CITY OF ESTHERVILLE, IOWA
MUNICIPAL ELECTRIC UTILITY

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2009

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CITY OF ESTHERVILLE, IOWA
MUNICIPAL ELECTRIC UTILITY

Brinkman &
Reed, CPA's

103 South Sixth Street Estherville, Iowa 51334 712-362-5891 Phone 712-362-7172 Fax

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Estherville, Iowa

We have audited the accompanying financial statements of the Municipal Electric Utility, City of Estherville, Iowa as of and for the year ended December 31, 2009. These financial statements are the responsibility of the City of Estherville's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Management has excluded from inventory in the accompanying statement of net assets items that, in our opinion, should be included to conform to accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America require that inventory reflect a complete listing of materials and supplies owned by the Municipal Electric Utility, City of Estherville, Iowa. The distribution plant inventory of the Municipal Electric Utility, City of Estherville, Iowa does not include all materials and supplies. The amount by which this departure would affect the basic financial statements is not reasonably determinable.

In our opinion, except for the effects of an incomplete inventory, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Electric Utility, City of Estherville, Iowa at December 31, 2009, and the respective changes in the financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

Members of American Institute of Certified Public Accountants
Iowa Society of Certified Public Accountants

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2010 on our consideration of the Municipal Electric Utility, City of Estherville, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 7 through 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on pages 30 and 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and, accordingly, we express no opinion on it.

Brinkman + Reed, CPA's

Brinkman & Reed, CPA's

March 10, 2010

CITY OF ESTHERVILLE, IOWA
MUNICIPAL ELECTRIC UTILITY

CITY OF ESTHERVILLE
MUNICIPAL ELECTRIC UTILITY
DECEMBER 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the financial activities of the Electric Utility is for the calendar year ending December 31, 2009. We encourage readers to consider the information in conjunction with the financial statements.

This is the sixth year the City has implemented new reporting standards with significant changes in content and structure. The City was required to comply with Government Standard Board Statement No. 34 (GASB-34), which mandated the changes. Theoretically, comparisons may be more meaningful and go further in explaining the Electric Utility's financial position and results of operations.

2009 FINANCIAL HIGHLIGHTS

Operating revenue from energy sales declined by $140,295 (2.8%) from 2008 to 2009. A decline in energy sales of 2,471,618 kWhs (4.2%) occurred in 2009.

Operating expenses increased 4.3% or $214,242 from 2008 to 2009. During this period the cost of purchased power increased $137,164.

The Electric Utility's net assets increased $56,476 (0.8%) from 2008 to 2009.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as required by Governmental Accounting Standard Board Statement No. 34. The required information is:

> Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
>
> The Statement of Net Assets presents information on all of the Electric Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Electric Utility's net assets changed during the most recent year.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents. It provides answers to such questions as where did cash come from, what cash was used for and what was the change in cash and cash equivalents during the reporting year.

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

Supplementary information further explains and supports the financial statements.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below focuses on net assets and changes in net assets.

Net Assets

	Year ended December 31,	
	2009	2008
Current Assets & Other Assets	$3,259,369	$3,677,646
Capital Assets	4,188,538	3,692,569
Total Assets	$7,447,907	$7,370,215
Long Term Liabilities	$ -0-	$ -0-
Current Liabilities	424,464	403,248
Total Liabilities	$ 424,464	$ 403,248
Net Assets:		
Invested in Capital Assets	$4,167,334	$3,678,293
Unrestricted	2,856,109	3,288,674
Total Net Assets	$7,023,443	$6,966,967

Net assets increased from 2008 by $56,476, or 0.8%. The largest portion of the net assets is the investment in capital assets (e.g., land, infrastructure, buildings, and equipment). Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints. Unrestricted net assets have increased $17,649 since December 31, 2004, the first year under the new reporting standards. During 2009 unrestricted net assets declined by $432,565.

