

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

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

**December 31, 2009**

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

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**OFFICIALS  
OSAGE MUNICIPAL UTILITIES**

**December 31, 2009**

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	Steve Swenson	December 2014
Trustee	Kevin Palsic	December 2012
Trustee	Harlan Bremer	December 2009
Trustee	Royce Tack	December 2009
Trustee	Doug Lang	December 2010
General Manager	Dennis Fannin	Indefinite
Board Secretary	Paula Ross	Indefinite
Cashier	Jane Michels	Indefinite
Treasurer	Beverly Miller	January 2011



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

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Osage Municipal Utilities  
Osage, Iowa

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Osage Municipal Utilities, (a component unit of the City of Osage) as of and for the years ended December 31, 2009 and 2008 which collectively comprise the Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Osage Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund and the aggregate remaining fund information of Osage Municipal Utilities as of December 31, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 12, 2010 on our consideration of Osage Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 and budgetary comparison information on pages 4 through 14 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain

limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Osage Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2008 and expressed unqualified opinions on those financial statements. The other supplementary information included in schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 1 through 5 have been subjected to the auditing procedures applied in the audits of the aforementioned financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The other supplementary information included in schedules 6 through 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Schedules 6 through 9 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

July 12, 2010

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Osage Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2009. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2009 FINANCIAL HIGHLIGHTS

- ◆ The Utilities' operating revenues for 2009 remained consistent with 2008 operating revenues at approximately \$9,900,000.
- ◆ Operating expenses decreased 1.6%, or approximately \$143,000, from 2008 to 2009.
- ◆ The Utilities' net assets increased 5.6%, or approximately \$759,000 during 2009.

### USING THIS ANNUAL REPORT

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget and a funding schedule for the Retiree Health Plan.

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

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

## REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

### *Fund Financial Statements*

Osage Municipal Utilities utilizes one kind of fund:

- 1) Proprietary funds account for the Utilities' enterprise activities. Enterprise funds are used to report business type activities. Osage Municipal Utilities maintains six Enterprise Funds to provide separate information for the light and power, gas, internet, telephony, cable, and wireless funds.

The condensed statement of net assets, shown below, shows how assets and liabilities have changed over the past two years. In 2009 capital assets increased by approximately 21% and represent 70% of total assets. This increase is due to capital asset purchases exceeding depreciation and retirements. Total assets increased by approximately \$1,263,000 and liabilities increased by \$504,000 resulting in the increase in net assets of approximately \$759,000 during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2009	2008
Current and other assets	\$ 6,610	\$ 8,105
Capital assets (net of depreciation)	15,738	12,980
Total assets	22,348	21,085
Long-term debt outstanding	5,652	5,631
Other liabilities	2,441	1,958
Total liabilities	8,093	7,589
Net assets:		
Invested in capital assets, net of related debt	9,228	7,088
Restricted	841	983
Unrestricted	4,186	5,425
Total net assets	\$ 14,255	\$ 13,496

## INDIVIDUAL MAJOR FUND ANALYSIS

As Osage Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$14.2 million, an increase of more than \$759,000 over last year's total of \$13.5 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

### **Electric Utility Results of Operations**

Light and Power operating revenues increased 14.8% from the prior year due to a partial year increase in retail electric rates. The electric rate increase was necessary to offset the 26% increase in wholesale power costs in May 2009.

Total operating expenses for 2009 were higher by almost \$404,000, or 10.0% more than in 2008. Most of the increase can be attributed to the higher cost of purchased power, which increased by almost \$565,000. The combined effect of these two factors resulted in 2009 operating income increasing by more than \$260,000, a 56% improvement over the 2008 level. By reducing non-operating expenses by more than 52% and practically eliminating the need for income from “Other financing sources”, the Electric Utility achieved an increase in Net Assets of more than \$684,000 in 2009, compared to an increase of \$683,000 in 2008.

The \$1,659,000 decline in cash balances compared to 2008 is attributed to capital expenditures for a wind turbine project.

Capital assets represent 81% of total assets in 2009. Capital assets increased almost 23% in 2009, primarily due to the addition of a wind turbine project totaling \$3,487,366.

### **Gas Utility Results of Operations**

The volume of natural gas consumed by Osage residents and businesses remained stable in 2009, while actual gas revenues dropped almost \$674,000, or 18.4%, due to plummeting natural gas prices. Fortunately, total operating expenses decreased by a corresponding \$696,000, or more than 18% lower than the 2008 level.

The Gas Utility’s allocated share of donations to City projects, a non-operating expense, increased by more than \$67,000 from the \$22,000 amount donated in 2008. With no operating transfers made from the Gas Utility in 2009, these factors combined to effectively decrease net assets by almost \$93,000, actually improving on the reduction in net assets recorded in 2008 by more than \$230,000.

Of the total volumes of gas delivered to customers during 2009, 31% can be attributed to the Gas Utility’s largest customers.

The cash balance for 2009 increased by more than \$228,000, or 50% over the cash balance in 2008, as a result of income generated from operations.

Capital assets in 2009 represent about 33% of total assets. Depreciation exceeded capital expenditures resulting in a reduction in net book value of 5% in 2009.

### **Telecom Utility Results of Operations**

The Communications Utility ended the year with a gain of almost \$168,000. The popularity of cellular phone usage, the struggling economy, and the predatory nature of competitor pricing strategies has steadily decreased the number of customers who subscribe to our telephone and cable television services. However, the number of high speed internet customers grew by 6.6% and rural wireless internet customers remained stable. In spite of the aforementioned competitive challenges, the Telecom Utility’s net assets increased by 16.1%.

A \$220,000 increase in cash balance for 2009 represented a 20% increase over the 2008 cash balance.

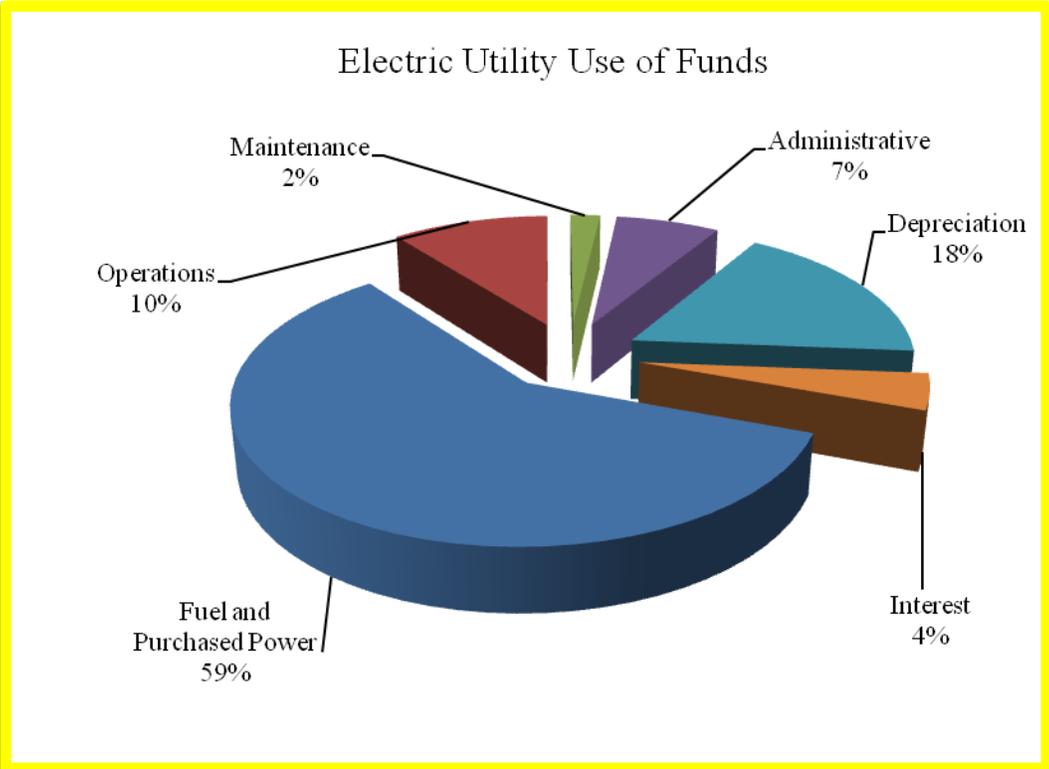
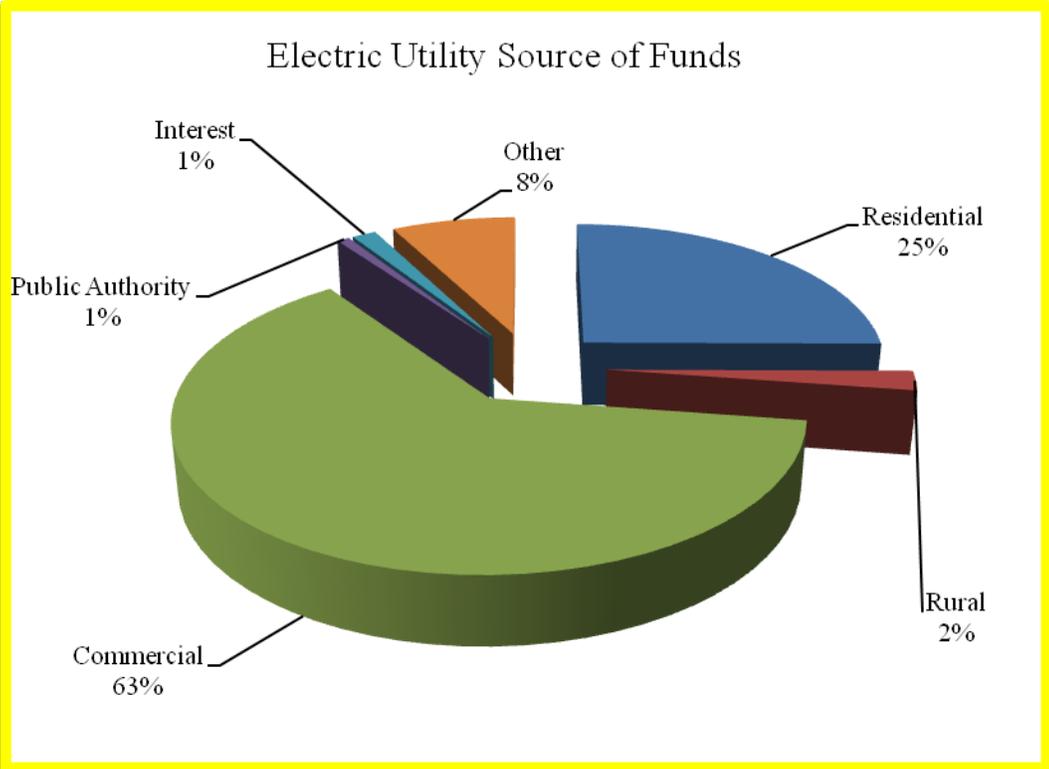
Telecom Utility capital assets are diminutive, at 5% of total assets, because telephone and cable assets are owned by the Electric Utility, leaving less than \$83,000 in capital assets owned by the Internet and Wireless Funds. Consequently, slightly more than 80% of Telecom Utility total assets are comprised of cash.

