                              | 269,032             | 589,743             | 383,589             |
| Total non-operating revenues (expenses) | <u>283,761</u>      | <u>691,376</u>      | <u>529,814</u>      |
| Income before capital contributions     | 333,705             | 719,238             | 380,126             |
| Capital contributions                   | 791,432             | 686,401             | 716,067             |
| Change in net assets                    | 1,125,137           | 1,405,639           | 1,096,193           |
| Net assets, beginning of year           | <u>20,627,478</u>   | <u>19,221,839</u>   | <u>18,125,646</u>   |
| Net assets, end of year                 | <u>\$21,752,615</u> | <u>\$20,627,478</u> | <u>\$19,221,839</u> |

Financial Analysis

Current assets increased 2.4% in 2009 primarily due an increase of \$202,987 in cash and investments - unrestricted offset by a decrease of \$121,336 in Government grants receivable for FEMA assistance.

Current assets decreased 8.6% in 2008 primarily due to the reduction in investments of \$1,622,500 in order to make cash available for flood expenses offset somewhat by an increase of \$246,162 in FEMA Grants Receivable and \$988,928 increase in cash.

Current liabilities decreased 43.4% in 2009 due to a 48.1% decrease in all accounts payable.

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

Noncurrent liabilities increased \$38,072 in 2009 primarily due to increased severance and retiree insurance liabilities.

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

System operation and maintenance expenses increased 35.7% in 2009 primarily due to a 42.5% increase in distribution operations and maintenance expenses, \$229,249, due to major street repairs done in cooperation with the City of Cedar Falls, Iowa.

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

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

Depreciation expense decreased 5.5% in 2009 due to completion of construction projects and a reallocation of expense resulting from a depreciation study completed in 2009.

Depreciation expense increased 8.1% in 2008 resulting from completion of construction projects.

Service and administrative expenses decreased 6.2% in 2009 primarily due to flood expenses related to operations of \$8,965 in 2009 and \$184,482 in 2008.

Service and administrative expenses increased 14.8% in 2008 primarily due to flood expenses related to operations of \$184,482.

Interest income decreased 85.5% in 2009 primarily due to a reduction in investments, very low interest rates, and difficulty getting banks to bid on placement of the investments. Funds were deposited into money market accounts waiting a strengthening in the investment markets.

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

Other, net revenues decreased in 2009 by 54.4% primarily due to a decrease of \$198,052 in recognized FEMA grant revenue for the Utility's costs of restoring and/or replacing capital assets.

Other, net revenues increased in 2008 by 53.7% primarily due to the Utility recognizing \$216,783 in FEMA grant revenue for the Utility's costs of restoring and/or replacing capital assets due to the 2008 flood event.

Noncash capital contributions increased 15.3% in 2009 due to increase in new developments requiring distribution extensions during the year.

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

Capital Assets and Debt Administration

Net capital assets represent 83.0 % of total assets for the Utility in 2009. Net capital assets increased 4.7% from 2008 primarily due to completion of capital projects in 2009. In 2008, net capital assets represented 82.7% of total assets for the Utility. Net capital assets increased 10.0% from 2007 primarily due to completion of capital projects. Additional detail on the change in capital assets can be found in Note 4.

The Utility had no outstanding debt as of December 31, 2009, 2008, or 2007.

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

Balance Sheets  
December 31, 2009 and 2008

| <u>Assets</u>   | <u>2009</u>              | <u>2008</u>              |
|---|--------------------------|--------------------------|
| Capital assets: (note 4)  |                          |                          |
| Capital assets, in service  | \$ 25,460,674            | \$ 23,662,594            |
| Less accumulated depreciation   | <u>7,570,634</u>         | <u>7,187,386</u>         |
|   | 17,890,040               | 16,475,208               |
| Construction work in progress   | <u>571,254</u>           | <u>1,158,697</u>         |
| Net capital assets  | <u>18,461,294</u>        | <u>17,633,905</u>        |
| Noncurrent assets:  |                          |                          |
| Loans Receivable  | <u>23,585</u>            | <u>24,592</u>            |
| Total noncurrent investments  | <u>23,585</u>            | <u>24,592</u>            |
| Current assets:   |                          |                          |
| Cash and cash equivalents (note 2)  | 2,971,828                | 1,798,841                |
| Cash - Restricted (note 2 and 3)  | 123,807                  | 160,294                  |
| Unrestricted investments: (note 2)  | -                        | 970,000                  |
| Receivables:  |                          |                          |
| Customer accounts, less allowance for doubtful<br>accounts of \$3,221 in 2009 and \$3,600 in 2008 | 397,482                  | 335,831                  |
| Loans receivable  | 10,551                   | 8,295                    |
| Government grants - FEMA (note 11)  | 124,826                  | 246,162                  |
| Other   | 7,941                    | 9,765                    |
| Interest  | 193                      | 15,332                   |
| Material and supplies   | 96,589                   | 97,676                   |
| Prepayments and other   | <u>18,244</u>            | <u>22,425</u>            |
| Total current assets  | <u>3,751,461</u>         | <u>3,664,621</u>         |
| <br>Total assets  | <br><u>\$ 22,236,340</u> | <br><u>\$ 21,323,118</u> |



MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Revenues, Expenses and Changes in Net Assets  
Years ended December 31, 2009 and 2008

|  | <u>2009</u>   | <u>2008</u>   |
|--|---------------|---------------|
| Operating revenues:                                      |               |               |
| Sales of water:  |               |               |
| Residential  | \$ 1,827,851  | \$ 1,722,353  |
| Industrial   | 37,712        | 37,340        |
| Commercial   | 499,585       | 460,946       |
| Governmental (note 8)                                    | 191,702       | 151,889       |
| Interdepartmental  | 186,075       | 30,586        |
| Total sales of water                                     | 2,742,925     | 2,403,114     |
| Other operating revenues                                 | 141,917       | 237,208       |
| Total operating revenues                                 | 2,884,842     | 2,640,322     |
| <br>Operating expenses                                   |               |               |
| Production:  |               |               |
| Purchased power from affiliated utility                  | 139,557       | 132,519       |
| Other  | 325,027       | 237,012       |
| Distribution   | 768,124       | 538,875       |
| Depreciation   | 505,120       | 534,789       |
| Customer accounts  | 210,796       | 202,437       |
| Customer service and information expenses                | 33,970        | 25,679        |
| Sales  | 4,518         | 8,576         |
| Administrative and general                               | 774,862       | 860,012       |
| Taxes other than income taxes                            | 72,924        | 72,561        |
| Total operating expenses                                 | 2,834,898     | 2,612,460     |
| <br>Operating income (loss)                              | 49,944        | 27,862        |
| <br>Non-operating revenues (expenses):                   |               |               |
| Interest income  | 14,729        | 101,633       |
| Net increase (decrease) in the fair value of investments | -             | 7,500         |
| Miscellaneous revenue (expense), net (note 8)            | 250,301       | 365,460       |
| Intergovernmental grant funds (note 11)                  | 18,731        | 216,783       |
| Total non-operating revenues (expenses)                  | 283,761       | 691,376       |
| <br>Income before contributions                          | 333,705       | 719,238       |
| <br>Noncash Capital contributions                        | 791,432       | 686,401       |
| <br>Change in net assets                                 | 1,125,137     | 1,405,639     |
| <br>Net assets, beginning of year                        | 20,627,478    | 19,221,839    |
| <br>Net assets, end of year                              | \$ 21,752,615 | \$ 20,627,478 |

See accompanying notes to financial statements.