Changes in Net Assets

	Year ended December 31,	
	2009	2008
Revenues:		
Operating Revenues:		
Charges for service, sales, and rent	$5,220,520	$5,410,922
Non-operating revenues:		
Investment earnings	23,227	41,862
Wind Generation Project	-0-	22,052
Transfers, Net	58,074	15,042
Total revenues	$5,301,821	$5,489,878
Operating expenses:		
Generation	$3,560,531	$3,396,074
Distribution	688,516	683,540
General and administration	988,486	943,677
Non-operating expenses:		
Interest expense	3,569	3,349
Other non-operating expense	4,243	-0-
Transfers, net	-0-	-0-
Total expense and transfers	$5,245,345	$5,026,640
Increase in net assets	$ 56,476	$ 463,238
Net assets beginning of year	$6,966,967	$6,503,729
Net assets end of year	$7,023,443	$6,966,967

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Electric Utilities capital assets include land, buildings and improvements, and equipment. Capital assets totaled $4,188,538 (net of accumulated depreciation) at December 31, 2009. See note 7 to the financial statements for more information about the capital assets.

Debt Administration

The Electric Utility has no long-term debt outstanding. The utility held customer deposits totaling $85,562 on December 31, 2009.

ECONOMIC FACTORS BEARING ON THE ELECTRIC UTILITY'S FUTURE

A 20-year wholesale power agreement was negotiated with Iowa Lakes Electric Cooperative (ILEC) commencing April 1, 2007. This agreement includes a substantial increase in the cost of power due to the market. An additional increase of approximately 5% became effective on January 1, 2009 with no increase on January 1, 2010. The amount paid to Iowa Lakes Community College (ILCC) for energy generated by their wind turbine also increased.

An estimated increase in the cost of power from Western Area Power Administration (WAPA) of 20% became effective on February 1, 2009. An increase of approximately 15% became effective on January 1, 2010. The increase is related to a ten (10) year drought in the Missouri River Basin. WAPA remains the lowest cost energy even considering these large increases.

Unknown increases are anticipated on January 1, 2011.

An increase in electric rates will be recommended in 2010.

CONTACTING THE ELECTRIC UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Electric Utility's finances and to show the Electric Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Vaughn Brua, City Clerk, 2 North 7th Street, Estherville, Iowa 51334 or telephone (712) 362-7771.

CITY OF ESTHERVILLE, IOWA
MUNICIPAL ELECTRIC UTILITY

Basic Financial Statements

Exhibit A

City of Estherville, Iowa
Municipal Electric Utility
Statement of Net Assets
December 31, 2009

Assets	
Current Assets:	
Cash and Cash Equivalents	$1,326,775
Appropriated Cash - Equipment Sinking Fund	308,761
Designated Cash	91,865
Receivables:	
Accounts	414,623
Accounts - City of Estherville	25,264
Accrued Interest	814
Fuel and Lube Oil Inventory	40,049
Distribution Plant Inventory	397,785
Prepaid Insurance	23,567
Total Current Assets	2,629,503
Noncurrent Assets:	
Designated Investments	514,840
Investment in Joint Venture	115,026
Capital Assets (Net of Accumulated Depreciation)	4,188,538
Total Noncurrent Assets	4,818,404
Total Assets	7,447,907
Liabilities	
Current Liabilities:	
Accounts Payable	319,860
Customer Deposits	85,562
Accrued Payroll	7,093
Accrued Sales and Use Tax	11,949
Total Liabilities	424,464
Net Assets	
Invested in Capital Assets, net of related debt	4,167,334
Unrestricted	2,856,109
Total Net Assets	$7,023,443

See notes to financial statements.

Exhibit B

City of Estherville, Iowa
Municipal Electric Utility
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2009

Operating Revenues:	
Sales of Electricity to Customers	
Residential Sales	$1,949,159
Commerical Sales - Large	1,364,506
Commerical Sales - Small	746,234
Industrial Sales	436,183
Customer Service and Other Sales	125,102
Total Sales to Customers	4,621,184
Service to City	
Various Departments	322,029
Other Operating Revenues	
Capacity Credits	258,230
Sales of Service Work, Material and Miscellaneous	18,697
Aerial Service Fees	360
Rent and Sales of Property	20
Total Other Operating Revenues	277,307
Total Operating Revenues	5,220,520
Operating Expenses:	
Generation Expense	
Purchased Power - Net	3,129,730
Salaries	185,395
Depreciation	70,119
Natural Gas Fuel	41,916
Employee Insurance	39,411
Repairs and Maintenance	37,550
Payroll Taxes and IPERS	23,208
Utilities	16,658
Fuel Oil	6,229
Lube Oil	3,729
Operating Supplies and Expense	3,321
Transportation and Vehicle Expense	1,686
Building and Structures	1,579
Total Generation Expense	3,560,531

See notes to financial statements.