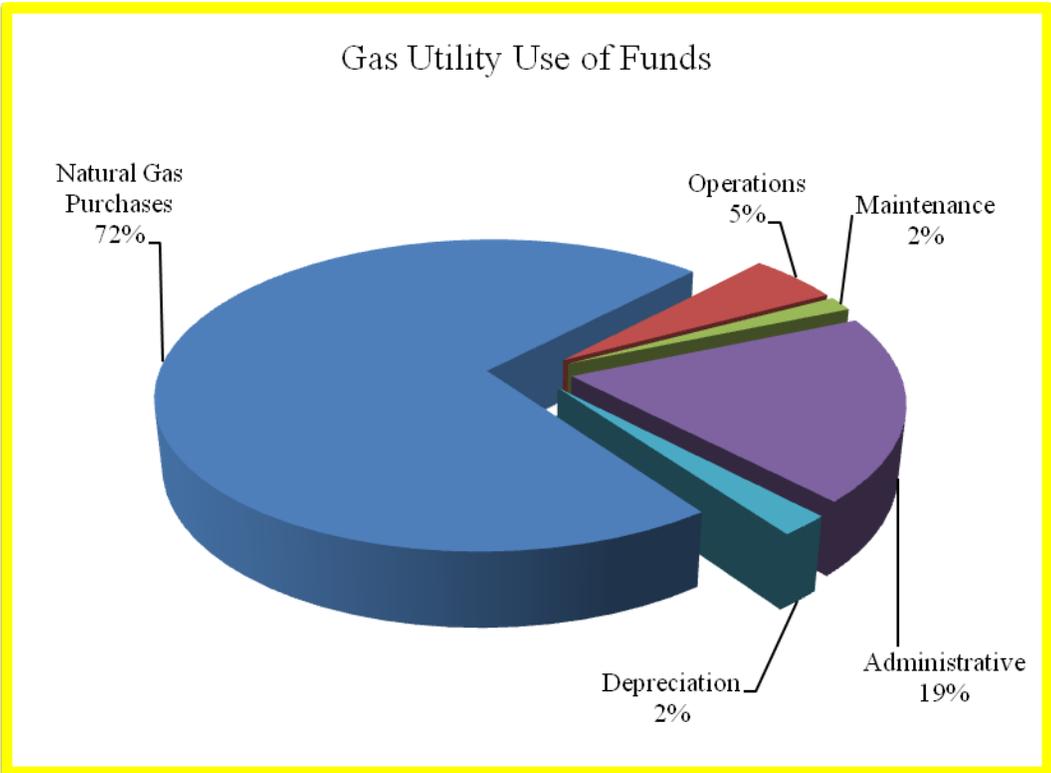
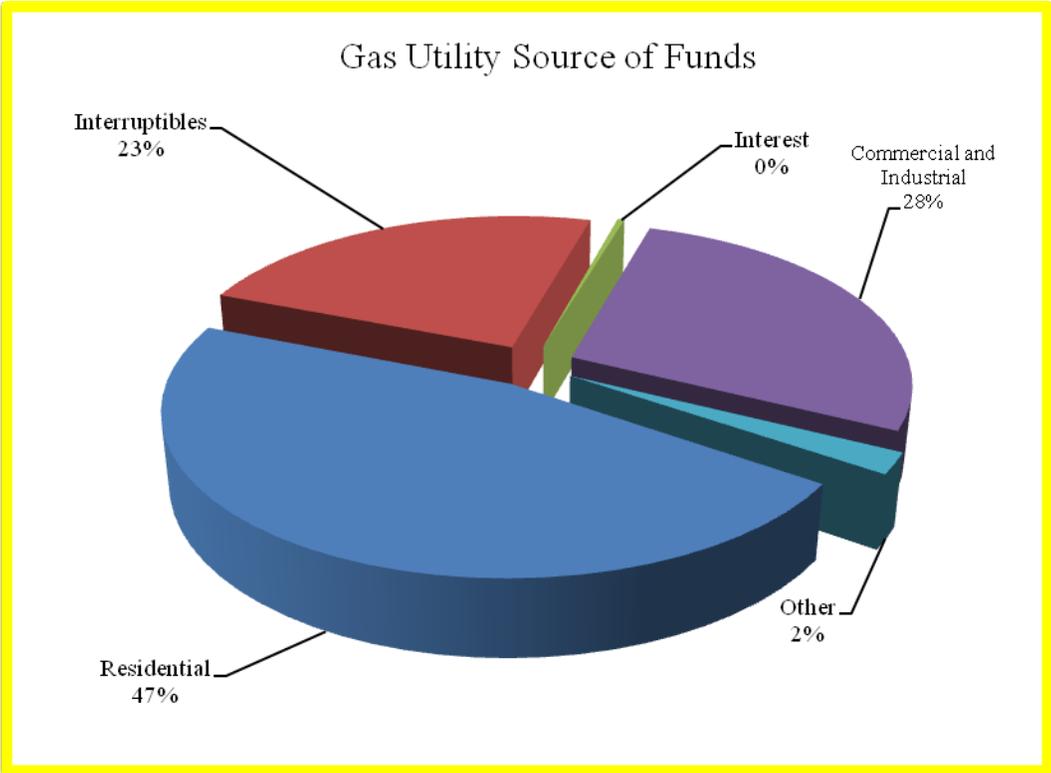
Our presence as a provider of communications services enables all Osage consumers of communications services to continue to benefit from the competitive nature of the Osage marketplace.

### Combined Results of Operations

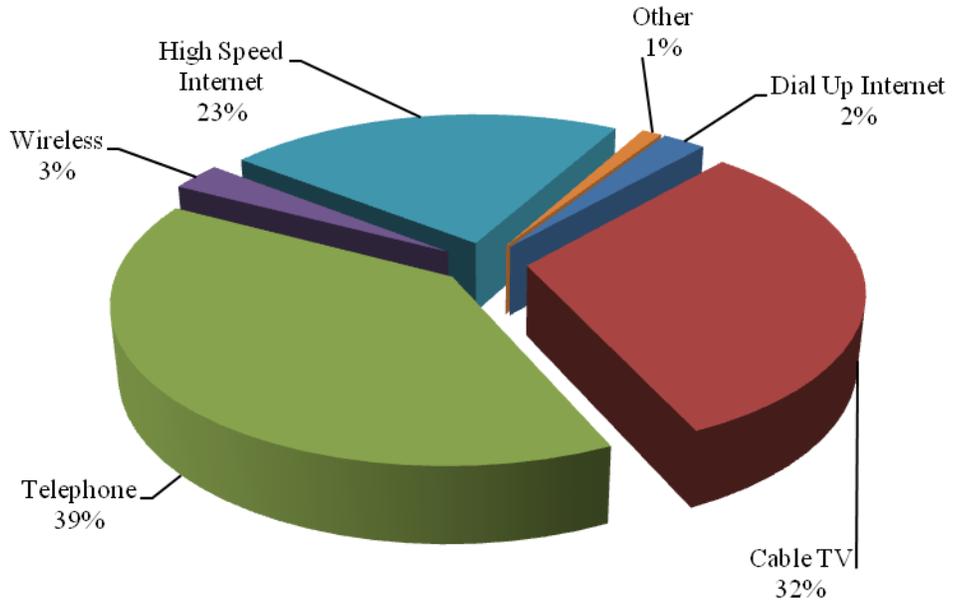
The following analysis focuses on the change in net assets for the combined divisions of Osage Municipal Utilities. The pie charts following the chart below show the source of revenues and expenses by fund for Osage Municipal Utilities.

Changes in Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2009	2008
Operating revenues	\$ 9,932	\$ 9,927
Operating expenses	8,986	9,129
Operating income	946	798
Net non-operating revenues (expenses)	(192)	(174)
Other financing sources (uses)	5	7
Change in net assets	759	631
Net assets beginning of year	13,496	12,865
Net assets end of year	\$ 14,255	\$ 13,496

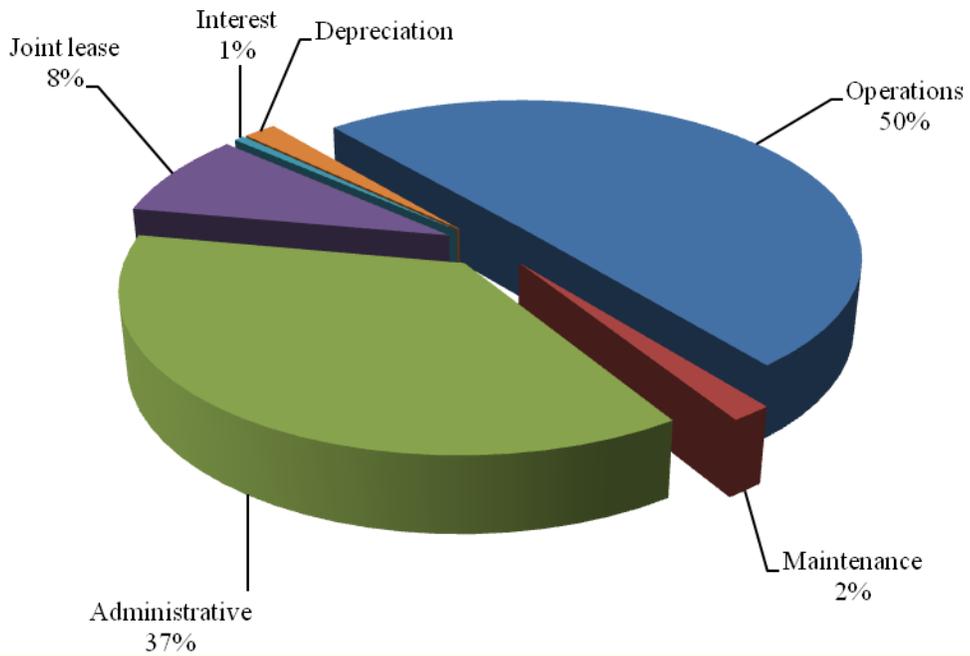




### Communications Utility Source of Funds



### Communications Utility Use of Funds



## BUDGETARY HIGHLIGHTS

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2009, Osage Municipal Utilities had approximately \$15.7 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase (including additions and deletions net of depreciation) of approximately \$2,758,000 or 21% over last year.

Capital Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2009	2008
Land and improvements	\$ 48	\$ 48
Buildings and improvements	991	1,031
Equipment and vehicles	11,082	11,707
Construction in progress	3,487	64
Iowa Stored Energy Project	130	130
Total	\$ 15,738	\$ 12,980

The largest addition to capital assets was the construction of a wind turbine to generate electricity.

Osage Municipal Utilities had depreciation expense of \$910,135 in 2009 and total accumulated depreciation of \$13,434,257 at December 31, 2009.