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

Statements of Cash Flows  
Years ended December 31, 2009 and 2008

|  | <u>2009</u>         | <u>2008</u>         |
|--|---------------------|---------------------|
| Cash flows from operating activities:                        |                     |                     |
| Cash received from customers                                 | \$ 3,137,799        | \$ 2,450,738        |
| Intergovernmental grants                                     | 22,466              | 123,249             |
| Cash paid to suppliers                                       | (1,882,815)         | (1,641,955)         |
| Cash paid to employees                                       | (629,882)           | (573,265)           |
|  | <u>647,568</u>      | <u>358,767</u>      |
| Net cash provided by operating activities                    |                     |                     |
|  |                     |                     |
| Cash flows from capital and related financing activities:    |                     |                     |
| Refunds of customer advances for construction                | (26,100)            | (3,849)             |
| Acquisition, construction and removal cost of capital assets | (593,772)           | (1,527,350)         |
| Proceeds from sale of capital assets                         | 5,257               | 11,949              |
| Reimbursement of utility construction costs                  | 84,948              | 199,333             |
| Intergovernmental grants                                     | 18,731              | 216,783             |
|  | <u>(510,936)</u>    | <u>(1,103,134)</u>  |
| Net cash used in capital and related financing activities    |                     |                     |
|  |                     |                     |
| Cash flows from investing activities:                        |                     |                     |
| Proceeds from maturities of investment securities            | 970,000             | 4,800,000           |
| Purchase of investment securities                            | -                   | (3,170,000)         |
| Interest received  | 29,868              | 130,870             |
|  | <u>999,868</u>      | <u>1,760,870</u>    |
| Net cash provided by investing activities                    |                     |                     |
|  |                     |                     |
| Net increase in cash and cash equivalents                    | 1,136,500           | 1,016,503           |
| Cash and cash equivalents, beginning of year                 | 1,959,135           | 942,632             |
|  | <u>\$ 3,095,635</u> | <u>\$ 1,959,135</u> |
| Cash and cash equivalents, end of year (note 1)              |                     |                     |

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued  
Years ended December 31, 2009 and 2008

|   | <u>2009</u>       | <u>2008</u>       |
|---|-------------------|-------------------|
| Reconciliation of operating loss to net cash provided by operating activities         |                   |                   |
| Operating loss  | \$ 49,944         | \$ 27,862         |
| Adjustments to reconcile operating loss to net cash provided by operating activities: |                   |                   |
| Depreciation of capital assets  | 505,120           | 534,789           |
| Other Income (expense), net   | 212,791           | 233,537           |
| (Increase) decrease in accounts receivable  | (61,651)          | (28,604)          |
| (Increase) decrease in loans receivable   | (1,249)           | (32,887)          |
| (Increase) decrease in intergovenrmental grants                                       | 121,336           | (246,162)         |
| (Increase) decrease in materials and supplies   | 1,087             | (3,185)           |
| (Increase) decrease in prepayments and other  | 6,005             | (5,661)           |
| Increase (decrease) in accounts payable   | (192,578)         | (152,711)         |
| Increase (decrease) in accrued wages and vacation                                     | (8,075)           | 20,928            |
| Increase (decrease) in other accrued expenses   | (23,234)          | (27,425)          |
| Increase (decrease) in other liabilities  | <u>38,072</u>     | <u>38,286</u>     |
| Net cash provided by operating activities   | <u>\$ 647,568</u> | <u>\$ 358,767</u> |
| Noncash investing, capital and financing activities:                                  |                   |                   |
| Contributions from contractors in aid of construction                                 | <u>\$ 791,432</u> | <u>\$ 686,401</u> |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

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

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

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

(b) Capital Assets and Depreciation

Capital assets are stated at original cost. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets.

The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 20 to 70 years, buildings and improvements - 30 to 45 years, and equipment - 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 2.0% of depreciable assets for 2009 and 2.3% 2008.

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

(c) Cash and Investments

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

The Utility considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2009 and 2008 were \$1,470,000 and \$250,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

(d) Inventories

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies, Continued

(e) Operating Revenues and Expenses

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

Revenues from the sale of water are based on billing rates, which are applied to customers' consumption of water. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed as of December 31, 2009 and 2008, were \$105,366 and \$111,529, respectively, and are recorded in customer accounts receivable.

(f) Capital Contributions

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

(g) Net Assets

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

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

(h) Estimates

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

(i) Reclassifications

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

(j) Budgetary Information

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

Formal and legal budgetary control is based on the total of all four utilities as a whole. During the year there were no budget amendments.

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

Notes to Financial Statements  
December 31, 2009 and 2008

(2) Restricted Assets

The composition of restricted assets as of December 31, 2009 and 2008 was as follows:

| Current Assets - Restricted       | 2009           |             | Total          |
|-----------------------------------|----------------|-------------|----------------|
|                                   | Cash           | Investments |                |
| Self Insured Medical and Dental   | \$ 123,807     | \$ -        | \$ 123,807     |
| Total Current Assets - Restricted | 123,807        | -           | 123,807        |
| <br>Total restricted assets       | <br>\$ 123,807 | <br>\$ -    | <br>\$ 123,807 |

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

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

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2009 was \$45 and 2008 was \$45.

Deposits

At December 31, 2009, the Utility's carrying amount of deposits, including \$700,000 of money market accounts, was \$1,625,590. At December 31, 2008, the Utility's carrying amount of deposits, including \$970,000 of certificates of deposits, was \$2,679,090.

Investments

The utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of December 31, 2009 and 2008, the Utility had no Federal Agency Obligation investments or maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,470,000 and \$250,000 at December 31, 2009 and 2008, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Notes to Financial Statements  
December 31, 2009 and 2008

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

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Custodial Credit Risk - Investments

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

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

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

|  | 2009         | 2008         |
|--|--------------|--------------|
| Cash on hand   | \$ 45        | \$ 45        |
| Carrying amount of deposits                            | 1,625,590    | 2,679,090    |
| Carrying amount of Iowa Public Agency Investment Trust | 1,470,000    | 250,000      |
| Total  | \$ 3,095,635 | \$ 2,929,135 |
|  |              |              |
| Current Assets   |              |              |
| Cash and cash equivalents                              | \$ 2,971,828 | \$ 1,798,841 |
| Investments  | -            | 970,000      |
| Restricted Cash  | 123,807      | 160,294      |
| Total  | \$ 3,095,635 | \$ 2,929,135 |

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

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2009 and 2008 follows:

| 2009   | Beginning<br>Balance | Additions<br>and<br>Transfers<br>In | Deletions<br>and<br>Transfers<br>Out | Ending<br>Balance |
|--|----------------------|-------------------------------------|--------------------------------------|-------------------|
| Capital Assets, not being depreciated:       |                      |                                     |                                      |                   |
| Land   | \$ 63,466            | \$ -                                | \$ -                                 | \$ 63,466         |
| Construction, Work-in-progress               | 1,158,697            | 1,344,482                           | 1,931,925                            | 571,254           |
| Total capital assets, not being depreciated  | 1,222,163            | 1,344,482                           | 1,931,925                            | 634,720           |
| Capital assets, being depreciated:           |                      |                                     |                                      |                   |
| Infrastructure                               | 22,689,315           | 1,600,103                           | 109,820                              | 24,179,598        |
| Buildings and improvements                   | 477,176              | 322,890                             | 1,003                                | 799,063           |
| Equipment                                    | 432,637              | 8,931                               | 23,021                               | 418,547           |
| Total capital assets, being depreciated      | 23,599,128           | 1,931,924                           | 133,844                              | 25,397,208        |
| Less accumulated depreciation                | 7,187,386            | 518,244                             | 134,996                              | 7,570,634         |
| Total capital assets, being depreciated, net | 16,411,742           | 1,413,680                           | (1,152)                              | 17,826,574        |
| Capital assets, net                          | \$17,633,905         | \$2,758,162                         | \$1,930,773                          | \$18,461,294      |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(4) Capital Assets, Continued

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

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2009 and 2008 was as follows:

| 2009                         | Beginning<br>Balance | Additions  | Reductions | Ending<br>Balance |
|------------------------------|----------------------|------------|------------|-------------------|
| Other liabilities            | \$ 119,099           | \$ 54,076  | \$ 16,003  | \$ 157,172        |
| Total noncurrent liabilities | \$ 119,099           | \$ 54,076  | \$ 16,003  | \$ 157,172        |
| 2008                         | Beginning<br>Balance | Additions  | Reductions | Ending<br>Balance |
| Other liabilities            | \$ 80,813            | \$ 102,534 | \$ 64,248  | \$ 119,099        |
| Total noncurrent liabilities | \$ 80,813            | \$ 102,534 | \$ 64,248  | \$ 119,099        |

(6) Pension and Retirement Benefits

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

(6) Pension and Retirement Benefits, Continued

Plan members were required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll through June 30, 2009. Beginning July 1, 2009 plan members are required to contribute 4.30% of their annual covered salary and the Utility is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2009, 2008 and 2007, were \$68,847; \$64,319; and \$58,083; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit will be phased out by June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it will be reduced to 50% and zero thereafter. The Utility recognized liability of \$12,915 and \$15,778; respectively, for the years ended December 31, 2009 and 2008.

(7) Income Tax Status

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

(8) Related Party Transactions

The Utility provides water service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$88,737 and \$59,776 in 2009 and 2008, respectively.

The Utility also provides billing and collection services to the City for the City's sanitary sewer system and garbage and refuse service. Revenues from the service provided amounted to \$159,535 in 2009 and 2008, and are recorded in miscellaneous non-operating revenue.

For the years ended December 31, 2009 and 2008, the Utility earned a management fee of \$1,863 from the Municipal Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous non-operating revenue.