City of Estherville, Iowa
Municipal Electric Utility
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2009

Operating Expenses - Continued	
Distribution Expense	
Salaries	$ 333,492
Depreciation	131,800
Employee Insurance	64,412
Transportation and Vehicle Expense	57,970
Payroll Taxes and IPERS	46,843
Housing Grant	23,000
Equipment Repair	9,964
Utilities	8,555
Operating Supplies and Expense	6,643
Building and Structures	4,477
Maintenance of Lines & Supplies	864
Capital Utility Improvements	496
Total Distribution Expense	688,516
Accounting and Collection Expenses	
Reimbursement to City for Expense	421,550
Meter Supplies	3,839
Total Accounting and Collection Expense	425,389
Administration and General Expenses	
Payment in Lieu of Taxes	494,707
Dues and Other Expenses	32,491
Insurance	29,527
Professional Services	6,372
Total Administration and General Expense	563,097
Total Operating Expense	5,237,533
Net Operating Loss	(17,013)
Non-Operating Revenues (Expenses):	
Interest Income	$ 23,227
Interest Expense	(3,569)
Loss on Wind Generation Project	(4,243)
Net Non-Operating Revenues	15,415
Change in Net Assets	(1,598)

See notes to financial statements.

Exhibit B

City of Estherville, Iowa
Municipal Electric Utility
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2009

Net Assets Beginning of Year	6,966,967
Add: Transfers From Other City Funds - Net	152,893
Less: Transfers To Other City Funds - Net	(94,819)
Net Assets End of Year	$7,023,443

See notes to financial statements.

Exhibit C

City of Estherville, Iowa
Municipal Electric Utility
Statement of Cash Flows
Year Ended December 31, 2009

Cash Flows From Operating Activities:	
Cash Received From Sales of Electricity to Customers	$4,647,449
Cash Received From Service to City	323,284
Cash Received From Other Operating Revenues	281,628
Cash Paid to Suppliers for Goods and Services	(3,536,171)
Cash Paid to Employees for Services	(517,320)
Cash Paid to City for Payments in Lieu of Taxes	(494,707)
Cash Paid to City for Reimbursement of Expense	(421,550)
Net Cash Provided By Operating Activities	282,613
Cash Flows From Noncapital Financing Activities:	
Transfers from Other Funds	152,893
Transfers to Other Funds	(94,819)
Net Cash Provided By Noncapital Financing Activities	58,074
Cash Flows From Capital and Related Financing Activities:	
Purchase of Capital Assets - Distribution	(249,106)
Purchase of Capital Assets - Generation	(451,452)
Proceeds from Sale of Asset	2,670
Net Cash Used By Capital and Related Financing Activities	(697,888)
Cash Flows From Investing Activities:	
Interest Income	23,799
Interest Expense	(2,024)
Gain on Wind Generation Project	6,151
Net Cash Provided By Investing Activities	27,926
Net Increase in Cash and Cash Equivalents	(329,275)
Cash and Cash Equivalents Beginning of Year	2,056,676
Cash and Cash Equivalents End of Year	$1,727,401
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Loss	$ (17,013)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	201,919
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	31,841
Decrease in Inventory	48,544
(Increase) in Prepaid Insurance	(2,221)
Increase in Accounts Payable	11,596
Increase in Customer Deposits Payable	4,873
Increase in Accrued Payroll	1,567
Increase in Sales and Use Tax Payable	1,507
Total Adjustments	299,626
Net Cash Provided By Operating Activities	$ 282,613

See notes to financial statements.

(1) Summary of Significant Accounting Policies

The Municipal Electric Utility, City of Estherville, Iowa's financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

B. Basis of Presentation

The accounts of the Municipal Electric Utility, City of Estherville, Iowa are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Measurement Focus and Basis of Accounting – Continued

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents – The Utility considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at December 31, 2009 include certificates of deposit of $514,840.