## LONG TERM DEBT/LIABILITIES

At December 31, 2009, Osage Municipal Utilities had \$5,631,000 in revenue bonds outstanding compared to \$6,137,000 at December 31, 2008, as shown below.

Outstanding Debt of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2009	2008
Revenue bonds	\$ 5,631	\$ 6,137

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

### **The Electric Utility**

After many months of planning, Osage Municipal Utilities became the owner of a 1.5 MW wind turbine, constructed and made operational by the close of 2009, as projected. The renewable energy produced from this project will contribute to Iowa's renewable energy goals and environmental objectives. Besides reducing our dependence on foreign sources of energy, use of fossil fuels and greenhouse gas emissions, the slightly higher cost of energy derived from wind may soon become a hedge against the future cost of energy from fossil-fueled sources. Additionally, the likelihood of either a state or federally mandated renewable portfolio standard may further justify investment in a utility scale wind project as an appropriate preemptive and defensive strategy. Osage's new wind turbine will offset, or displace, about 8.5% of the non-renewable fossil-fueled energy purchased from our wholesale power provider. Put another way, the electricity generated by Osage's wind turbine provides enough clean renewable energy to power the equivalent of approximately 500 homes in the Osage electric distribution system.

To help finance the addition of a wind turbine to our portfolio of generating assets, the Electric Utility applied for a loan of \$572,000 from the Iowa Finance Authority (IFA) in November 2009. The IFA, in cooperation with the Iowa Department of Natural Resources, administers the program that allows 20% of the loan to be forgiven when the borrower meets all the requirements of the "American Recovery and Reinvestment Act of 2009". The loan closed in March 2010, and carries an interest rate of 3% with a 10-year repayment term.

A longer term strategic initiative intended to hedge against the rising cost of electricity is the Iowa Stored Energy Park (ISEP) project. ISEP is a proposed 270 MW compressed air energy storage and electric generation facility to be located at Dallas Center, Iowa, near Des Moines, and is still on track to transform one of Iowa's most abundant energy sources, wind, into on-demand electricity for Iowa consumers. The project is sponsored by the Iowa Stored Energy Plant Agency (ISEPA) and is currently exclusively comprised of regional municipal electric utilities. Osage is one of the founding members. Specifically, ISEP will use low-cost, primarily renewable wind-generated electricity from the regional electric grid during weeknight and weekend periods to compress air. The air will be stored in a unique sandstone aquifer 3,000 feet underground. Then, the compressed air will be released during weekday periods and, together with modest amounts of natural gas, used to regenerate electricity back into the regional grid when market prices are typically higher. This highly innovative and unique project will make otherwise intermittent renewable wind energy available whenever regional electric customers need it. Further, it will enable more wind energy development than would otherwise be possible.

Test wells are currently being drilled to identify the specific characteristics and operability of the sandstone geologic formation that will be used for storing compressed air. The projected operational time frame for ISEP is 2014-2015.

A portion of Osage's wholesale power cost is reflective of demand and supply dynamics in the energy market. Due to the relative stability we have seen in the energy market in the last several

months, and expect to see at least for the remainder of 2010, no retail increase is budgeted for 2010.

Dairyland Power Cooperative, Osage's wholesale power provider, remains as one of the lowest cost energy providers in the Midwest, enabling our customers to benefit from very competitive retail rates. However, in keeping with the flexibility afforded by our contract with Dairyland, which allows us to build a portfolio of energy supply options, OMU continues to investigate, through municipal joint action, opportunities to acquire a long-term alternate block of energy and capacity to lower our exposure to market risk.

### **The Gas Utility**

Weather-related risks and odds for major hurricane-related outages are just a couple of the risks that drive natural gas price volatility. U.S. natural gas storage supplies, valuation of the dollar, natural gas drilling rig count, global supply of natural gas, looming climate change legislation, economic recovery and oil prices are all factors that, when combined, create uncertainty and risk in the natural gas industry. The end result: price volatility. To address increased price volatility, as well as increased credit exposure associated with buying peak supplies during a potentially volatile gas price environment, OMU continues to successfully employ price hedges on gas volumes throughout the year.

### **Communications**

As previously identified, Osage Municipal Utilities' largest technical challenge in 2010 is planning the replacement of our community-wide phone system which is scheduled for end-of-life in July 2011. The initial deployment of a Voice over Internet Protocol (VoIP) system is scheduled during the late fall of 2010. Infrastructure changes are expected to be minimal based on our current third party service partner agreements and status of our existing Hybrid Fiber Coaxial (HFC) system, which continues to function flawlessly and perform to specifications.

Replacement of our HFC system with Fiber-To-The-Premise (FTTP) is another project in active discussion. As the current ample capabilities of the HFC system become eclipsed by the bandwidth and operational cost advantages of FTTP, a rebuild is inevitable. However, until digital delivery of content becomes the norm in 5 to 7 years, radio frequency will continue to serve OMU well both operationally and economically. In the interim, an initial investment in FTTP is underway using Radio Frequency over Glass (RFoG) for greenfield projects and to establish dark communications conduits when future plant replacement is necessary to augment existing utilities. Unfortunately, federal broadband grants were not available for our utility because of the existing level of competition and the greater bandwidth speeds that we already offer our customers. Likewise, our competitors were also denied grants for these same reasons keeping unbalanced government funding out of our marketplace.

As a triple play provider, our future direction will be influenced by the decline in residential phone customers as they convert to cell phones and the availability of video content on the Internet. The implementation of a VoIP system will offer dial tone at lower operational costs and provide modular options for a variety of value added customer features. VoIP is also transport independent, operating in coaxial cable or Fiber systems. Content delivered via the Internet, whether movies or syndicated programming, is evolving to make it easier for the end user to take advantage of these services. Planning is underway to position our Cable TV set top box as the interface between the

Internet, traditional Cable TV and our customer. Viewing content on the customer's schedule is today's answer to busy lives. Once the convenience of a digital video recorder (DVR) is experienced, very few customers can live without one. This combination of a DVR, Internet access, Cable TV programming and outstanding service will enable us to maintain a competitive position relative to our market.

Forays into other communication revenue streams are beginning to show their worth. A co-located computer hosting pilot program providing disaster recovery for local and regional customers that began in late 2009 is proving to be a viable business model. While progressing incrementally to not overburden existing staff, our market's needs and our facility's features drive the continued expansion of this business model. The number of customers using our hosted web page service has doubled since 2009. This service is directed towards our local markets who are already accustomed to our high level of service and availability. Other providers can under price us, but few, if any, offer our reliability and customer focus. A study of local business computer network needs has revealed a lack of local talent able to effectively serve small to medium systems. Staffing requirements are currently being assessed prior to offering a business class networking service for our Internet customers. Our goal is to remain knowledgeable of trends and opportunities that best match our customers' needs.

### **Energy Efficiency**

To align OMU's programs to meet energy efficiency goals developed in 2009 for the Iowa Utility Board, OMU subscribes to an energy efficiency management service offered by the Iowa Association of Municipal Utilities, our state trade association. This service provides for energy efficiency programs, proof of energy savings, marketing, data acquisition and report filings. The cost of administration is shared by all program members allowing a savings not readily available to smaller utilities. Each utility is responsible for implementation at the local level. Programs expanded at OMU are based on the findings of the 2008 Energy Center of Wisconsin assessment study of Iowa municipal utilities. These findings identified the largest offenders of electrical demand and energy and natural gas waste: lighting, space cooling and space heating. OMU supports a variety of initiatives including energy efficiency rebates and home energy audits that are proven to reduce energy consumption and save customers money while maintaining comfort.

OMU received two matching grants from the Iowa Office of Energy Independence in 2010. One grant assists in retrofitting existing Utility facilities with advanced energy efficiency devices. These upgrades will benefit all customers with more efficient utility operations. The second grant focuses on energy audit training, certifying an employee to conduct audits and purchasing of energy auditing equipment. This step is a fundamental part of OMU's overall energy efficiency program strategy: offering reliable advice and direction to customers' requests for energy saving projects that actually will work.

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

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

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

**STATEMENTS OF NET ASSETS**

**AS OF DECEMBER 31:**

	ENTERPRISE	
	LIGHT AND POWER	
	2009	2008
Capital assets:		
Capital assets, net of accumulated depreciation	\$ 14,884,088	\$ 12,112,022
Current assets:		
Cash and cash equivalents	1,415,009	3,074,521
Accounts receivable (net of allowance for doubtful accounts)	535,770	469,405
Unbilled usage	330,265	297,793
Investments	629,954	633,459
Inventory	480,378	448,029
Prepaid expenses	21,892	21,649
	3,413,268	4,944,856
Other assets:		
Bond discount - net of accumulated amortization	54,576	54,903
Total assets	\$ 18,351,932	\$ 17,111,781

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ 771,883	\$ 813,774	\$ 82,491	\$ 53,763	\$ 15,738,462	\$ 12,979,559
684,938	456,592	1,320,426	1,100,309	3,420,373	4,631,422
375,252	369,707	161,160	323,788	1,072,182	1,162,900
337,899	457,851	3,789	3,789	671,953	759,433
-	-	-	-	629,954	633,459
13,052	13,427	37,908	32,813	531,338	494,269
171,402	344,161	36,026	2,975	229,320	368,785
<u>1,582,543</u>	<u>1,641,738</u>	<u>1,559,309</u>	<u>1,463,674</u>	<u>6,555,120</u>	<u>8,050,268</u>
-	-	-	-	54,576	54,903
<u>\$ 2,354,426</u>	<u>\$ 2,455,512</u>	<u>\$ 1,641,800</u>	<u>\$ 1,517,437</u>	<u>\$ 22,348,158</u>	<u>\$ 21,084,730</u>

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

**STATEMENTS OF NET ASSETS**

**AS OF DECEMBER 31:**

	<b>ENTERPRISE</b>	
	<b>LIGHT AND POWER</b>	
	<b>2009</b>	<b>2008</b>
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	1,373,189	383,210
Accounts payable - City of Osage	82,460	80,414
Customer meter deposits	16,387	22,157
Customer budget billing	33,784	22,893
Accrued expenses	63,447	52,669
Accrued interest payable	17,318	18,636
Deferred revenue	-	-
Revenue bonds payable	475,466	460,466
	2,062,051	1,040,445
<b>Noncurrent liabilities:</b>		
OPEB liabilities	9,804	-
Revenue bonds payable - net of current portion	4,955,592	5,431,058
	4,965,396	5,431,058
<b>Total liabilities</b>	<b>7,027,447</b>	<b>6,471,503</b>
<b>Fund net assets:</b>		
Invested in capital assets, net of related debt	8,373,325	6,220,497
Restricted - bond covenant	841,432	982,976
Unrestricted (deficit)	2,109,728	3,436,805
<b>Total net assets</b>	<b>11,324,485</b>	<b>10,640,278</b>