(9) Risk Management

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2009 plan year for aggregate claims exceeding \$2.2 million. Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

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

Notes to Financial Statements  
December 31, 2009 and 2008

(9) Risk Management, Continued

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

|   | 2009        | 2008        |
|---|-------------|-------------|
| Unpaid claims and IBNR, beginning of year | \$ 293,600  | \$ 185,000  |
| Current year costs including IBNR         | 2,725,783   | 1,544,287   |
| Claims paid                               | (2,694,383) | (1,435,687) |
| Unpaid claims and IBNR, end of year       | \$ 325,000  | \$ 293,600  |

The Utility has recorded \$26,000 and \$23,488 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2009 and 2008, respectively.

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

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2009.

|   |              |
|---|--------------|
| Cash and cash equivalents and investments | \$46,324,489 |
| Receivables                               | 1,857,808    |
| Other assets                              | 826,016      |
| Total assets                              | \$49,008,313 |
| <br>                                      |              |
| Total liabilities                         | \$22,626,518 |
| Total equity                              | 26,381,795   |
| Total liabilities and equity              | \$49,008,313 |
| <br>                                      |              |
| Total revenues                            | \$ 6,163,033 |
| Total expenses                            | 3,623,619    |
| Distribution to members                   | -            |
| Net increase in equity                    | \$ 2,539,414 |

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

(10) Other Post Employment Benefits (OPEB)

Plan Description

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

Funding Policy

The Utility, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2009, the Utility contributed \$155,722 and retirees receiving benefits contributed \$138,682 through their required contributions.

Annual OPEB and Net OPEB Obligations

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

|  | <u>2009</u>              |
|--|--------------------------|
| Annual required contribution               | \$ 302,004               |
| Interest on Net OPEB Obligation            | -                        |
| Adjustment to annual required contribution | -                        |
| Annual OPEB expense                        | <u>302,004</u>           |
| Contributions and payments made            | <u>17,040</u>            |
| Increase in net OPEB obligation            | \$ 284,964               |
| Net OPEB obligation, December 31, 2008     | <u>301,799</u>           |
| Net OPEB obligation, December 31, 2009     | <u><u>\$ 586,763</u></u> |

The Water Utility's share of the December 31, 2009 Net OPEB obligation is \$74,218.

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

Notes to Financial Statements  
 December 31, 2009 and 2008

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

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the year ended December 31, 2009 and 2008:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage Of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|---|----------------------------|
| December 31, 2009        | \$302,004               | 5.64%   | \$586,763                  |
| December 31, 2008        | \$289,428               | -4.27%  | \$301,799                  |

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$2,967,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$11,587,064, in 2009 and the ratio of the UAAL to the covered payroll was 25.6%.

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

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

Significant methods and assumptions were as follows:

|                                |                                       |
|--------------------------------|---------------------------------------|
| Actuarial valuation date:      | January 1, 2009                       |
| Actuarial cost method:         | Projected Unit Credit                 |
| Amortization method:           | Level Percentage Of Projected Payroll |
| Remaining amortization period: | 30 years                              |
| Actuarial assumptions:         |                                       |
| Discount Rate                  | 5.0%                                  |
| Healthcare Trend Rate          | 11.0% declining .5% annually to 6%    |
| Projected Salary Increases     | 4.0%                                  |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(11) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, well equipment, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation. As of December 31, 2009, Utility facilities and were repaired and operational. As of December 31, 2009 and 2008, the Water Utility has spent \$6,545 and \$184,482, respectively, in operational expense for flood recovery and \$123,257 and \$264,902, respectively, in asset repair and replacement. As of December 31, 2009 and 2008, the Utility has recognized \$20,470 and \$123,249, respectively, in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$18,731 and \$216,783, respectively, in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2009 and 2008, the Utility recognized a receivable of \$123,187 and \$246,162, respectively, for FEMA flood disaster reimbursement.

(12) Commitments and Contingencies

As of December 31, 2009, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$497,000 for Water Main Extensions and Replacements.

(13) Subsequent Events

Effective January 1, 2010, the Board of Trustees approved a general water rate increase. The average rate increase is approximately 9.0% for all customer classes.

Municipal Electric, Gas, Water, and Communications Utilities  
of the City of Cedar Falls, Iowa  
Supplemental Information  
December 31, 2009 and 2008

**Schedule of Funding Progress for the Other  
Post Employment Benefits Plan**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>AAL<br>(UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage<br>of Covered<br>Payroll |
|--------------------------------|---------------------------------|--|---------------------------|-----------------|--------------------|--|
| January 1, 2009                | \$ -                            | \$2,967,000                                | \$2,967,000               | 0.0%            | \$11,587,064       | 25.6%  |
| January 1, 2007                | \$ -                            | \$3,436,000                                | \$3,436,000               | 0.0%            | \$11,162,424       | 30.8%  |



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

To the Board of Trustees  
Cedar Falls Utilities – Municipal Water Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Water Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated March 29, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the Schedule of Findings and Questioned Costs, which has been submitted under separate cover. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We noted certain matters that we reported to management of the Utility in a separate letter dated March 29, 2010.

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

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

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

Dubuque, Iowa  
March 29, 2010



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Cedar Falls Utilities – Municipal Communications Utility

We have audited the accompanying balance sheets of the Municipal Communications Utility of Cedar Falls, Iowa, (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2010, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress for the Other Postemployment Benefits Plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

March 29, 2010  
Dubuque, Iowa

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

The following discussion and analysis of the Municipal Communications Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the year ended December 31, 2009, 2008 and 2007. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

- The Utility's net assets increased in 2009 as a result of operating income. At December 31, 2009, 2008 and 2007, total assets were \$19,311,878 and \$13,995,150, and \$12,365,649 respectively, and total liabilities were \$9,204,082 and \$6,445,103, and \$7,222,975 respectively, resulting in net assets of \$10,107,796 in 2009 and net assets of \$7,550,047 in 2008 and net assets of \$5,142,674 in 2007.
- In 2009 operating revenues increased 2.7% to \$11,296,748 from \$10,995,281, while operating expenses increased 3.6% to \$8,924,912 from \$8,617,364.
- In 2008 operating revenues increased 13.1% to \$10,995,281 while operating expenses increased 14.5% to \$8,617,364. In 2007 operating revenues increased 12.9% to \$9,721,949 while operating expenses increased 9.7% to \$7,529,287.
- In 2009, the Utility operating income decreased .26% to \$2,371,836 compared to \$2,377,917 in 2008.
- In 2008, the Utility operating income increased 8.4% to \$2,377,917 compared to \$2,192,662 in 2007.
- On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. Additional detail on the 2008 Flood Event can be found in Note 11.
- On July 10, 2009, the City of Cedar Falls experienced a storm with extreme winds of approximately 106 MPH. The extreme winds uprooted and sheared trees snapping poles and distribution lines damaging or destroying them. The Utility began immediate clean up and also began working with the Federal Emergency Management Agency (FEMA) for reconstruction and repair of destroyed Utility distribution assets. For additional detail on the 2009 Wind Storm Event see Note 12.

Overview of the Financial Statements

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

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

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

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

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

Condensed Financial Information

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

Condensed Balance Sheet Information

|  | <u>2009</u>         | <u>2008</u>         | <u>2007</u>         |
|--|---------------------|---------------------|---------------------|
| Current assets                                     | \$ 9,574,768        | \$ 5,653,390        | \$ 4,427,961        |
| Capital assets, net                                | 9,670,506           | 8,337,135           | 7,926,453           |
| Other noncurrent assets                            | 66,604              | 4,625               | 11,235              |
| Total assets                                       | <u>\$19,311,878</u> | <u>\$13,995,150</u> | <u>\$12,365,649</u> |
| Current liabilities                                | \$ 2,484,205        | \$ 1,990,541        | \$ 1,777,620        |
| Noncurrent liabilities                             | 301,108             | 264,360             | 256,371             |
| Long-term debt                                     | 6,418,769           | 4,190,202           | 5,188,984           |
| Total liabilities                                  | <u>\$ 9,204,082</u> | <u>\$ 6,445,103</u> | <u>\$ 7,222,975</u> |
| Invested in capital assets,<br>net of related debt | \$ 3,313,508        | \$ 3,146,933        | \$ 1,757,469        |
| Restricted   | 474,765             | 1,137,679           | 958,833             |
| Unrestricted                                       | 6,319,523           | 3,265,435           | 2,426,372           |
| Total net assets                                   | <u>\$10,107,796</u> | <u>\$ 7,550,047</u> | <u>\$ 5,142,674</u> |