Designated Investments – Funds set aside for repurchase of the 69KV portion of substation, 69KV transmission lines No. 1 & No. 2 and backup transformer are classified as designated.

Capital Assets – Capital assets purchased prior to January 1, 1963 are accounted for at appraised values with subsequent additions accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Capital Assets - Continued

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	40
Building Improvements	40
Equipment and Vehicles	10-50

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets acquired during the year ended December 31, 2009.

Compensated Absences – Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Utility had no vacation payable at December 31, 2009.

Accounts Receivable – Bad debts are charged to operations in the year in which the account is determined uncollectible. If the reserve method of accounting for uncollectible accounts were used, it would not have a material effect on the financial statements. The City carries accounts receivable on the majority of its sales. The City's sales are made to local businesses and residents.

Inventory – Inventory is valued at cost (first-in, first-out method).

(2) Cash and Investments

The Utility's deposits in banks at December 31, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

(2) Cash and Investments – Continued

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

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Investment in Joint Venture – On November 4, 1997, the City entered into a joint venture agreement pursuant to the provisions of Chapter 390 of the Code of Iowa with the Municipal Electric Utility of the City of Cedar Falls, Algona Municipal Utilities, the City of Ellsworth, Westfield Municipal Utilities, Montezuma Light and Power, and the City of Fonda. This joint agreement is a collaborative effort of the parties above, the U.S. Department of Energy ("DOE"), and the Electric Power Research Institute ("EPRI") to develop, construct and operate a wind-powered electric generation facility (Iowa Distributed Wind Generation Project – "IDWGP"). The project is partially funded by a grant from EPRI consisting of 47.42% of construction and operating expenses for 1999 and 2000 funded by EPRI.

The City of Estherville owns an 8% interest in the project and at December 31, 2009 had a net investment of $115,026. At this time, the City does not anticipate a need for much additional financial investment. The energy produced by the IDWGP will be apportioned among the parties based on their percentages of ownership. On November 19, 1998, the City entered into a two year agreement to sell its share of the generation from the IDWGP to Cedar Falls Utilities. The City was to receive payments for its generation on a semiannual basis as follows: Annual Payment = (Actual Operating Costs) + (Net Capital Cost) x (8.72%). This agreement has not been fulfilled as Cedar Falls Utilities has found the cost to deliver this energy to them is too high. Currently, Algona Municipal Utilities is purchasing the generated power at their avoided cost which has been determined to be $.01494/KWH at December 31, 2009. It has not been determined how long this arrangement will continue.

(3) Equipment Sinking Fund

City officials have established an "Equipment Sinking Fund". This fund is increased by monthly deposits from various city departments with purchases being made from the fund for vehicles and equipment. The Utility department's 2009 balances and transactions are as follows:

	Generation Plant	Distribution Department	Total
Balance December 31, 2008	$ 5,114	$ 272,203	$ 277,317
Deposits to Fund 2009	306	88,095	88,401
Disbursements 2009	-	(56,957)	(56,957)
Balance December 31, 2009	$ 5,420	$ 303,341	$ 308,761

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of annual covered payroll for the period from January 1, 2009 through June 30, 2009 and 4.30% and 6.65% respectively, for the period from July 1, 2009 through December 31, 2009. Contribution requirements are established by state statute. The City's contributions to IPERS for years ended December 31, 2009, 2008 and 2007 were $32,459, $30,617, and $27,841, respectively, equal to the required contributions for each year for the Municipal Electric Utility.

(5) Designated Cash

Designated cash consists of customer security deposits collected and held by the Utility. The Utility pays interest of 5% per annum when the money is refunded.

(6) Reimbursement to City for Accounting, Collection, and Administration Expenses

City officials and employees have estimated the Utility's share of accounting and collection expenses to be $421,550 in 2009.