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2009	2008	2009	2008	2009	2008
360,241	470,059	32,179	39,583	\$ 1,765,609	\$ 892,852
-	-	-	-	82,460	80,414
35,579	40,767	19,454	23,717	71,420	86,641
195,689	97,811	-	-	229,473	120,704
39,437	36,042	25,952	22,733	128,836	111,444
-	-	709	853	18,027	19,489
-	-	145,388	140,470	145,388	140,470
-	-	45,000	45,000	520,466	505,466
<u>630,946</u>	<u>644,679</u>	<u>268,682</u>	<u>272,356</u>	<u>2,961,679</u>	<u>1,957,480</u>
5,400	-	5,224	-	20,428	-
-	-	155,000	200,000	5,110,592	5,631,058
<u>5,400</u>	<u>-</u>	<u>160,224</u>	<u>200,000</u>	<u>5,131,020</u>	<u>5,631,058</u>
<u>636,346</u>	<u>644,679</u>	<u>428,906</u>	<u>472,356</u>	<u>8,092,699</u>	<u>7,588,538</u>
771,883	813,774	82,491	53,763	9,227,699	7,088,034
-	-	-	-	841,432	982,976
946,197	997,059	1,130,403	991,318	4,186,328	5,425,182
<u>1,718,080</u>	<u>1,810,833</u>	<u>1,212,894</u>	<u>1,045,081</u>	<u>14,255,459</u>	<u>13,496,192</u>

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

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

**AS OF DECEMBER 31:**

	<u>ENTERPRISE</u>	
	<u>LIGHT AND POWER</u>	
	<u>2009</u>	<u>2008</u>
Operating revenues:		
Charges for service	\$ 5,169,314	\$ 4,504,822
Operating expenses:		
Business type activities	4,440,354	4,036,430
Operating income (loss)	<u>728,960</u>	<u>468,392</u>
Non-operating revenues (expenses):		
Interest income	78,921	80,934
Interest expense	(198,791)	(219,549)
Other income	55,761	75,017
Donations	-	(71,810)
Total non-operating revenues (expenses)	<u>(64,109)</u>	<u>(135,408)</u>
Other financing sources (uses):		
Operating transfers in	14,742	349,586
Operating transfers (out)	-	-
Gain (loss) on sale of capital assets	4,614	551
Total other financing sources (uses)	<u>19,356</u>	<u>350,137</u>
Change in net assets	684,207	683,121
Net assets - beginning of year	<u>10,640,278</u>	<u>9,957,157</u>
Net assets - end of year	<u>\$ 11,324,485</u>	<u>\$ 10,640,278</u>

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ 2,984,148	\$ 3,657,910	\$ 1,778,321	\$ 1,764,030	\$ 9,931,783	\$ 9,926,762
<u>2,998,942</u>	<u>3,694,980</u>	<u>1,546,318</u>	<u>1,397,523</u>	<u>8,985,614</u>	<u>9,128,933</u>
<u>(14,794)</u>	<u>(37,070)</u>	<u>232,003</u>	<u>366,507</u>	<u>946,169</u>	<u>797,829</u>
11,466	29,297	20,398	21,712	110,785	131,943
(137)	(224)	(9,646)	(10,922)	(208,574)	(230,695)
-	-	-	-	55,761	75,017
<u>(89,800)</u>	<u>(22,340)</u>	<u>(60,200)</u>	<u>(55,850)</u>	<u>(150,000)</u>	<u>(150,000)</u>
<u>(78,471)</u>	<u>6,733</u>	<u>(49,448)</u>	<u>(45,060)</u>	<u>(192,028)</u>	<u>(173,735)</u>
-	-	25,000	-	39,742	349,586
-	(300,000)	(39,742)	(49,586)	(39,742)	(349,586)
512	6,910	-	-	5,126	7,461
<u>512</u>	<u>(293,090)</u>	<u>(14,742)</u>	<u>(49,586)</u>	<u>5,126</u>	<u>7,461</u>
(92,753)	(323,427)	167,813	271,861	759,267	631,555
<u>1,810,833</u>	<u>2,134,260</u>	<u>1,045,081</u>	<u>773,220</u>	<u>13,496,192</u>	<u>12,864,637</u>
<u>\$ 1,718,080</u>	<u>\$ 1,810,833</u>	<u>\$ 1,212,894</u>	<u>\$ 1,045,081</u>	<u>\$ 14,255,459</u>	<u>\$ 13,496,192</u>

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

**STATEMENTS OF CASH FLOWS**

**AS OF DECEMBER 31:**

	<u>ENTERPRISE</u>	
	<u>LIGHT AND POWER</u>	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 4,936,732	\$ 4,261,641
Cash received from other funds	138,866	121,149
Cash payments to suppliers	(3,218,129)	(2,700,805)
Cash payments to employees	(453,334)	(373,525)
Cash payments to other funds	-	-
Cash payments for contributions	(54,230)	(61,139)
Net cash provided (used) by operating activities	<u>1,349,905</u>	<u>1,247,321</u>
Cash flows from noncapital financing activities:		
Transfers in	14,742	349,586
Transfers out	-	-
Miscellaneous non-operating revenue	55,761	75,017
Donations	-	(71,810)
Net cash provided (used) by noncapital financing activities	<u>70,503</u>	<u>352,793</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,499,375)	(1,589,079)
Proceeds from sale of assets	4,614	551
Proceeds from revenue bonds	-	1,806,990
Repayment of revenue bonds	(460,466)	(445,466)
Acquisition of unamortized discount	-	(5,020)
Cash paid for interest	(200,109)	(218,978)
Net cash (used) by capital and related financing activities	<u>(3,155,336)</u>	<u>(451,002)</u>
Cash flows from investing activities:		
Purchases of investments	(3,505)	(418,559)
Investment income	78,921	80,934
Net cash provided by investing activities	<u>75,416</u>	<u>(337,625)</u>
Net increase (decrease) in cash and cash equivalents	(1,659,512)	811,487
Cash and cash equivalents-beginning of year	3,074,521	2,263,034
Cash and cash equivalents-end of year	<u>\$ 1,415,009</u>	<u>\$ 3,074,521</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ 728,960	\$ 468,392
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	814,351	782,583
Change in accounts receivable	(66,365)	(84,422)
Change in meter deposits and unbilled usage	(27,351)	(37,610)
Change in prepaid expenses	(243)	(2,433)
Change in inventory	(32,349)	(40,421)
Change in accounts payable and other liabilities	(67,098)	161,232
Net cash provided (used) by noncapital financing activities	<u>\$ 1,349,905</u>	<u>\$ 1,247,321</u>

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ 3,191,245	\$ 3,460,660	\$ 1,796,920	\$ 1,752,418	\$ 9,924,897	\$ 9,474,719
-	-	-	-	138,866	121,149
(2,403,857)	(3,236,111)	(916,973)	(838,268)	(6,538,959)	(6,775,184)
(372,995)	(304,526)	(349,157)	(399,004)	(1,175,486)	(1,077,055)
-	-	(138,866)	(121,148)	(138,866)	(121,148)
(83,634)	(85,975)	(3,979)	(3,979)	(141,843)	(151,093)
<u>330,759</u>	<u>(165,952)</u>	<u>387,945</u>	<u>390,019</u>	<u>2,068,609</u>	<u>1,471,388</u>
-	-	25,000	-	39,742	349,586
-	(300,000)	(39,742)	(49,586)	(39,742)	(349,586)
-	-	-	-	55,761	75,017
(89,800)	(22,340)	(60,200)	(55,850)	(150,000)	(150,000)
<u>(89,800)</u>	<u>(322,340)</u>	<u>(74,942)</u>	<u>(105,436)</u>	<u>(94,239)</u>	<u>(74,983)</u>
(24,454)	(123,601)	(58,494)	(10,450)	(2,582,323)	(1,723,130)
512	6,910	-	-	5,126	7,461
-	-	-	-	-	1,806,990
-	-	(45,000)	(40,000)	(505,466)	(485,466)
-	-	-	-	-	(5,020)
(137)	(224)	(9,790)	(11,043)	(210,036)	(230,245)
<u>(24,079)</u>	<u>(116,915)</u>	<u>(113,284)</u>	<u>(61,493)</u>	<u>(3,292,699)</u>	<u>(629,410)</u>
-	-	-	-	(3,505)	(418,559)
11,466	29,297	20,398	21,712	110,785	131,943
<u>11,466</u>	<u>29,297</u>	<u>20,398</u>	<u>21,712</u>	<u>107,280</u>	<u>(286,616)</u>
228,346	(575,910)	220,117	244,802	(1,211,049)	480,379
456,592	1,032,502	1,100,309	855,507	4,631,422	4,151,043
<u>\$ 684,938</u>	<u>\$ 456,592</u>	<u>\$ 1,320,426</u>	<u>\$ 1,100,309</u>	<u>\$ 3,420,373</u>	<u>\$ 4,631,422</u>
\$ (14,794)	\$ (37,070)	\$ 232,003	\$ 366,507	\$ 946,169	\$ 797,829
66,345	62,088	29,766	20,229	910,462	864,900
(5,545)	(78,500)	162,628	(19,881)	90,718	(182,803)
212,642	(83,450)	655	21,017	185,946	(100,043)
172,759	(101,188)	(33,051)	(1,043)	139,465	(104,664)
375	911	(5,095)	(9,062)	(37,069)	(48,572)
(101,023)	71,257	1,039	12,252	(167,082)	244,741
<u>\$ 330,759</u>	<u>\$ (165,952)</u>	<u>\$ 387,945</u>	<u>\$ 390,019</u>	<u>\$ 2,068,609</u>	<u>\$ 1,471,388</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

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

A. Reporting Entity

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

Jointly Governed Organizations

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**B. Basis of Presentation**

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

Osage Municipal Utilities has two major funds:

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

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

**C. Measurement Focus and Basis of Accounting**

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

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

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

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

Information. During the year ended December 31, 2009, disbursements did not exceed the amounts budgeted.

E. Osage Municipal Utilities Plant and Depreciation

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

F. Revenue, Unbilled Usage, and Deferred Revenue

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

G. Inventory

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

H. Rate Matters

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

I. Use of Estimates

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

J. Cash and Cash Equivalents

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

K. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable as of December 31 consisted of approximately 2,550 and 2,240 uncollateralized accounts in 2009 and 2008 respectively. Accounts receivable balances older than 90 days for Osage Municipal Utilities were approximately \$5,000 for the years ended December 31, 2009 and 2008 respectively.

Osage Municipal Utilities use the allowance method to charge off uncollectible accounts receivable. Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for doubtful accounts and related accounts receivable write offs. A 1.5% per month penalty is charged for accounts older than 30 days. Accumulated penalties included in the accounts receivable balance at December 31, 2009 and 2008 amounted to less than \$1,000. The charges originate substantially from the Light and Power fund.

The allowance for uncollectible accounts had balances as of December 31, 2009 and 2008 respectively as follows:

	Light and Power		Gas		Other Non-Major	
	2009	2008	2009	2008	2009	2008
Allowance for doubtful accounts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ - \$128,450

**NOTE 2 - CASH AND INVESTMENTS**

Osage Municipal Utilities' deposits at December 31, 2009 and 2008 (which include certificates of deposit totaling \$629,954 and \$633,459 respectively) were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

Osage Municipal Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district.