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

Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

Condensed Revenues, Expenses and Changes in Net Assets

|   | <u>2009</u>         | <u>2008</u>         | <u>2007</u>         |
|---|---------------------|---------------------|---------------------|
| Cable television                              | \$ 6,240,462        | \$ 6,115,836        | \$ 5,301,911        |
| High speed data communications                | 4,891,370           | 4,679,163           | 4,420,038           |
| Other Operating Revenue                       | 164,916             | 200,282             | -                   |
| Total operating revenues                      | <u>11,296,748</u>   | <u>10,995,281</u>   | <u>9,721,949</u>    |
| <br>  |                     |                     |                     |
| System operation and maintenance              | 5,393,888           | 5,150,562           | 4,579,392           |
| Depreciation                                  | 1,306,029           | 1,400,177           | 1,386,185           |
| Sales, customer service, corporate operations | 2,224,995           | 2,066,625           | 1,563,710           |
| Total operating expenses                      | <u>8,924,912</u>    | <u>8,617,364</u>    | <u>7,529,287</u>    |
| <br>  |                     |                     |                     |
| Operating income                              | 2,371,836           | 2,377,917           | 2,192,662           |
| <br>  |                     |                     |                     |
| Interest Income                               | 22,402              | 94,244              | 122,949             |
| Other, net                                    | 163,511             | (64,788)            | (74,175)            |
| Total non-operating revenues (expenses)       | <u>185,913</u>      | <u>29,456</u>       | <u>48,774</u>       |
| <br>  |                     |                     |                     |
| Change in net assets                          | 2,557,749           | 2,407,373           | 2,241,436           |
| Net assets, beginning of year                 | <u>7,550,047</u>    | <u>5,142,674</u>    | <u>2,901,238</u>    |
| <br>  |                     |                     |                     |
| Net assets, end of year                       | <u>\$10,107,796</u> | <u>\$ 7,550,047</u> | <u>\$ 5,142,674</u> |

Financial Analysis

Current assets increased 69.4% in 2009. Cash and investments - unrestricted increased by 125.8% and cash and investments - restricted increased 38.1% primarily due to funds received from the refunding of existing debt and issuance of new debt in 2009. Receivables increased 24.0%, \$363,560, primarily due to a 93.6%, \$81,590, increase in Government grants receivable for FEMA assistance and other receivables increased \$263,450, 209.0% primarily due to an increase in miscellaneous accounts receivable.

Current assets increased 27.7% in 2008. Cash and investments - unrestricted increased by 66.2% and Cash and investments - restricted increased 9.0% primarily due to growth in the self-insured medical and dental funds. Receivables increased 15.2%, \$199,678, primarily due to a 10.8%, \$124,592 increase in Customer accounts, less allowance for doubtful accounts and \$87,163 in Government grants receivable for FEMA assistance.

Current liabilities increased 24.8% in 2009 primarily from the \$424,388 increase in accounts payable and a \$60,000 increase in current installments of long-term debt.

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

Noncurrent liabilities increased 13.9% in 2009 primarily due to a 34.5%, \$45,426, increase in the severance and retirement benefit liability, offset by a decrease in customer advances for construction by 6.5%, \$8,678.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

Long-term debt increased 53.2%, \$2,228,567, during 2009. Long-term debt, less current installments increased 95.9%, \$2,538,567 as a result of refunding existing debt and issuance of new debt in 2009, offset by a decrease in advances from affiliated companies of 20.1%, \$310,000.

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

Long term debt decreased 19.2%, \$998,782 during 2008. Long-term debt, less current installments decreased 20.6%, \$688,782, and a 16.7%, \$310,000, decrease in advances from affiliated companies.

Cable television operating revenues increased 2.0% in 2009. This is primarily due to a rate changes in 2009. Basic Plus service revenues increased 1.7% in 2009 primarily because of a \$1.00 per subscriber per month rate increase at mid-year; premium movie channel and pay-per-view revenues increased approximately 13.8% due to an increased number of subscribers and the introduction Video On Demand services; because of programming and channel line-up changes, Digital Signature was split into 2 separate services - Digital Signature and Signature Sports - with no rate change impact and HD Essentials service rates were reduced by \$7.00 per subscriber per month. Additional High Definition programming being available to subscribers requires converter boxes which increased subscribers and, thus, equipment revenue by 15.1%. Finally, advertising sales revenues decreased by 18.4% or \$108,232.

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

Data communications operating revenues increased 4.5% in 2009. An increase of 472 subscribers in 2009 accounts for the increase. Point-to-Point data service revenues increased by 13.6%, modem-based data service sales increased by 5.0% offset by a 9.6% decrease in network access wholesale revenues.

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

Total system operation and maintenance expenses increased 4.7% in 2009 due to Cable Television programming cost increases of \$216,723 or 6.5%. In addition, data communications system operation and maintenance expenses decreased 7.2% primarily due to a 24.3% decrease, \$29,502, in Customer Premise Wiring expenses, and a 19.7%, \$55,662, decrease in Access (Bandwidth) Expenses.

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

Total sales, customer services, and corporate operations expenses increased 7.7% in 2009. Cable television sales expenses increased by \$25,778, 9.2%, in 2009

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
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Management Discussion and Analysis  
December 31, 2009, 2008 and 2007

primarily due to a 30.5%, \$26,988, increase in product advertising expense, an increase of 10.8%, \$16,693, in Customer Operations primarily due to uncollectable accounts. Data communication customer operations expenses increased by 20.8% due to increased customer education expense required due changing email products and an increase in uncollectible accounts. Corporate operations expenses decreased by 2.1%, \$25,507, due to a lesser amount of flood-related operational expenses.

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

Interest income decreased 76.2% in 2009 due to much lower interest rates for investments and cash accounts. Other, net increased by 352.4%, \$228,299, in 2009 primarily due to a 76.1%, \$138,201, due to an increase of \$17,163 in other non-operating income and \$140,072, in Contributions in Aid of Construction revenues. Interest expense decreased 14.3% in 2009 primarily due to higher principal payments on long-term debt resulting in less interest paid in 2009 and a 126.8% increase in the Allowance for Funds During Construction (AFUDC).

Interest income decreased 23.3% in 2008 due to lower interest rates in 2008. Other, net decreased 12.7% in 2008 was primarily due to a 72.8%, \$70,357, reduction in Contributions in Aid of Construction revenues. Interest expense decreased 12.6% in 2008 primarily due to higher principal payments on long-term debt resulting in less interest paid in 2008.

Capital Assets and Debt Administration

Net capital assets represent 50.1% of total assets for the Utility in 2009. Net capital assets increased 16.0% from 2008 primarily due to digital set top box equipment, and head end equipment. In 2008, net capital assets represented 59.6% of total assets for the Utility. Net capital assets increased 5.2% from 2007 primarily due to digital set top box equipment, ad insertion equipment, and video on demand equipment purchases. Additional detail on the change in capital assets can be found in Note 4.

The Utility's total long-term debt at year end 2009, excluding the outstanding loan with the Municipal Electric Utility, was \$5,935,679 compared to \$3,337,112 at year end 2008. The change in total long-term debt is due to the repayment of \$3,337,112 of debt and issuing \$5,960,000 in new debt during 2009. The Utility's total long-term debt at year end 2008, excluding the outstanding loan with the Municipal Electric Utility, was \$3,337,112 compared to \$4,005,894 at year end 2007. The Utility has an outstanding loan with the Municipal Electric Utility totaling \$1,543,090, \$1,853,090, and \$2,163,090 at December 31, 2009, 2008 and 2007, respectively. Additional detail on the outstanding loan can be found in Note 5.