(7) Capital Assets

A summary of capital assets at December 31, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Generation – Land	$ 46,041	$ -	$ -	$ 46,041
Distribution – Land and Easement	8,324	-	-	8,324
Total capital assets not being depreciated	54,365	-	-	54,365
Capital assets being depreciated:				
Office Equipment	105,849	-	-	105,849
Generation	5,287,034	451,452	-	5,738,486
Distribution	7,738,390	249,106	(2,670)	7,984,826
Total capital assets being depreciated	13,131,273	700,558	(2,670)	13,829,161
Less accumulated depreciation for:				
Office Equipment	105,849	-	-	105,849
Generation	4,256,568	70,119	-	4,326,687
Distribution	5,130,652	131,800	-	5,262,452
Total accumulated depreciation	9,493,069	201,919	-	9,694,988
Total capital assets being depreciated, net	3,638,204	498,639	(2,670)	4,134,173
Total capital assets, net	$ 3,692,569	$ 498,639	$ (2,670)	$ 4,188,538

(8) Commitments – Agreement with Iowa Lakes Electric Cooperative and Corn Belt Power

On April 1, 2007, the City entered into a "Wholesale Electric Service Agreement" with Iowa Lakes Electric Cooperative (Cooperative) and Corn Belt Power Cooperative (Corn Belt).

Some of the more significant covenants of the current agreement are as follows:

1. The City agrees to purchase from the Cooperative all of its purchased electrical energy in excess of that which is available to the City from Western Area Power Administration, Iowa Distributed Wind Generation Project, Iowa Lakes Community College, that which the City purchases from other renewable energy projects and that which the City purchases under the Public Utility Regulatory Policies Act or other law or government regulation.

2. Corn Belt will own, operate, maintain and control all the electrical equipment and facilities on the substation site (including a backup substation transformer) and supply and install at its expense all facilities necessary to serve the high voltage side of the substation. The City shall provide and install at its expense all facilities for the low voltage side as well as own and lease to Corn Belt at no cost for the term of the agreement, the real estate upon which the existing substation serving the City is located.

3. The non-coincident demand rate will be equal to $12.40 per kW and the energy rate will be equal to 32.0 mills per kWh (the "Base Rate") from the date of this agreement until December 31, 2007. Beginning January 1, 2008, Iowa Lakes may make adjustments to the energy rate for any wholesale power cost adjustment implemented by Corn Belt to its member distribution systems. As of January 1, 2009, the energy rate was increased to 35.90 mills per kWh.

   The Cooperative will discount the monthly power bills due and payable to the Cooperative less any accredited capacity payments as noted below:

Year	Discount	Maximum
2007 (9 months) – 2010	2%	$50,000/year
2011-2017 (3 months)	1%	$25,000/year
2018 and thereafter	0%	-

4. Corn Belt shall pay the City for all of the City's accredited generating capacity at an amount established by Corn Belt on an annual basis. Capacity payments for the first nine months of the agreement will be $1.75/kW per month. The rate was unchanged for 2009.

(8) Commitments – Agreement with Iowa Lakes Electric Cooperative and Corn Belt Power - Continued

5. The initial term of this agreement is for a period of twenty (20) years and will continue in one year terms with no further action by either party. Any party may terminate this agreement by giving written notice to the other parties after the sixteenth (16th) anniversary but before its seventeenth (17th) anniversary that it will terminate at the end of its initial term. If no party gives the required notice during the 16th anniversary, the agreement continues until either party gives written notice to terminate the agreement at March 31st of the third year after the notice.

6. Corn Belt agrees to continue to own and maintain the 69 kV portion of substation and 69 kV transmission lines No. 1 & No. 2. Upon termination of this agreement, the City shall purchase the substation and all associated equipment and have the option of purchasing the transmission lines from Corn Belt at a price equal to Corn Belt's original cost less accumulated depreciation as of the date of contract termination. The City has set aside a certificate of deposit in the amount of $514,840 in anticipation of this repurchase requirement.

7. The effective date of this agreement was April 1, 2007.

8. The net cost of power purchased during 2009 under this agreement was $2,540,769.

(9) Commitments – Agreement with Western Area Power Administration

On May 1, 1998, the City entered into a "Service Agreement" with the United States Department of Energy, acting through the Administrator, Western Area Power Administrative (WAPA).

Some of the more significant covenants of the current agreement are as follows:

1. WAPA agreed to supply the City electrical energy not to exceed 2,814 KW in the winter season and 2,743 KW in the summer season through December 31, 2005, at which point the contract rate of delivery will be adjusted. The estimated cost of power from WAPA is 1.54 cents per KWH not including the cost of transmission.