Osage Municipal Utilities have funds on deposit with the Wisconsin Local Government Investment Pool as part of their Shared Transmission System Agreement with Dairyland Power Cooperative. According to the agreement, the funds can be withdrawn at any time, and have been withdrawn in the past. These deposits were \$203,747 and \$128,998 as of December 31, 2009 and 2008, respectively. The Wisconsin Local Government Investment Pool is held outside the State of Iowa. Cash is used in order to invest in transmission improvements and to cover control center costs.

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

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

**NOTE 3 – REVENUE BONDS PAYABLE**

The following is a summary of changes in long-term debt for the year ended December 31, 2009 and 2008.

**Light and Power Fund:**

	Bal.1/1/09	Issued	Repaid	Bal.12/31/09
Business type activities:				
Revenue bonds–issued September 2001	\$4,205,000	-	340,000	\$3,865,000
Revenue bonds–issued November 2008	1,686,524	-	120,466	1,566,058
	<u>\$5,891,524</u>	<u>-</u>	<u>460,466</u>	<u>\$5,431,058</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**Light and Power Fund:**

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

**Telephony Fund:**

	Bal.1/1/09	Issued	Repaid	Bal.12/31/09
Business type activities:				
Revenue bonds–issued July 2002	\$ 245,000	-	45,000	\$ 200,000

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

The proceeds from the revenue bonds as reported by the Telephony Fund were received from the City of Osage as a result of a General Obligation debt issuance by the City. It is classified as revenue bonds herein as Osage Municipal Utilities’ ability to pay is reliant on charges to its customers. Annual debt service requirements to maturity for the revenue bonds are as follows:

Year Ending December 31,	Light and Power Series 2001 Interest 2.5-5.2%		Light and Power Series 2008 Interest 1.27%		Telephony July 2002 Interest 3.4-4.4%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	355,000	187,932	120,466	19,889	45,000	7,581	520,466	215,402
2011	370,000	172,490	120,466	18,359	50,000	5,620	540,466	196,469
2012	390,000	156,026	120,466	16,829	50,000	3,495	560,466	176,350
2013	405,000	138,086	120,466	15,299	55,000	1,210	580,466	154,595
2014	425,000	118,848	120,466	13,769	-	-	545,466	132,617
2015	445,000	98,236	120,466	12,239	-	-	565,466	110,475
2016	470,000	75,986	120,466	10,709	-	-	590,466	86,695
2017	490,000	52,016	120,466	9,179	-	-	610,466	61,195
2018	515,000	26,780	120,466	7,650	-	-	635,466	34,430
2019	-	-	120,466	6,120	-	-	120,466	6,120
2020	-	-	120,466	4,590	-	-	120,466	4,590
2021	-	-	120,466	3,060	-	-	120,466	3,060
2022	-	-	120,466	1,530	-	-	120,466	1,530
	<u>\$3,865,000</u>	<u>\$1,026,400</u>	<u>\$1,566,058</u>	<u>\$139,222</u>	<u>\$200,000</u>	<u>\$17,906</u>	<u>\$5,631,058</u>	<u>\$1,183,528</u>

**OSAGE MUNICIPAL UTILITIES  
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**NOTES TO THE FINANCIAL STATEMENTS**

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

Bond discount amortization was \$327 and \$59, respectively for the years ended December 31, 2009 and 2008.

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

- A. The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to the sinking fund for the purpose of making the note principal and interest payments when due.
- C. Sufficient monthly transfers shall be made to a reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund. The reserve fund set aside amounted to \$682,710 and \$860,344 at December 31, 2009 and 2008 respectively.
- D. Sufficient monthly transfers shall be made to an improvement fund to be used solely for the purpose of paying principal or interest on the bonds should insufficient money be available in the sinking and reserve funds; and to the extent not required for the foregoing purposes to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, or capital improvements to the system. The required minimum balance in the reserve is \$100,000 and has been achieved as of December 31, 2009 and 2008.

**NOTE 4 – INTEREST COSTS**

During the years ended December 31, 2009 and 2008, the interest incurred and expensed by the Light and Power Fund was \$198,791 and \$219,549 respectively. The Light and Power Fund incurred an additional \$23,585 in interest during 2009 that was capitalized as part of the wind turbine project. During the years ended December 31, 2009 and 2008, interest incurred and expensed by the Telephony Fund was \$9,306 and \$10,855 respectively.

**NOTE 5 - PENSION AND RETIREMENT BENEFITS**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 4.30% (4.10% through June 30, 2009) of their salary and Osage Municipal Utilities was required to contribute 6.65% (6.35% through June 30, 2009) of covered payroll. Contribution requirements are established by State statute. Osage Municipal Utilities' contributions to IPERS for the years ended December 31, 2009, 2008 and 2007 were \$72,429, \$66,508, and \$61,870 respectively, equal to the required contributions for each year.

**NOTE 6 – RISK MANAGEMENT**

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

**NOTE 7 – COMPENSATED ABSENCES**

Osage Municipal Utilities' employees accumulate a limited amount of earned but unused vacation. Osage Municipal Utilities' approximate liability for earned vacation payments payable to employees at December 31, 2009 and 2008 is as follows:

December 31, 2009	Light and Power	Gas	Non-major	Total
Vacation	<u>\$ 29,837</u>	<u>\$ 15,768</u>	<u>\$ 7,800</u>	<u>\$ 53,405</u>
December 31, 2008	Light and Power	Gas	Non-major	Total
Vacation	<u>\$ 29,143</u>	<u>\$ 15,776</u>	<u>\$ 7,960</u>	<u>\$ 52,879</u>

**NOTE 8 – INTERFUND TRANSFERS**

Interfund transfers were made during the years ended December 31, 2009 and 2008. The transfers are as detailed below.

**OSAGE MUNICIPAL UTILITIES  
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**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 8 – INTERFUND TRANSFERS - continued**

Transfers for the year ended December 31, 2009:		
Transferred from:	Transferred to:	Amount
Internet	Wireless	\$ <u>25,000</u>
Cable	Light and Power	\$ <u>4,552</u>
Telephony	Light and Power	\$ <u>10,190</u>
Transfers for the year ended December 31, 2008:		
Transferred from:	Transferred to:	Amount
Gas	Light and Power	\$ <u>300,000</u>
Cable	Light and Power	\$ <u>17,260</u>
Telephony	Light and Power	\$ <u>32,326</u>

**NOTE 9 – JOINT LEASE AGREEMENT**

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

Year Ending:	Payment
2010	\$ 142,408
2011	142,408
2012	142,408
2013	142,408
2014	142,408
2015-2019	712,040
2020-2024	712,040
2025-2029	712,040
2030-2034	712,040
2035	142,408
Total	<u>\$ 3,702,268</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 10 – CAPITAL ASSETS**

The following schedules disclose the major fixed asset additions for the years ended December 31, 2009 and 2008.

**Light and Power Fund - 2009**

<b>Capital Assets</b>	Balance 12/31/08	Increases	Decreases	Balance 12/31/09
Capital Assets not being depreciated:				
Land	\$ 41,029	-	-	\$ 41,029
Iowa Stored Energy Park Agency	90,000	-	-	90,000
Construction in progress	64,362	3,423,004	3,487,366	-
Capital Assets being depreciated:				
Buildings and improvements	1,214,007	-	-	1,214,007
Generating equipment and lines	14,211,845	114,101	-	14,325,946
HFC distribution center	5,721,115	44,594	8,560	5,757,149
Equipment and vehicles	1,520,866	6,718	57,344	1,470,240
Broadband room and digital cable	190,030	6,232	-	196,262
Wind Energy	-	3,487,366	-	3,487,366
Total capital assets	23,053,254	7,082,015	3,553,270	26,581,999
Less: Accumulated depreciation	10,941,232	814,024	57,345	11,697,911
Book value	<u>\$ 12,112,022</u>			<u>\$ 14,884,088</u>

2009 major additions to the Light and Power Fund capital assets included the addition of the wind turbine during the year.

**Light and Power Fund - 2008**

<b>Capital Assets</b>	Balance 12/31/07	Increases	Decreases	Balance 12/31/08
Capital Assets not being depreciated:				
Land	\$ 41,029	-	-	\$ 41,029
Iowa Stored Energy Park Agency	92,500	-	2,500	90,000
Construction in progress	127,990	64,362	127,990	64,362
Capital Assets being depreciated:				
Buildings and improvements	1,191,373	22,634	-	1,214,007
Generating equipment and lines	12,679,301	1,532,544	-	14,211,845
HFC distribution center	5,656,388	64,727	-	5,721,115
Equipment and vehicles	1,494,726	27,435	1,295	1,520,866
Broadband room and digital cable	182,163	7,867	-	190,030
Total capital assets	21,465,470	1,719,569	131,785	23,053,254
Less: Accumulated depreciation	10,161,337	781,190	1,295	10,941,232
Book value	<u>\$ 11,304,133</u>			<u>\$ 12,112,022</u>

2008 major additions to the Light and Power Fund capital assets included the 69KV project.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 10 – CAPITAL ASSETS - continued**

<b>Gas Fund - 2009</b>				
<b>Capital Assets</b>	Balance 12/31/08	Increases	Decreases	Balance 12/31/09
Capital Assets not being depreciated:				
Land	\$ 7,734	-	-	\$ 7,734
Iowa Stored Energy Park Agency	40,000	-	-	40,000
Capital Assets being depreciated:				
Buildings and improvements	588,741			588,741
Peak shaving plant	237,888	-	-	237,888
Gas plant, lines and meters	854,379	3,657	-	858,036
Equipment and vehicles	547,453	20,797		568,250
Total capital assets	2,276,195	24,454	-	2,300,649
Less: Accumulated depreciation	1,462,421	66,345	-	1,528,766
Book value	<u>\$ 813,774</u>			<u>\$ 771,883</u>

Major additions to the Gas Fund capital assets for 2009 included a 2010 Ford Fusion sedan.

<b>Gas Fund - 2008</b>				
<b>Capital Assets</b>	Balance 12/31/07	Increases	Decreases	Balance 12/31/08
Capital Assets not being depreciated:				
Land	\$ 7,734	-	-	\$ 7,734
Iowa Stored Energy Park Agency	42,500	-	2,500	40,000
Capital Assets being depreciated:				
Buildings and improvements	586,967	1,774	-	588,741
Peak shaving plant	233,764	4,124	-	237,888
Gas plant, lines and meters	842,976	11,403	-	854,379
Equipment and vehicles	479,920	108,800	41,267	547,453
Total capital assets	2,193,861	126,101	43,767	2,276,195
Less: Accumulated depreciation	1,441,601	62,088	41,268	1,462,421
Book value	<u>\$ 752,260</u>			<u>\$ 813,774</u>

Major additions to the Gas Fund capital assets for 2008 included an excavator, truck and gas meters.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 10 – CAPITAL ASSETS - continued**

**Internet and Wireless Funds (combined) – 2009**

<b>Capital Assets</b>	Balance 12/31/08	Increases	Decreases	Balance 12/31/09
Capital Assets being depreciated:				
Equipment	\$ 191,101	58,494	-	\$ 249,595
Organizational costs	40,476	-	-	40,476
Total capital assets	231,577	58,494	-	290,071
Less: Accumulated depreciation	177,814	29,766	-	207,580
Book value	<u>\$ 53,763</u>			<u>\$ 82,491</u>

Major additions to the Internet and Wireless Funds' capital assets for 2009 consisted mainly of Access Point Equipment.