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

Balance Sheets

Years ended December 31, 2009 and 2008

| <u>Assets</u>   | <u>2009</u>          | <u>2008</u>          |
|---|----------------------|----------------------|
| Current assets:   |                      |                      |
| Cash and cash equivalents (note 3)  | \$ 4,880,448         | \$ 2,400,306         |
| Cash - Restricted (note 2 and 3)  | 1,278,377            | 286,598              |
| Investments - Unrestricted (note 3)   | 539,000              | -                    |
| Investments - Restricted (note 2 and 3)   | 364,000              | 903,000              |
| Receivables:  |                      |                      |
| Customer accounts, less allowance for doubtful<br>accounts of \$31,613 in 2009 and \$20,100 in 2008 | 1,309,067            | 1,282,691            |
| Interest  | 11,765               | 19,621               |
| Government grants - FEMA (note 11 and 12)   | 168,753              | 87,163               |
| Other   | 389,474              | 126,024              |
| Material and supplies   | 546,608              | 456,990              |
| Prepayments and other   | 87,276               | 90,997               |
| Total current assets  | <u>9,574,768</u>     | <u>5,653,390</u>     |
| Capital assets: (note 4)  |                      |                      |
| Capital assets, in service  | 18,819,786           | 17,314,589           |
| Less accumulated depreciation   | <u>9,622,347</u>     | <u>9,423,856</u>     |
|   | 9,197,439            | 7,890,733            |
| Construction work in progress   | <u>473,067</u>       | <u>446,402</u>       |
| Net capital assets  | <u>9,670,506</u>     | <u>8,337,135</u>     |
| Deferred costs, net of amortization   | <u>66,604</u>        | <u>4,625</u>         |
| Total noncurrent assets   | <u>9,737,110</u>     | <u>8,341,760</u>     |
| <br>  |                      |                      |
| Total assets  | <u>\$ 19,311,878</u> | <u>\$ 13,995,150</u> |

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

Balance Sheets  
Years ended December 31, 2009 and 2008

| <u>Liabilities</u>   | <u>2009</u>          | <u>2008</u>          |
|--|----------------------|----------------------|
| Current liabilities:                                       |                      |                      |
| Accounts payable   | \$ 1,128,454         | \$ 704,065           |
| Accrued wages and vacation                                 | 163,775              | 138,906              |
| Accrued interest   | 30,110               | 45,082               |
| Other accrued liabilities                                  | 101,866              | 102,488              |
| Current installments of note payable (note 5)              | 310,000              | 310,000              |
| Current installments of long-term debt (note 5)            | 750,000              | 690,000              |
| Total current liabilities                                  | <u>2,484,205</u>     | <u>1,990,541</u>     |
| <br>   |                      |                      |
| Noncurrent liabilities: (note 5)                           |                      |                      |
| Other liabilities (note 5 and 10)                          | 177,066              | 131,640              |
| Customer advances for construction                         | 124,042              | 132,720              |
| Total noncurrent liabilities                               | <u>301,108</u>       | <u>264,360</u>       |
| <br>   |                      |                      |
| Long-term Debt (note 5)                                    |                      |                      |
| Long-term note payable, less current installments (note 5) | 1,233,090            | 1,543,090            |
| Long-term debt, less current installments (note 5)         | 5,185,679            | 2,647,112            |
|  | <u>6,418,769</u>     | <u>4,190,202</u>     |
| <br>   |                      |                      |
| Total liabilities and Long-term debt                       | <u>9,204,082</u>     | <u>6,445,103</u>     |
| <br>   |                      |                      |
| <u>Net Assets</u>  |                      |                      |
| Invested in capital assets, net of related debt            | 3,313,508            | 3,146,933            |
| Restricted   | 474,765              | 1,137,679            |
| Unrestricted   | 6,319,523            | 3,265,435            |
| Total net assets   | <u>10,107,796</u>    | <u>7,550,047</u>     |
| <br>   |                      |                      |
| Total liabilities and net assets                           | <u>\$ 19,311,878</u> | <u>\$ 13,995,150</u> |

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

Statements of Revenues, Expenses and Changes in Net Assets  
Years ended December 31, 2009 and 2008

|  | <u>2009</u>   | <u>2008</u>  |
|--|---------------|--------------|
| Operating revenues:  |               |              |
| Cable system revenues                                      | \$ 6,240,462  | \$ 6,115,836 |
| Data services revenue                                      | 4,514,451     | 4,299,833    |
| Network access revenue                                     | 210,719       | 232,985      |
| Local private line revenue                                 | 166,200       | 146,345      |
| Other Operating Income                                     | 164,916       | 200,282      |
| Total operating revenues                                   | 11,296,748    | 10,995,281   |
| Operating expenses:  |               |              |
| Plant specific and programming                             | 4,588,742     | 4,330,697    |
| Depreciation   | 1,306,029     | 1,400,177    |
| Plant nonspecific  | 805,146       | 819,865      |
| Customer operations  | 649,423       | 550,399      |
| Sales  | 363,391       | 329,552      |
| Corporate operations (note 8)                              | 1,212,181     | 1,186,674    |
| Total operating expenses                                   | 8,924,912     | 8,617,364    |
| Operating income   | 2,371,836     | 2,377,917    |
| Non-operating revenues (expenses):                         |               |              |
| Interest income  | 22,402        | 94,244       |
| Miscellaneous revenue (expense), net                       | 319,845       | 181,644      |
| Intergovernmental grant funds (note 11 and 12)             | 33,296        | -            |
| Interest expense on long-term debt (note 5)                | (169,578)     | (197,159)    |
| AFUDC (note 1)   | 34,810        | 15,349       |
| Interest expense on affiliated note payable (note 5 and 8) | (54,862)      | (64,622)     |
| Total non-operating revenues (expenses)                    | 185,913       | 29,456       |
| Change in net assets                                       | 2,557,749     | 2,407,373    |
| Net assets beginning of year                               | 7,550,047     | 5,142,674    |
| Net assets end of year                                     | \$ 10,107,796 | \$ 7,550,047 |

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

Statements of Cash Flows  
Years ended December 31, 2009 and 2008

|  | <u>2009</u>   | <u>2008</u>   |
|--|---------------|---------------|
| Cash flows from operating activities:                        |               |               |
| Cash received from customers                                 | \$ 10,913,550 | \$ 10,734,681 |
| Intergovernmental grants                                     | 64,613        | 200,279       |
| Cash paid to suppliers                                       | (6,091,201)   | (5,948,798)   |
| Cash paid to employees                                       | (1,140,964)   | (1,011,534)   |
|  | <hr/>         | <hr/>         |
| Net cash provided by operating activities                    | 3,745,998     | 3,974,628     |
| Cash flows from noncapital financing activities:             |               |               |
| Payments on advance from affiliated utility                  | (310,000)     | (310,000)     |
| Interest paid Note Payable                                   | (59,764)      | (69,552)      |
|  | <hr/>         | <hr/>         |
| Net cash used in used in noncapital financing activities     | (369,764)     | (379,552)     |
| Cash flows from capital and related financing activities:    |               |               |
| Proceeds from issuance of GO Bonds and Capital Loan Notes    | 5,960,000     | -             |
| Premium on issuance of revenue bonds                         | 46,268        | -             |
| Discount on issuance of revenue bonds                        | (70,589)      | -             |
| Cost of issuance of revenue bonds                            | (66,604)      | -             |
| Principal payments on long-term debt                         | (3,340,000)   | (670,000)     |
| Interest payments on long-term debt                          | (172,134)     | (191,640)     |
| Refunds of customer advances for construction                | (8,678)       | (24,987)      |
| Acquisition, construction and removal cost of capital assets | (2,939,877)   | (1,825,245)   |
| Proceeds from sale of capital assets                         | 49,325        | 490           |
| Reimbursement of utility construction costs                  | 574,422       | 55,500        |
| Intergovernmental grants                                     | 33,296        | -             |
|  | <hr/>         | <hr/>         |
| Net cash used in capital and related financing activities    | 65,429        | (2,655,882)   |
| Cash flows from investing activities:                        |               |               |
| Proceeds from maturities of investment securities            | 903,000       | 1,188,000     |
| Purchase of investment securities                            | (903,000)     | (1,188,000)   |
| Interest received  | 30,258        | 114,797       |
|  | <hr/>         | <hr/>         |
| Net cash provided by investing activities                    | 30,258        | 114,797       |
| Net increase in cash and cash equivalents                    | 3,471,921     | 1,053,991     |
| Cash and cash equivalents, beginning of year                 | <hr/>         | <hr/>         |
|  | 2,686,904     | 1,632,913     |
| Cash and cash equivalents, end of year (note 1)              | <hr/> <hr/>   | <hr/> <hr/>   |
|  | \$ 6,158,825  | \$ 2,686,904  |

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued  
Years ended December 31, 2009 and 2008

|   | <u>2009</u>         | <u>2008</u>         |
|---|---------------------|---------------------|
| Reconciliation of operating income to net cash provided by operating activities         |                     |                     |
| Operating income  | \$ 2,371,836        | \$ 2,377,917        |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                     |                     |
| Depreciation of capital assets  | 1,306,029           | 1,400,177           |
| Other income (expense), net   | 31,384              | 155,389             |
| (Increase) decrease in accounts receivable  | (289,826)           | (133,068)           |
| (Increase) decrease in intergovernmental grants   | (81,590)            | (87,163)            |
| (Increase) decrease in materials and supplies   | (89,618)            | 29,469              |
| (Increase) decrease in prepayments and other  | 3,720               | (1,229)             |
| Increase (decrease) in accounts payable   | 424,389             | 155,257             |
| Increase (decrease) in accrued wages and vacation                                       | 24,869              | 34,101              |
| Increase (decrease) in other accrued liabilities  | (621)               | 10,802              |
| Increase (decrease) in other noncurrent liabilities                                     | 45,426              | 32,976              |
| Net cash provided by operating activities   | <u>\$ 3,745,998</u> | <u>\$ 3,974,628</u> |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

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

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

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

(b) Cash and Investments

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

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December 31, 2009 and 2008 were \$250,000 and \$0, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

(c) Inventories

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

(d) Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 4.92% in 2009 and 2008. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 7 to 20 years and equipment - 20 years. The depreciation provision was equivalent to an overall composite rate of 7.4% and 8.2% of depreciable assets for 2009 and 2008, respectively.