   On December 15, 2005, the City entered into a new agreement with WAPA effective January 1, 2006 through December 31, 2010. Under this agreement the contract rate of delivery for firm power during any winter season shall be 2,808 KW and 2,739 KW during any summer season.

(9) Commitments – Agreement with Western Area Power Administration - Continued

2. WAPA makes delivery of energy through Corn Belt Power Cooperative, the City's primary energy provider with whom the City has entered into an agreement dated November 1, 2000 for the delivery of this energy at an estimated rate of .462 cents per KWH. This transmission agreement was in effect January 1, 2001 through December 31, 2003.

3. On January 1, 2004, the City entered into a new transmission agreement effective January 1, 2004 through December 31, 2009. The terms of this agreement did not change from the prior transmission agreement. The net delivery cost during 2009 under this agreement was $50,039.

4. The initial term of this agreement with WAPA is for a period of twenty (20) years with service to begin on January 1, 2001.

5. The net cost of power purchased during 2009 under this agreement was $406,714.

(10) Commitments – Agreement with Iowa Lakes Community College

On September 21, 2004, the City entered into an "Interconnection Agreement" with Iowa Lakes Community College (ILCC) for interconnection and operation of a wind turbine generator (WTG).

Some of the more significant covenants of the current agreement are as follows:

1. The City and ILCC agree that the WTG may be interconnected to and operated in parallel with the City's system.

2. ILCC will provide and maintain the necessary equipment for interconnection and operation of the WTG.

3. The City will have the right to inspect, at its own expense and upon reasonable notice to ILCC, any interconnection equipment for the WTG.

(10) Commitments – Agreement with Iowa Lakes Community College – Continued

4. The agreement is for a period of 20 years from the commercial date of operation of the WTG. It may be terminated by ILCC at any time by giving the City two (2) years written notice. The City may terminate upon failure by ILCC to generate energy from the WTG by the later of two (2) years from the date of this agreement or twelve (12) months after completion of the interconnection. Either party may terminate by giving the other party at least sixty days' prior written notice that the other party is in default of any of the material terms and conditions of the agreement.

5. The City connected to the WTG on February 15, 2005.

(11) Commitments – Agreement with Iowa Lakes Community College

On September 21, 2004, the City entered into a "Power Purchase Agreement" with Iowa Lakes Community College (ILCC) to purchase power from the wind turbine generator (WTG).

Some of the more significant covenants of the current agreement are as follows:

1. The City agrees to purchase all of the output of the WTG delivered to the Interconnection Point. There are no minimum or maximum output requirements.

2. Payment will be calculated by multiplying the metered output by the avoided cost rate. Initially the avoided cost rate will be about 2.73 cents per KWH. The avoided cost rate may change from month to month to track the City's actual avoided costs.

3. The agreement is for a period of 20 years from the commercial date of operation of the WTG. It may be terminated by ILCC at any time by giving the City two (2) years written notice. Either party may terminate by giving the other party at least sixty days' prior notice that the other party is in default of any of the material terms and conditions of the agreement. Either party may terminate by giving the other party at least sixty days' prior written notice if the Interconnection Agreement is terminated.

4. The City began receiving power from the WTG on February 15, 2005.

5. The net cost of power purchased during 2009 under this agreement was $132,208.

(12) Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City assumes liability for any deductibles and claims in excess of coverage limitations.

(13) Related Party Transactions

The Municipal Electric Utility, City of Estherville, Iowa had sales of electric power to the City of Estherville of $322,029 during the year ended December 31, 2009. The Utility paid $421,550 for accounting and collection, and $494,707 for payment in lieu of taxes to the City of Estherville during the year ended December 31, 2009. The City of Estherville owed $25,264 to the Utility at December 31, 2009. The Utility is a fund of the City of Estherville.