**Internet and Wireless Funds (combined) - 2008**

<b>Capital Assets</b>	Balance 12/31/07	Increases	Decreases	Balance 12/31/08
Capital Assets being depreciated:				
Equipment	\$ 180,651	10,450	-	\$ 191,101
Organizational costs	40,476	-	-	40,476
Total capital assets	221,127	10,450	-	231,577
Less: Accumulated depreciation	157,585	20,229	-	177,814
Book value	<u>\$ 63,542</u>			<u>\$ 53,763</u>

Major additions to the Internet and Wireless Funds' capital assets for 2008 consisted mainly of Access Point Equipment.

**NOTE 11 – RESTRICTED ASSETS**

As required by bond resolution, the Light and Power Fund of Osage Municipal Utilities has set aside the following reserve funds for the years ended December 31, 2009 and 2008:

**December 31, 2009**

	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	\$ 714,158	\$ 68,818	\$ 200,000	\$ 982,976
Deposits	-	-	-	-
Withdrawals	31,448	10,096	100,000	141,544
Balance, end of year	<u>\$ 682,710</u>	<u>\$ 58,722</u>	<u>\$ 100,000</u>	<u>\$ 841,432</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 11 – RESTRICTED ASSETS - continued**

<b>December 31, 2008</b>				
	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	\$ 504,644	\$ 57,943	\$ 100,000	\$ 662,587
Deposits	209,514	10,875	100,000	320,389
Withdrawals	-	-	-	-
Balance, end of year	<u>\$ 714,158</u>	<u>\$ 68,818</u>	<u>\$ 200,000</u>	<u>\$ 982,976</u>

**NOTE 12 - ECONOMIC DEVELOPMENT**

Osage Municipal Utilities’ Board of Trustees has agreed to contribute financially to assist in constructing the Cedar River Recreation & Fine Arts Complex. The contributions were \$150,000 and \$150,000 for the years ended December 31, 2009 and 2008 respectively. The annual contributions are anticipated to be \$100,000 per year for the next 15 years. The contributions may only come from surpluses generated by Osage Municipal Utilities and are expected to attract economic activity to the region.

**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Osage Municipal Utilities implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions* during the year ended December 31, 2009.

Plan Description. Osage Municipal Utilities operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 22 active members in the plan. Participants must be age 55 or older at retirement.

The medical coverage is administered by Wellmark. Retirees under age 65 pay the same premium for the medical benefits as active employees, which results in an implicit subsidy. The implicit subsidy results in an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by Osage Municipal Utilities. Osage Municipal Utilities currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. Osage Municipal Utilities’ annual OPEB cost is calculated based on the annual required contribution (ARC) of Osage Municipal Utilities, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) - continued**

The following table shows the components of the Osage Municipal Utilities' annual OPEB cost for the year ended December 31, 2009, the amount actually contributed to the plan and changes in Osage Municipal Utilities' net OPEB obligation:

	Light and Power	Gas	Nonmajor Funds	Total
Annual required contribution	\$ 9,804	\$ 9,987	\$ 5,677	\$ 25,468
Interest on net OPEB obligation	-	-	-	-
Annual employer contribution	-	4,587	2,017	6,604
Annual OPEB cost	9,804	5,400	3,660	18,864
Net OPEB obligation beginning of year	-	-	-	-
Net OPEB obligation end of year	\$ 9,804	5,400	3,660	\$ 18,864

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2009.

Osage Municipal Utilities' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of December 31, 2009 are summarized as follows:

Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 25,468	\$ 6,604	\$ 18,864

Funded Status and Funding Progress. As of January 1, 2009, the most recent actuarial valuation date for the period January 1, 2009 through December 31, 2009, the actuarial accrued liability was \$181,857, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$181,857. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,143,533 and the ratio of the UAAL to covered payroll was 15.9%. As of December 31, 2009, there were no trust fund assets.

Actuarial Methods and Assumptions. 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 health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)-continued**

supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on 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 plan members to that point. The actuarial methods and assumptions used include techniques 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.

As of the January 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on Osage Municipal Utilities' funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Combined Mortality Table. Annual retirement and termination probabilities were developed based on national averages.

Projected claim costs of the medical plan are \$598 per month for retirees. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**NOTE 14 – SUBSEQUENT EVENTS**

In connection with financing the additional electric capacity added at Osage Municipal Utilities, the Light and Power fund issued additional revenue notes in 2010 totaling \$1,862,000. The notes issued were as follows:

Electric capital loan notes Series 2010 were issued February 11, 2010 in the amount of \$1,290,000. Interest accrues on the notes at rates ranging from 2% to 4% and is payable semi-annually in June and December. The notes mature December 12, 2022.

A State of Iowa Revolving loan fund note was also issued February 17, 2010 for \$572,000. Interest accrues on the note at a rate of 3% and is payable semi-annually in June and December. 20% of this note is forgivable when Osage Municipal Utilities meets the requirements of the "American Recovery and Reinvestment Act of 2009." The note matures December 1, 2029.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 14 – SUBSEQUENT EVENTS - continued**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through July 12, 2010, the date the financial statements were issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

**DECEMBER 31, 2009**

	Proprietary Funds	<u>Budgeted Amounts</u>		Final to Net Variance
	Actual	Original		
<b>Receipts:</b>				
Charges for service	\$ 9,931,783	\$ 10,531,024		\$ (599,241)
Interest earnings	110,785	124,300		(13,515)
Miscellaneous	60,887	214,438		(153,551)
	<u>10,103,455</u>	<u>10,869,762</u>		<u>(766,307)</u>
<b>Disbursements:</b>				
<b>Program:</b>				
Business type activities	9,344,188	10,874,891		1,530,703
	<u>9,344,188</u>	<u>10,874,891</u>		<u>1,530,703</u>
Net income	759,267	(5,129)		<u>\$ 764,396</u>
Balance beginning of year	<u>13,496,192</u>	<u>15,296,425</u>		
Balance end of year	<u>\$ 14,255,459</u>	<u>\$ 15,291,296</u>		

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

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

**DECEMBER 31, 2009**

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

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

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

For the year ended December 31, 2009, Osage Municipal Utilities did not exceed budgeted expenditures.

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

**SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
(In Thousands)**

**DECEMBER 31, 2009**

Actuarial Valuation Date	Actuarial Value of Assets  (a)	Actuarial Accrued Liability  (b)	Unfunded AAL (UAAL)  (c)	Funded Ratio  (a/b)	Covered Payroll  (c)	UAAL as a Percentage of Covered Payroll  (b-a)/c
January 1, 2009	-0-	\$182	\$182	0.00%	\$1,144	15.9%

See Note 13 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost and Net OPEB Obligation, funded status and funding progress.

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

**COMBINING SCHEDULES OF NET ASSETS  
NON-MAJOR ENTERPRISE FUNDS**

**AS OF DECEMBER 31:**

	INTERNET		CABLE	
	2009	2008	2009	2008
Capital assets:				
Capital assets, net of accumulated depreciation	\$ 676	\$ 866	\$ -	\$ -
Current assets:				
Cash and cash equivalents	150,448	175,179	469,083	332,360
Accounts receivable (net of allowance for doubtful accounts)	1,423	1,732	95,996	82,455
Unbilled usage	1,416	1,416	-	-
Inventory	-	-	-	-
Prepaid expenses	-	-	3,355	1,774
	<u>153,287</u>	<u>178,327</u>	<u>568,434</u>	<u>416,589</u>
Total assets	<u>\$153,963</u>	<u>\$ 179,193</u>	<u>\$ 568,434</u>	<u>\$ 416,589</u>
Liabilities:				
Current liabilities:				
Accounts payable	\$ (425)	\$ 710	\$ 7,833	\$ 8,781
Customer meter deposits	-	-	15,036	16,223
Accrued expenses	7,652	6,630	6,923	7,037
Accrued interest payable	-	-	-	-
Deferred revenue	-	-	80,014	74,637
Revenue bonds payable	-	-	-	-
	<u>7,227</u>	<u>7,340</u>	<u>109,806</u>	<u>106,678</u>
Noncurrent liabilities:				
OPEB liability	1,992	-	-	-
Revenue bonds payable - net of current portion	-	-	-	-
	<u>1,992</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>9,219</u>	<u>7,340</u>	<u>109,806</u>	<u>106,678</u>
Fund net assets:				
Invested in capital assets, net of related debt	676	866	-	-
Unrestricted (deficit)	144,068	170,987	458,628	309,911
Total Net Assets	<u>\$144,744</u>	<u>\$ 171,853</u>	<u>\$ 458,628</u>	<u>\$ 309,911</u>

See notes to the financial statements.

TELEPHONY		RURAL WIRELESS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ -	\$ -	\$ 81,815	\$ 52,897	\$ 82,491	\$ 53,763
667,756	551,516	33,139	41,254	1,320,426	1,100,309
58,513	234,793	5,228	4,808	161,160	323,788
2,373	2,373	-	-	3,789	3,789
37,908	32,813	-	-	37,908	32,813
32,671	1,201	-	-	36,026	2,975
<u>799,221</u>	<u>822,696</u>	<u>38,367</u>	<u>46,062</u>	<u>1,559,309</u>	<u>1,463,674</u>
<u>\$ 799,221</u>	<u>\$ 822,696</u>	<u>\$ 120,182</u>	<u>\$ 98,959</u>	<u>\$ 1,641,800</u>	<u>\$ 1,517,437</u>
\$ 24,214	\$ 29,579	\$ 557	\$ 513	\$ 32,179	\$ 39,583
2,618	4,494	1,800	3,000	19,454	23,717
11,377	9,066	-	-	25,952	22,733
709	853	-	-	709	853
60,395	60,924	4,979	4,909	145,388	140,470
45,000	45,000	-	-	45,000	45,000
<u>144,313</u>	<u>149,916</u>	<u>7,336</u>	<u>8,422</u>	<u>268,682</u>	<u>272,356</u>
3,232	-	-	-	5,224	-
155,000	200,000	-	-	155,000	200,000
<u>158,232</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>160,224</u>	<u>200,000</u>
<u>302,545</u>	<u>349,916</u>	<u>7,336</u>	<u>8,422</u>	<u>428,906</u>	<u>472,356</u>
-	-	81,815	52,897	82,491	53,763
496,676	472,780	31,031	37,640	1,130,403	991,318
<u>\$ 496,676</u>	<u>\$ 472,780</u>	<u>\$ 112,846</u>	<u>\$ 90,537</u>	<u>\$ 1,212,894</u>	<u>\$ 1,045,081</u>