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

Notes to Financial Statements  
December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies, Continued

(d) Capital Assets and Depreciation

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

(e) Operating Revenues and Expenses

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

Revenues are based on billing rates, which are applied to customers' consumption of communications services. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not billed at December 31, 2009 and 2008, were \$366,347 and \$342,254, respectively.

(f) Deferred Costs

Debt discount, debt premium and debt issue costs are amortized over the life of the debt using the same percentage as the principal paid in a given year is to the total debt issued by issue.

(g) Net Assets

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

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

(h) Estimates

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



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

Notes to Financial Statements  
December 31, 2009 and 2008

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2009 and 2008 was \$60.

Deposits

At December 31, 2009, the Utility's carrying amount of deposits, including \$903,000 of certificates of deposits and \$1,275,000 of money market accounts, was \$6,811,765. At December 31, 2008, the Utility's carrying amount of deposits, including \$903,000 of certificates of deposits, was \$3,589,844.

Investments

The utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United State government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of December 31, 2009 and 2008, the Utility had no Federal Agency Obligation investments or maturities.

The Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$250,000 and \$0 at December 31, 2009 and 2008, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Custodial Credit Risk - Investments

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

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

|  | <u>2009</u>         | <u>2008</u>         |
|--|---------------------|---------------------|
| Cash on hand   | \$ 60               | \$ 60               |
| Carrying amount of deposits                            | 6,811,765           | 3,589,844           |
| Carrying amount of Iowa Public Agency Investment Trust | 250,000             | -                   |
| Total  | <u>\$ 7,061,825</u> | <u>\$ 3,589,904</u> |
| Current Assets   |                     |                     |
| Cash and cash equivalents                              | \$ 4,880,448        | \$ 2,400,306        |
| Investments  | 539,000             | -                   |
| Restricted Cash  | 1,278,377           | 286,598             |
| Restricted Investments                                 | 364,000             | 903,000             |
| Total  | <u>\$ 7,061,825</u> | <u>\$ 3,589,904</u> |

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2009 and 2008 follows:

| 2009   | Beginning<br>Balance | Additions<br>and<br>Transfers<br>In | Deletions<br>and<br>Transfers<br>Out | Ending<br>Balance   |
|--|----------------------|-------------------------------------|--------------------------------------|---------------------|
| Capital Assets, not being depreciated:       |                      |                                     |                                      |                     |
| Construction,                                |                      |                                     |                                      |                     |
| Work-in-progress                             | \$ 446,402           | \$2,688,668                         | \$2,662,003                          | \$ 473,067          |
| Total capital assets, not being depreciated  | 446,402              | 2,688,668                           | 2,662,003                            | 473,067             |
| Capital assets, being depreciated:           |                      |                                     |                                      |                     |
| Infrastructure                               | 17,034,888           | 2,612,186                           | 1,156,806                            | 18,490,268          |
| Equipment                                    | 279,701              | 49,817                              | -                                    | 329,518             |
| Total capital assets, being depreciated      | 17,314,589           | 2,662,003                           | 1,156,806                            | 18,819,786          |
| Less accumulated depreciation                | 9,423,856            | 1,355,415                           | 1,156,924                            | 9,622,347           |
| Total capital assets, being depreciated, net | 7,890,733            | 1,306,588                           | (118)                                | 9,197,439           |
| Capital assets, net                          | <u>\$ 8,337,135</u>  | <u>\$3,995,256</u>                  | <u>\$2,661,885</u>                   | <u>\$ 9,670,506</u> |
|  |                      |                                     |                                      |                     |
| 2008   | Beginning<br>Balance | Additions<br>and<br>Transfers<br>In | Deletions<br>and<br>Transfers<br>Out | Ending<br>Balance   |
| Capital Assets, not being depreciated:       |                      |                                     |                                      |                     |
| Construction,                                |                      |                                     |                                      |                     |
| Work-in-progress                             | \$ 127,420           | \$ 1,816,153                        | \$ 1,497,171                         | \$ 466,402          |
| Total capital assets, not being depreciated  | 127,420              | 1,816,153                           | 1,497,171                            | 466,402             |
| Capital assets, being depreciated:           |                      |                                     |                                      |                     |
| Infrastructure                               | 16,607,029           | 1,489,215                           | 1,061,356                            | 17,034,888          |
| Equipment                                    | 299,414              | 7,956                               | 27,669                               | 279,701             |
| Total capital assets, being depreciated      | 16,906,443           | 1,497,171                           | 1,089,025                            | 17,314,589          |
| Less accumulated depreciation                | 9,107,410            | 1,409,645                           | 1,093,199                            | 9,423,856           |
| Total capital assets, being depreciated, net | 7,799,033            | 87,526                              | (4,174)                              | 7,890,733           |
| Capital assets, net                          | <u>\$ 7,926,453</u>  | <u>\$ 1,903,679</u>                 | <u>\$ 1,492,997</u>                  | <u>\$ 8,337,135</u> |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2009 and 2008 was as follows:

| 2009  | Beginning<br>Balance | Additions          | Reductions         | Ending<br>Balance  | Amounts<br>Due<br>Within<br>One<br>Year |
|---|----------------------|--------------------|--------------------|--------------------|---|
| General obligation<br>capital loan notes-<br>Series 2009B | \$ -                 | \$2,320,000        | \$ -               | \$2,320,000        | \$425,000                               |
| General obligation bonds:                                 |                      |                    |                    |                    |   |
| Series 1998   | 365,000              | -                  | 365,000            | -                  | -                                       |
| Series 1999   | 335,000              | -                  | 335,000            | -                  | -                                       |
| Series 2002   | 620,000              | -                  | 620,000            | -                  | -                                       |
| Note payable - Municipal<br>Electric Utility              | 1,853,090            | -                  | 310,000            | 1,543,090          | 310,000                                 |
| Revenue capital<br>loan notes-Series 2009                 | -                    | 3,640,000          | -                  | 3,640,000          | 325,000                                 |
| Series 1999 capital<br>loan notes                         | 2,020,000            | -                  | 2,020,000          | -                  | -                                       |
| Unamortized discount                                      | (1,280)              | (70,589)           | (1,280)            | (70,589)           | -                                       |
| Unamortized premium                                       | (1,608)              | 46,268             | (1,608)            | 46,268             | -                                       |
|   | <u>5,190,202</u>     | <u>5,935,679</u>   | <u>3,647,112</u>   | <u>7,478,769</u>   | <u>\$1,060,000</u>                      |
| Current installments of<br>long-term debt                 | (1,000,000)          | (60,000)           | -                  | (1,060,000)        |   |
| Long-term debt, less<br>current installments              | 4,190,202            | 5,875,679          | 3,647,112          | 6,418,769          |   |
| Other noncurrent<br>liabilities:                          |                      |                    |                    |                    |   |
| Customer advances for<br>construction                     | 132,720              | -                  | 8,678              | 124,042            |   |
| Other liabilities   | 131,640              | 66,779             | 21,353             | 177,066            |   |
| Noncurrent liabilities                                    | <u>264,360</u>       | <u>66,779</u>      | <u>30,031</u>      | <u>301,108</u>     |   |
| Total noncurrent<br>liabilities                           | <u>\$4,454,562</u>   | <u>\$5,942,458</u> | <u>\$3,677,143</u> | <u>\$6,719,877</u> |   |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(5) Noncurrent Liabilities, Continued

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

All general obligation (G.O.) bonds and notes have been issued by the City on behalf of the Utility. The G.O. bonds and notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between .75% and 3.8%. In 2009, the City issued \$2,320,000 in General Obligation Capital Loan Notes, Series 2009B. The proceeds of the bonds were used for the redemption of the outstanding Series 1998, Series 1999, and Series 2002 general obligation bonds to reduce total future debt service payments and the funding of qualified capital expenditures. The result of the transaction is a reduction of \$53,767 in future debt service payments and an economic gain of \$50,431. The total debt service obligations over the remaining term of the bonds are as follows:

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

Notes to Financial Statements  
December 31, 2009 and 2008

(5) Noncurrent Liabilities, Continued

| Year      | General Obligation Capital<br>Loan Notes, Series 2009B |                                 |
|-----------|--|---------------------------------|
|           | December 1<br>Principal<br>Amount                      | .75%-3.8%<br>Interest<br>Amount |
| 2010      | \$ 425,000   | \$ 51,266                       |
| 2011      | 145,000  | 51,415                          |
| 2012      | 155,000  | 49,892                          |
| 2013      | 155,000  | 47,878                          |
| 2014      | 165,000  | 45,242                          |
| 2015-2019 | 575,000  | 179,920                         |
| 2020-2024 | 700,000  | 79,015                          |
|           | <u>\$ 2,320,000</u>                                    | <u>\$ 504,628</u>               |

The Communications Utility Revenue Capital Loan Notes, Series 2009, require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the notes are in a range between 3.0% and 4.3%. The debt is secured by the future net revenues of the Utility.