Other Supplementary Information

CITY OF ESTHERVILLE, IOWA
MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF STATISTICAL DATA
YEAR ENDED DECEMBER 31, 2009

UNAUDITED

	KWH Sold	Amount Billed	Average Unit Revenue Per KWH	Percent of Revenue To Total	Percent of KWH To Total	Number of Meters In Service
Service to Customers						
Residential	20,189,765	$ 1,944,361	9.63	40.41 %	35.84 %	2,689
Small Commercial	7,872,121	745,453	9.47	15.49	13.97	407
Large Commercial	17,416,247	1,364,089	7.83	28.35	30.91	45
Industrial	6,585,600	436,183	6.62	9.06	11.69	1
Total Service to Customers	52,063,733	4,490,086	8.62	93.31	92.41	3,142
Service to City	4,274,430	322,029	7.53	6.69	7.59	40
Total	56,338,163	$ 4,812,115		100.00 %	100.00 %	3,182

Analysis of Kilowatt Hours Generated and Purchased

Total Kilowatt Hours Generated - 2009		46,700
Kilowatt Hours Purchased - Net 2009		59,674,324
		59,721,024
Less: Station Power Consumption		(698,100)
Total to Feeders		59,022,924
Kilowatt Hours Sold on Line		
Service to Customers	52,063,733	
Service to City	4,274,430	
Kilowatt Hours Used For Security/Traffic Lights	604,720	56,942,883
Line Loss and Excess Generation 3.52%		2,080,041

See Independent Auditors' Report

CITY OF ESTHERVILLE, IOWA
MUNICIPAL ELECTRIC UTILITY
OPERATIONAL ANALYSIS
YEAR ENDED DECEMBER 31, 2009

UNAUDITED

REVENUE

Sales of electrical energy decreased in 2009 to 56,338,163 kilowatt hours from 58,809,781 in 2008, a decrease of 2,471,618 kilowatt hours. Operating revenues from energy sales decreased to $4,943,213 down $140,295 from the previous year. Other operating revenues decreased $50,107. Total operating revenues for 2009 were $5,220,520, a decrease of $190,402 from the previous year.

OPERATION AND MAINTENANCE EXPENSE

Operating expenses in 2009 increased to $5,237,533 up from $5,023,291 in 2008 for an increase of $214,242. Energy purchases continue to be the largest single item of operating expense and totaled $3,129,730 up from $2,992,566 in 2008. The cost of purchased power, natural gas and fuel oil represented approximately 60.68% of the total operating costs in 2009 and 60.16% in 2008.

NET LOSS

Net operating loss before interest totaled $17,013 in 2009, compared to net operating income before interest of $387,631 for the prior year, a decrease of $404,644. Depreciation expense increased $18,472 for the current year, and interest expense increased $220. Interest income decreased $18,635 in 2009 when compared to 2008.

Net loss of $1,598 was realized for 2009 compared to net income of $448,196 for 2008, a decrease of $449,794.

Independent Auditors' 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

CITY OF ESTHERVILLE, IOWA
MUNICIPAL ELECTIC UTILITY

Brinkman &
Reed, CPA's

103 South Sixth Street Estherville, Iowa 51334 712-362-5891 Phone 712-362-7172 Fax

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and Members of the City Council
City of Estherville, Iowa

We have audited the accompanying financial statements of Municipal Electric Utility, City of Estherville, Iowa, as of and for the year ended December 31, 2009, and have issued our report thereon dated March 10, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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accounting principles such that there is more than a remote likelihood a misstatement of Municipal Electric Utility, City of Estherville's financial statements that is more than inconsequential will not be prevented or detected by Municipal Electric Utility, City of Estherville's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipal Electric Utility, City of Estherville, Iowa'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 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. 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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Municipal Electric Utility, City of Estherville, Iowa 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, City of Estherville, Iowa 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.

Brinkman & Reed, CPA's

Brinkman & Reed, CPA's

March 10, 2010

CITY OF ESTHERVILLE, IOWA
MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2009

Part I: Summary of the Independent Auditors' Results:

(a) A qualified opinion was issued on the financial statements of the Municipal Electric Utility, City of Estherville, Iowa.

(b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF ESTHERVILLE, IOWA
MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2009

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are imcompatible. We noted that employees who handle cash receipts are also involved with the preparation of bank reconciliations.

Recommendation - We realize segregation of duties with a limited number of office employees is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will make every effort to comply.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:
No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-09 Questionable Disbursements - No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-B-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-C-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

III-D-09 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City's investment policy.