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

**COMBINING SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
NON-MAJOR ENTERPRISE FUNDS**

**AS OF DECEMBER 31:**

	INTERNET		CABLE	
	2009	2008	2009	2008
Operating revenues:				
Charges for service	\$ 44,422	\$ 61,463	\$ 972,224	\$ 868,345
Operating expenses:				
Business type activities	47,977	33,348	805,087	775,132
Operating Income (loss)	(3,555)	28,115	167,137	93,213
Non-operating revenues (expenses):				
Interest income	2,646	3,014	6,920	6,239
Interest expense	-	-	(288)	(61)
Donations	(1,200)	(1,596)	(20,500)	(11,170)
Total non-operating revenues (expenses)	1,446	1,418	(13,868)	(4,992)
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	(25,000)	-	(4,552)	(17,260)
Total other financing sources (uses)	(25,000)	-	(4,552)	(17,260)
Change in net assets	(27,109)	29,533	148,717	70,961
Net assets - beginning of year	171,853	142,320	309,911	238,950
Net assets - end of year	\$ 144,744	\$ 171,853	\$ 458,628	\$ 309,911

See notes to the financial statements

TELEPHONY		RURAL WIRELESS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ 709,879	\$ 774,618	\$ 51,796	\$ 59,604	\$ 1,778,321	\$ 1,764,030
<u>639,741</u>	<u>543,647</u>	<u>53,513</u>	<u>45,396</u>	<u>1,546,318</u>	<u>1,397,523</u>
<u>70,138</u>	<u>230,971</u>	<u>(1,717)</u>	<u>14,208</u>	<u>232,003</u>	<u>366,507</u>
10,554	11,968	278	491	20,398	21,712
(9,306)	(10,855)	(52)	(6)	(9,646)	(10,922)
<u>(37,300)</u>	<u>(41,488)</u>	<u>(1,200)</u>	<u>(1,596)</u>	<u>(60,200)</u>	<u>(55,850)</u>
<u>(36,052)</u>	<u>(40,375)</u>	<u>(974)</u>	<u>(1,111)</u>	<u>(49,448)</u>	<u>(45,060)</u>
-	-	25,000	-	25,000	-
<u>(10,190)</u>	<u>(32,326)</u>	<u>-</u>	<u>-</u>	<u>(39,742)</u>	<u>(49,586)</u>
<u>(10,190)</u>	<u>(32,326)</u>	<u>25,000</u>	<u>-</u>	<u>(14,742)</u>	<u>(49,586)</u>
23,896	158,270	22,309	13,097	167,813	271,861
<u>472,780</u>	<u>314,510</u>	<u>90,537</u>	<u>77,440</u>	<u>1,045,081</u>	<u>773,220</u>
<u>\$ 496,676</u>	<u>\$ 472,780</u>	<u>\$ 112,846</u>	<u>\$ 90,537</u>	<u>\$ 1,212,894</u>	<u>\$ 1,045,081</u>

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

**COMBINING SCHEDULES OF CASH FLOWS  
NON-MAJOR ENTERPRISE FUNDS**

**AS OF DECEMBER 31:**

	INTERNET		CABLE	
	2009	2008	2009	2008
Cash flows from operating activities:				
Cash receipts from customers	44,732	62,676	\$ 962,873	\$ 861,677
Cash payments to suppliers	(27,625)	(17,964)	(570,628)	(501,859)
Cash payments to employees	(7,580)	(2,626)	(166,073)	(195,778)
Cash payments to other funds	(7,725)	(7,169)	(70,529)	(60,228)
Cash payments for contributions	(2,979)	(2,978)	(500)	(500)
Net cash provided (used) by operating activities	(1,177)	31,939	155,143	103,312
Cash flows from non-capital financing activities:				
Transfers in	-	-	-	-
Transfers out	(25,000)	-	(4,552)	(17,260)
Miscellaneous non-operating revenue	-	-	-	-
Donations	(1,200)	(1,596)	(20,500)	(11,170)
Net cash provided (used) by noncapital financing activities	(26,200)	(1,596)	(25,052)	(28,430)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	-	-	-	-
Repayment of revenue bonds	-	-	-	-
Cash paid for interest	-	-	(288)	(61)
Net cash (used) by capital and related financing activities	-	-	(288)	(61)
Cash flows from investing activities:				
Investment income	2,646	3,014	6,920	6,239
Net cash provided by investing activities	2,646	3,014	6,920	6,239
Net increase (decrease) in cash and cash equivalents	(24,731)	33,357	136,723	81,060
Cash and cash equivalents-beginning of year	175,179	141,822	332,360	251,300
Cash and cash equivalents-end of year	\$ 150,448	\$ 175,179	\$ 469,083	\$ 332,360
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Income (loss) from operations	\$ (3,555)	\$ 28,115	\$ 167,137	\$ 93,213
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	190	435	-	-
Change in accounts receivable	309	639	(13,541)	(6,668)
Change in meter deposits, unbilled usage and deferred revenue	-	573	4,190	12,530
Change in prepaid expenses	-	-	(1,581)	(914)
Change in inventory	-	-	-	-
Change in accounts payable and accrued expenses	1,879	2,177	(1,062)	5,151
	\$ (1,177)	\$ 31,939	\$ 155,143	\$ 103,312

See notes to financial statements.

TELEPHONY		RURAL WIRELESS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ 739,069	\$ 768,271	\$ 50,246	\$ 59,794	\$ 1,796,920	\$ 1,752,418
(307,247)	(308,124)	(11,473)	(10,321)	(916,973)	\$ (838,268)
(167,638)	(189,668)	(7,866)	(10,932)	(349,157)	(399,004)
(56,058)	(49,804)	(4,554)	(3,947)	(138,866)	(121,148)
(500)	(501)	-	-	(3,979)	(3,979)
<u>207,626</u>	<u>220,174</u>	<u>26,353</u>	<u>34,594</u>	<u>387,945</u>	<u>390,019</u>
-	-	25,000	-	25,000	-
(10,190)	(32,326)	-	-	(39,742)	(49,586)
-	-	-	-	-	-
(37,300)	(41,488)	(1,200)	(1,596)	(60,200)	(55,850)
<u>(47,490)</u>	<u>(73,814)</u>	<u>23,800</u>	<u>(1,596)</u>	<u>(74,942)</u>	<u>(105,436)</u>
-	-	(58,494)	(10,450)	(58,494)	(10,450)
(45,000)	(40,000)	-	-	(45,000)	(40,000)
(9,450)	(10,976)	(52)	(6)	(9,790)	(11,043)
<u>(54,450)</u>	<u>(50,976)</u>	<u>(58,546)</u>	<u>(10,456)</u>	<u>(113,284)</u>	<u>(61,493)</u>
10,554	11,968	278	491	20,398	21,712
<u>10,554</u>	<u>11,968</u>	<u>278</u>	<u>491</u>	<u>20,398</u>	<u>21,712</u>
116,240	107,352	(8,115)	23,033	220,117	244,802
<u>551,516</u>	<u>444,164</u>	<u>41,254</u>	<u>18,221</u>	<u>1,100,309</u>	<u>855,507</u>
<u>\$ 667,756</u>	<u>\$ 551,516</u>	<u>\$ 33,139</u>	<u>\$ 41,254</u>	<u>\$ 1,320,426</u>	<u>\$ 1,100,309</u>
\$ 70,138	\$ 230,971	\$ (1,717)	\$ 14,208	\$ 232,003	\$ 366,507
-	-	29,576	19,794	29,766	20,229
176,280	(14,042)	(420)	190	162,628	(19,881)
(2,405)	7,476	(1,130)	438	655	21,017
(31,470)	(129)	-	-	(33,051)	(1,043)
(5,095)	(9,062)	-	-	(5,095)	(9,062)
178	4,960	44	(36)	1,039	12,252
<u>\$ 207,626</u>	<u>\$ 220,174</u>	<u>\$ 26,353</u>	<u>\$ 34,594</u>	<u>\$ 387,945</u>	<u>\$ 390,019</u>

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

**COMBINING SCHEDULE OF OPERATING REVENUE  
ENTERPRISE FUNDS**

**AS OF DECEMBER 31:**

	<u>ENTERPRISE</u>	
	<u>LIGHT AND POWER</u>	
	<u>2009</u>	<u>2008</u>
Operating revenues:		
Rural	\$ 114,918	\$ 97,544
Residential sales	1,332,254	1,148,253
Commercial and industrial	3,330,868	2,873,601
Public buildings	40,381	25,394
Interruptibles	-	-
Line payments, net	-	-
Bookkeeping fee - City of Osage	9,000	9,000
Other operating fees	<u>341,893</u>	<u>351,030</u>
	<u>\$ 5,169,314</u>	<u>\$ 4,504,822</u>

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ -	\$ -	\$ -	\$ -	\$ 114,918	\$ 97,544
1,392,457	1,688,270	1,758,400	1,749,242	4,483,111	4,585,765
829,865	1,036,760	-	-	4,160,733	3,910,361
-	-	-	-	40,381	25,394
698,026	845,099	-	-	698,026	845,099
1,558	7,776	-	-	1,558	7,776
9,000	9,000	-	-	18,000	18,000
53,242	71,005	19,921	14,788	415,056	436,823
<u>\$ 2,984,148</u>	<u>\$ 3,657,910</u>	<u>\$ 1,778,321</u>	<u>\$ 1,764,030</u>	<u>\$ 9,931,783</u>	<u>\$ 9,926,762</u>

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

**COMBINING SCHEDULES OF OPERATING EXPENSES**

**AS OF DECEMBER 31:**

	ENTERPRISE	
	LIGHT AND POWER	
	2009	2008
Operating expenses:		
Plant expenses:		
Supervision and labor	\$ 104,325	\$ 111,443
Payroll taxes	15,093	19,425
Fuel	32,252	70,597
Load management expense	345	13,427
Engine expense	8,660	12,817
Insurance	28,896	25,457
Supplies	9,407	8,888
Power purchased	2,732,725	2,167,822
Communication expense	1,126	1,861
School and travel	5	1,506
Uniforms	4,581	3,926
Maintenance and materials	8,629	9,090
Total plant expenses	2,946,044	2,446,259
Distribution expenses:		
Supervision and labor	158,454	170,860
Payroll taxes	30,823	27,415
Insurance	40,234	44,235
Truck expense	12,420	25,471
Tree removal expense	1,592	354
Supplies	77,931	119,954
Maintenance, repairs and labor	5,173	14,947
Natural gas purchases	-	-
School and travel	-	-
Uniforms	-	-
Safety	-	-
Communication expense	1,596	1,567
Internet, cable and phone	-	-
Local lines	-	-
Utilities	-	-
Miscellaneous	31,922	16,252
Total distribution expenses	360,145	421,055