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

| Year      | Communications Utility<br>Revenue Capital<br>Loan Notes, Series 2009 |                                 |
|-----------|--|---------------------------------|
|           | December 1<br>Principal<br>Amount                                    | 3.0%-4.3%<br>Interest<br>Amount |
| 2010      | \$ 325,000   | \$ 121,595                      |
| 2011      | 325,000  | 119,760                         |
| 2012      | 335,000  | 110,010                         |
| 2013      | 345,000  | 99,960                          |
| 2014      | 355,000  | 89,610                          |
| 2015-2019 | 880,000  | 333,400                         |
| 2020-2024 | 1,075,000  | 141,403                         |
|           | <u>\$ 3,640,000</u>  | <u>\$ 1,015,738</u>             |

In 2009, the Utility issued \$3,640,000 Communications Utility Revenue Capital Loan Notes, Series 2009. The proceeds of the notes were used for the redemption of the outstanding Series 1999 revenue bonds to reduce total future debt service payments and the funding of other qualified capital expenditures. The Utility expended \$1,725,000 to extinguish the debt. The result of the transaction is a reduction of \$173,900 in future debt service payments and an economic gain of \$121,790.

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

Notes to Financial Statements  
December 31, 2009 and 2008

(5) Noncurrent Liabilities, Continued

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

The Board of Trustees of the Municipal Electric Utility authorized a loan to be extended to the Utility under Resolutions No. 2759, 2840, 2939, 2994, and 3086. The December 31, 2009 and 2008 outstanding balances on this loan were \$1,293,090 and \$1,478,090, respectively, bearing interest at 3.1%. The Board of Trustees of the Municipal Electric Utility approved an additional loan be extended to the Utility under Resolution No. 3497. The December 31, 2009 and 2008 outstanding balances on this loan were \$250,000 and \$375,000, respectively, bearing interest at 3.1%. Semiannual debt service payments are required on January 1 and July 1. Total debt service requirements are as follows:

| <u>Notes Payable to the<br/>Municipal Electric Utility</u> |                             |                            |
|--|-----------------------------|----------------------------|
| <u>Year</u>  | <u>Principal<br/>Amount</u> | <u>Interest<br/>Amount</u> |
| 2010   | \$ 310,000                  | \$ 50,240                  |
| 2011   | 310,000                     | 40,630                     |
| 2012   | 185,000                     | 31,059                     |
| 2013   | 185,000                     | 25,247                     |
| 2014   | 185,000                     | 19,550                     |
| 2015-2016  | 368,090                     | 24,290                     |
|  | <u>\$1,543,090</u>          | <u>\$ 191,016</u>          |

(6) Pension and Retirement Benefits

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

Plan members were required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll through June 30, 2009. Beginning July 1, 2009 plan members are required to contribute 4.30% of their annual covered salary and the Utility is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2009, 2008, and 2007, were \$118,351; \$100,992; and \$83,095, respectively, equal to the required contributions for each year.

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

Notes to Financial Statements  
December 31, 2009 and 2008

(6) Pension and Retirement Benefits, Continued

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit will be phased out by June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it will be reduced to 50% and zero thereafter. The Utility recognized liability of \$20,988 and \$6,285; respectively, for the years ended December 31, 2009 and 2008.

(7) Income Tax Status

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

(8) Related Party Transactions

The Utility provides communications service to the City. Operating revenues from the service provided amounted to \$69,017 and \$66,260 in 2009 and 2008, respectively.

Outstanding loan balances from the Municipal Electric Utility are \$1,543,090, and \$1,853,090 as of December 31, 2009, and 2008, respectively. Interest accrues on the loan at 3.1%, and is paid semi-annually during January and July. Annual principal payments continue through 2016 (see note 5). Accrued interest payable was \$26,518 and \$31,421 at December 31, 2009 and 2008, respectively. Interest expense for the years ended December 31, 2009 and 2008 was \$54,862 and \$64,622 respectively.

The Utility pays the Municipal Electric, Gas, and Water Utilities a management fee for administration, finance, human resources and legal services as part of the program to equitably allocate Communications costs. For the years ended December 31, 2009 and 2008, the Utility recorded a management fee to the Municipal Electric Utility of \$69,863; the Municipal Gas Utility of \$21,424; and the Municipal Water Utility of \$1,863.

See note 5 for description of debt with the City. The interest paid to the City was \$56,120 and \$69,579 for the years ended December 31, 2009 and 2008, respectively. The accrued interest related to this debt was \$1,065 and \$4,677 at December 31, 2009 and 2008, respectively.

(9) Risk Management

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

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

Notes to Financial Statements  
December 31, 2009 and 2008

(9) Risk Management, Continued

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2009 plan year for aggregate claims exceeding \$2.2 million.

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

|   | <u>2009</u>        | <u>2008</u>        |
|---|--------------------|--------------------|
| Unpaid claims and IBNR, beginning of year | \$ 293,600         | \$ 185,000         |
| Current year costs including IBNR         | 2,725,783          | 1,544,287          |
| Claims paid                               | <u>(2,694,383)</u> | <u>(1,435,687)</u> |
| Unpaid claims and IBNR, end of year       | <u>\$ 325,000</u>  | <u>\$ 293,600</u>  |

The Utility has recorded \$42,250 and \$38,168 in accounts payable for its share of these unpaid claims at December 31, 2009 and 2008, respectively.

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

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2009.

|   |                     |
|---|---------------------|
| Cash and cash equivalents and investments | \$46,324,489        |
| Receivables                               | 1,857,808           |
| Other assets                              | <u>826,016</u>      |
| Total assets                              | <u>\$49,008,313</u> |
| Total liabilities                         | \$22,626,518        |
| Total equity                              | <u>26,381,795</u>   |
| Total liabilities and equity              | <u>\$49,008,313</u> |
| Total revenues                            | \$ 6,163,033        |
| Total expenses                            | 3,623,619           |
| Distribution to members                   | <u>-</u>            |
| Net increase in equity                    | <u>\$ 2,539,414</u> |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(9) Risk Management, Continued

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

(10) Other Post Employment Benefits (OPEB)

Plan Description

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

Funding Policy

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2009, the Utility contributed \$155,722 and retirees receiving benefits contributed \$138,682 through their required contributions.

Annual OPEB and Net OPEB Obligations

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

|  | <u>2009</u>             |
|--|-------------------------|
| Annual required contribution               | \$302,004               |
| Interest on Net OPEB Obligation            | -                       |
| Adjustment to annual required contribution | -                       |
| Annual OPEB expense                        | <u>302,004</u>          |
| Contributions and payments made            | <u>17,040</u>           |
| Increase in net OPEB obligation            | \$284,964               |
| Net OPEB obligation, December 31, 2008     | <u>301,799</u>          |
| Net OPEB obligation, December 31, 2009     | <u><u>\$586,763</u></u> |

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

Notes to Financial Statements  
December 31, 2009 and 2008

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

Annual OPEB and Net OPEB Obligations

The Communications Utility's share of the December 31, 2009 Net OPEB obligation is \$42,267.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the year ended December 31, 2009 and 2008:

| Fiscal Year Ended | Annual<br>OPEB Cost | Percentage<br>Of Annual<br>OPEB Cost<br>Contributed | Net OPEB<br>Obligation |
|-------------------|---------------------|---|------------------------|
| December 31, 2009 | \$302,004           | 5.64%   | \$586,763              |
| December 31, 2008 | \$289,428           | -4.27%  | \$301,799              |

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$2,967,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$11,587,064, in 2009 and the ratio of the UAAL to the covered payroll was 25.6%.

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

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

Significant methods and assumptions were as follows:

|                                |                                       |
|--------------------------------|---------------------------------------|
| Actuarial valuation date:      | January 1, 2009                       |
| Actuarial cost method:         | Projected Unit Credit                 |
| Amortization method:           | Level Percentage Of Projected Payroll |
| Remaining amortization period: | 30 years                              |
| Actuarial assumptions:         |                                       |
| Discount Rate                  | 5.0%                                  |
| Healthcare Trend Rate          | 11.0% declining .5% annually to 6%    |
| Projected Salary Increases     | 4.0%                                  |

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

Notes to Financial Statements  
December 31, 2009 and 2008

(11) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation. As of December 31, 2009, Utility facilities were repaired and operational. As of December 31, 2009 and 2008, the Communications Utility has spent \$9,850 and \$312,915, respectively, in operational expense for flood recovery and \$25,510 and \$4,141, respectively, in asset repair and replacement. As of December 31, 2009 and 2008, the Utility has recognized \$33,264 and \$200,279, respectively, in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$26,424 and \$0, respectively, in Other Non-operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2009 and 2008, the Utility recognized a receivable of \$131,112 and \$87,163, respectively, for FEMA flood disaster reimbursement.

(12) Wind Storm Event

On July 10, 2009, the City of Cedar Falls experienced a storm with extreme winds of approximately 106 MPH. The extreme winds uprooted and sheared trees, blew over poles and lines, and slammed trees and branches into Communications Utility distribution facilities severely damaging them. The Utility began immediate clean up and also began working with the Federal Emergency Management Agency (FEMA) for reconstruction and repair of damaged Utility distribution assets. As of December 31, 2009, the damaged assets have been temporarily repaired; however, they will be permanently repaired, restored, or replaced in the upcoming months. As of December 31, 2009, the Communications Utility has spent \$44,406 in operational expense for wind damage recovery and \$8,843 in asset repair and replacement. The Utility has recognized \$31,349 in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$6,872 in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2009, the Utility recognized a receivable of \$37,641 for FEMA wind storm disaster reimbursement.

(13) Commitments and Contingencies

As of December 31, 2009, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$463,000.

(14) Subsequent Events

Effective January 1, 2010, the Board of Trustees approved a rate increase in Basic Lifeline and Basic Plus of 9.3% and Digital Premier Premium channel service of 5.9% for customers taking these services. Also effective on January 1, 2010, the Board of Trustees approved a rate increase in CyberHome/FiberHome data services of 12.5%, CyberOffice/FiberOffice data services of 4.5% and CyberOffice Plus/FiberOffice Plus data services of 6.3%.

Municipal Electric, Gas, Water, and Communications Utilities  
of the City of Cedar Falls, Iowa  
Supplemental Information  
December 31, 2009 and 2008

Schedule of Funding Progress for the Other  
Post Employment Benefits Plan

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>AAL<br>(UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage<br>of Covered<br>Payroll |
|--------------------------------|---------------------------------|--|---------------------------|-----------------|--------------------|--|
| January 1, 2009                | \$ -                            | \$2,967,000                                | \$2,967,000               | 0.0%            | \$11,587,064       | 25.6%  |
| January 1, 2007                | \$ -                            | \$3,436,000                                | \$3,436,000               | 0.0%            | \$11,162,424       | 30.8%  |



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

To the Board of Trustees  
Cedar Falls Utilities – Municipal Communications Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Communications Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated March 29, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the Schedule of Findings and Questioned Costs, which has been submitted under separate cover. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We noted certain matters that we reported to management of the Utility in a separate letter dated March 29, 2010.

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

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

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

Dubuque, Iowa  
March 29, 2010

Information to Comply with OMB Circular A-133,  
*Audits of States, Local Governments, and  
Non-Profit Organizations*  
December 31, 2009

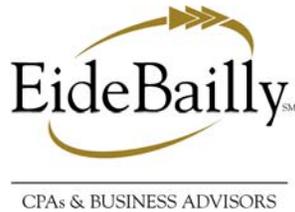
## **Cedar Falls Municipal Utilities**

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

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

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

Compliance

We have audited the compliance of Cedar Falls Municipal Utilities with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2009. The Utilities' major federal program is identified in the summary of the independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the management of Cedar Falls Municipal Utilities. Our responsibility is to express an opinion on the Utilities' compliance based on our audit.

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

In our opinion, Cedar Falls Municipal Utilities complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

Internal Control Over Compliance

Management of Cedar Falls Municipal Utilities is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Utilities' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 the Utilities' internal control over compliance.

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 that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of Cedar Falls Municipal Utilities as of and for the year ended December 31, 2009, and have issued our report thereon dated March 29, 2010, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

Dubuque, Iowa  
March 29, 2010

**CEDAR FALLS MUNICIPAL UTILITIES**  
**CEDAR FALLS, IOWA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

| <u>Grantor/Program</u>   | <u>CFDA Number</u> | <u>Agency or<br/>Pass-through<br/>Number</u> | <u>Program<br/>Expenditures</u> |
|--|--------------------|--|---------------------------------|
| U.S. Department of Homeland Security:<br>Pass-through program from:<br>Iowa Department of Homeland Security:<br>Disaster Grants – Public Assistance<br>(Presidentially Declared Disasters) | 97.036             | 013-000CA-00                                 | \$ 1,529,444                    |
| Disaster Grants – Public Assistance<br>(Presidentially Declared Disasters)   | 97.036             | 013-000CA-00                                 | <u>437,434</u>                  |
| Total U.S. Department of Homeland Security   |                    |  | 1,966,878                       |
| U.S. Department of Energy<br>Biomass Energy Generation Project   | N/A                | DE-EE0000398                                 | <u>6,243</u>                    |
| Total  |                    |  | <u>\$ 1,973,121</u>             |

**CEDAR FALLS MUNICIPAL UTILITIES**  
**CEDAR FALLS, IOWA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

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**NOTE 1 – BASIS OF PRESENTATION**

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

**CEDAR FALLS MUNICIPAL UTILITIES  
 CEDAR FALLS, IOWA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED DECEMBER 31, 2009**

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

Financial Statements

|  |               |
|--|---------------|
| Type of auditor's report issued                      | Unqualified   |
| Internal control over financial reporting:           |               |
| Material weakness identified                         | No            |
| Significant deficiency                               | None reported |
| Noncompliance material to financial statements noted | No            |

Federal Awards

|  |               |
|--|---------------|
| Internal control over major program:   |               |
| Material weakness identified   | No            |
| Significant deficiency   | None reported |
| Type of auditor's report issued on compliance for the major program  | Unqualified   |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) | No            |

Identification of major program:

|                    |  |
|--------------------|--|
| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u>                                |
| 97.036             | Disaster Grants-Public Assistance<br>(Presidentially Declared Disasters) |

|   |           |
|---|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs | \$300,000 |
| Auditee qualified as low-risk auditee                                   | No        |

**CEDAR FALLS MUNICIPAL UTILITIES  
CEDAR FALLS, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2009**

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**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-09 Certified Budget – Disbursements during the year ended December 31, 2009, did not exceed the amounts budgeted.
- II-B-09 Questionable Expenditures – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-09 Travel Expense – No expenditures of the Utilities’ money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-09 Business Transactions – No business transactions between the Utilities and Utility officials or employees were noted.
- II-E-09 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities’ investment policy were noted.
- II-H-09 Revenue Bonds – We noted no instances of non-compliance with the provisions of the Utilities’ revenue bond resolutions.
- II-I-09 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Iowa Code were noted.
- II-J-09 Financial Assurance – The Electric Utility has demonstrated financial assurance for landfill closure and postclosure care costs by establishing a local government dedicated fund as provided in Chapter 567-103.3(6).



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

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We have audited the financial statements of Cedar Falls Utilities – Municipal Electric, Gas, Water, and Communications Utilities (the Utilities) for the year ended December 31, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 22, 2010. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Cedar Falls Utilities are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the Utilities during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the unbilled receivables is based on a calculation of billing dates in January 2010. We evaluated the key factors and assumptions used to develop the unbilled receivables in determining that they are reasonable in relation to the financial statements taken as a whole.

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

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

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

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

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 29, 2010.

#### *Management Consultations with Other Independent Accountants*

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

#### *Other Audit Findings or Issues*

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

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

*Eide Bailly LLP*

Dubuque, Iowa  
March 29, 2010

**CEDAR FALLS UTILITIES**  
**DECEMBER 31, 2009**  
**OTHER COMMENTS**

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**Communications Utility Allocations**

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

**New Pronouncements**

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

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

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

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