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ -	\$ -	\$ -	\$ -	\$ 104,325	\$ 111,443
-	-	-	-	15,093	19,425
-	-	-	-	32,252	70,597
-	-	-	-	345	13,427
-	-	-	-	8,660	12,817
-	-	-	-	28,896	25,457
-	-	-	-	9,407	8,888
-	-	-	-	2,732,725	2,167,822
-	-	-	-	1,126	1,861
-	-	-	-	5	1,506
-	-	-	-	4,581	3,926
-	-	-	-	8,629	9,090
-	-	-	-	2,946,044	2,446,259
90,832	149,594	130,440	169,359	379,726	489,813
21,110	19,245	30,483	27,423	82,416	74,083
32,499	39,700	38,232	39,088	110,965	123,023
4,183	8,132	6,041	10,733	22,644	44,336
-	-	-	-	1,592	354
9,581	8,268	24,895	24,374	112,407	152,596
36,939	34,416	27,538	30,877	69,650	80,240
2,224,812	2,975,875	-	-	2,224,812	2,975,875
2,310	4,380	743	56	3,053	4,436
4,608	3,987	3,524	3,637	8,132	7,624
2,460	1,463	1,779	1,861	4,239	3,324
1,629	1,566	-	-	3,225	3,133
-	-	554,907	554,993	554,907	554,993
-	-	286	304	286	304
-	-	21,077	18,427	21,077	18,427
-	-	1,426	1,145	33,348	17,397
2,430,963	3,246,626	841,371	882,277	3,632,479	4,549,958

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

**COMBINING SCHEDULES OF OPERATING EXPENSES  
ENTERPRISE FUNDS**

**AS OF DECEMBER 31:**

	ENTERPRISE	
	LIGHT AND POWER	
	2009	2008
Office and administration expenses:		
Office salaries	\$ 45,559	\$ 95,397
Payroll taxes	20,799	19,377
Use tax	4,988	2,936
Property taxes	2,620	2,623
Trustee fees	1,520	1,540
Professional fees	5,283	7,238
New building supplies	5,719	4,232
Office and administration	5,664	11,778
Publication and advertising	2,687	2,508
Utilities	149	491
Insurance	107,910	112,465
Global warming fee	5,119	4,301
Engineering service	768	4,185
Office supplies and postage	18,101	16,575
Janitorial services	9,090	9,080
Office equipment expense	2,218	2,879
Uniform expense	1,913	1,891
Dues	10,110	11,595
Contributions in lieu of taxes	54,230	61,139
Safety expense	972	852
Energy efficiency	7,762	3,472
Bad debts	4,621	7,255
Joint lease expense	-	-
Miscellaneous	2,012	2,724
Total office and administration expenses	<u>319,814</u>	<u>386,533</u>
Other expenses:		
Depreciation	814,024	781,190
Amortization	327	1,393
Total depreciation and amortization	<u>814,351</u>	<u>782,583</u>
Total operating expenses	<u>\$ 4,440,354</u>	<u>\$ 4,036,430</u>

See notes to the financial statements.

FUNDS					
GAS		NON-MAJOR FUNDS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ 255,650	\$ 159,951	\$ 221,937	\$ 196,140	\$ 523,146	\$ 451,488
32,266	29,139	10,771	9,974	63,836	58,490
889	837	2,315	1,640	8,192	5,413
-	-	13,070	20,403	15,690	23,026
1,520	1,540	3,040	3,080	6,080	6,160
5,438	7,300	4,973	12,413	15,694	26,951
7,093	5,523	418	452	13,230	10,207
1,585	4,628	40,345	42,617	47,594	59,023
2,613	2,309	23,657	21,093	28,957	25,910
149	491	-	-	298	982
61,392	40,648	44,528	40,864	213,830	193,977
3,988	3,124	-	-	9,107	7,425
-	-	-	-	768	4,185
15,586	16,333	14,392	12,785	48,079	45,693
9,090	9,072	-	-	18,180	18,152
1,946	1,934	508	329	4,672	5,142
1,913	1,891	-	-	3,826	3,782
6,882	6,138	3,516	3,749	20,508	21,482
83,634	85,975	3,979	3,979	141,843	151,093
654	788	-	-	1,626	1,640
4,605	3,110	-	-	12,367	6,582
4,741	5,535	144,684	(113)	154,046	12,677
-	-	138,865	121,149	138,865	121,149
-	-	4,183	4,463	6,195	7,187
<u>501,634</u>	<u>386,266</u>	<u>675,181</u>	<u>495,017</u>	<u>1,496,629</u>	<u>1,267,816</u>
66,345	62,088	29,766	20,229	910,135	863,507
-	-	-	-	327	1,393
<u>66,345</u>	<u>62,088</u>	<u>29,766</u>	<u>20,229</u>	<u>910,462</u>	<u>864,900</u>
<u>\$ 2,998,942</u>	<u>\$ 3,694,980</u>	<u>\$ 1,546,318</u>	<u>\$ 1,397,523</u>	<u>\$ 8,985,614</u>	<u>\$ 9,128,933</u>

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

**COMPARATIVE SCHEDULE OF KILOWATT HOURS  
UNAUDITED**

**Schedule 6**

**Light and Power Division**

For the Years ended December 31, 1990 through 2009

Year Ended December 31,	Kilowatt Hours Generated	Kilowatt Hours Purchased	Total Kilowatt Hours	Annual Kilowatt Increase (Decrease)	Percent of Increase (Decrease)
1990	195,800	34,914,806	35,110,606	1,628,843	4.86
1991	610,800	35,807,244	36,418,044	1,307,438	3.72
1992	335,400	35,384,218	35,719,618	(698,426)	(1.92)
1993	333,800	37,725,285	38,059,085	2,339,467	6.55
1994	497,500	40,560,924	41,058,424	2,999,339	7.88
1995	875,500	43,360,285	44,235,785	3,177,361	7.74
1996	800,250	44,184,580	44,984,830	749,045	1.69
1997	549,520	45,186,175	45,735,695	750,865	1.67
1998	894,890	46,596,929	47,491,819	1,756,124	3.84
1999	1,535,101	46,692,000	48,227,101	735,282	1.55
2000	1,818,897	48,355,200	50,174,097	1,946,996	4.04
2001	2,296,623	48,501,131	50,797,754	623,657	1.24
2002	781,178	49,953,600	50,734,778	(62,976)	(0.12)
2003	999,120	50,807,677	51,806,797	1,072,019	2.11
2004	731,018	52,793,581	53,524,599	1,717,802	3.32
2005	614,150	54,234,617	54,848,767	1,324,168	2.47
2006	968,520	54,668,395	55,636,915	778,148	1.43
2007	1,926,827	55,106,967	57,033,794	1,396,879	2.51
2008	346,990	55,272,976	55,619,966	(1,413,828)	(2.48)
2009	167,898	52,931,581	53,099,479	(2,520,487)	(4.53)

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

**COMPARATIVE OPERATING STATISTICS  
UNAUDITED**

**Schedule 7**

**Gas Division**

For the Years ended December 31, 1990 through 2009

Year ended December 31:	Consumer Data			
	Heating Consumers		Total Consumers	
	Residential	Nonresidential	Residential	Nonresidential
1990	1,389	196	1,403	203
1991	1,424	192	1,439	198
1992	1,428	200	1,443	209
1993	1,444	199	1,458	209
1994	1,446	202	1,459	212
1995	1,457	200	1,468	210
1996	1,471	204	1,481	214
1997	1,481	211	1,492	221
1998	1,493	214	1,503	224
1999	1,506	216	1,512	225
2000	1,515	217	1,526	226
2001	1,523	222	1,534	230
2002	1,537	221	1,548	229
2003	1,544	225	1,555	242
2004	1,553	233	1,565	250
2005	1,565	240	1,578	256
2006	1,570	234	1,583	242
2007	1,575	233	1,588	241
2008	1,585	235	1,598	244
2009	1,585	235	1,598	244

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

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

**COMPARATIVE OPERATING STATISTICS  
UNAUDITED**

**Schedule 7 - continued**

**Gas Division**

Year Ended December 31:	Billing Data - continued					
	Residential		Commercial		Standby	
	Amount	MCF (1)	Amount	MCF (1)	Amount	MCF (1)
2000	\$ 811,621	144,775	\$ 426,606	79,081	\$ 386,495	71,704
2001	1,434,837	154,619	746,438	82,203	533,385	79,082
2002	1,077,415	147,528	562,619	80,392	442,895	77,903
2003	1,157,292	151,024	588,351	79,744	493,646	78,281
2004	1,219,129	142,242	612,513	73,933	760,702	101,179
2005	1,454,893	140,364	923,304	89,974	844,526	80,914
2006	1,562,040	134,268	1,024,777	92,028	829,359	85,568
2007	1,442,619	136,913	878,695	87,117	603,850	83,917
2008	1,636,778	149,264	1,004,636	94,253	835,243	84,575
2009	\$1,495,393	144,630	874,969	90,465	710,221	92,256

(1)= MCF-1,000 cubic feet

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

**DISTRIBUTION OF ENERGY  
UNAUDITED**

**Schedule 8**

**Light and Power Division**

For the Year ended December 31, 2009

	Meters	Kilowatt Hours
Rural	94	1,065,849
Residential	1,701	13,297,979
Commercial	320	35,765,806
Public Authority	31	384,222
Rural Security Lighting on Flat Rate per Month, Unmetered	159	121,357
	2,305	50,635,213
Kilowatt Hours Used for Free Street Lighting		291,109
Kilowatt Hours Used at Plant		253,714
Kilowatt Hours Used at Municipal Building and Donated		123,613
Kilowatt Hours Lost and Unaccounted For		1,795,830
		53,099,479
Kilowatt Hours Purchased		52,931,581
Kilowatt Hours Generated		161,205
Kilowatt Hours Generated – Wind		6,693
		53,099,479
Lost and unaccounted for as a percentage of Kilowatts purchased and generated		3.38%

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

**DISTRIBUTION OF ENERGY  
UNAUDITED**

**Schedule 8 - continued**

**Light and Power Division**

For the Year ended December 31, 2008

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

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

**INFORMATION REQUIRED BY BOND RESOLUTION  
UNAUDITED**

**Schedule 9**

The following insurance policies were in force at December 31, 2009:

**Insurer: Employers Mutual Casualty Company**

<u>Coverage</u>		<u>Amount</u>
Property, including buildings, generating equipment and other contents, 90% coinsurance	4/01/09 – 4/01/10	\$ 4,902,244
Property, including buildings, generating equipment and other contents, 90% coinsurance	4/01/09 – 4/01/10	17,161,552
<b>General Liability</b>		
Aggregate limit	4/01/09 – 4/01/10	2,000,000
Operations limit	4/01/09 – 4/01/10	2,000,000
Personal injury	4/01/09 – 4/01/10	1,000,000
Each occurrence	4/01/09 – 4/01/10	1,000,000
Fire damage limit	4/01/09 – 4/01/10	100,000
Medical insurance	4/01/09 – 4/01/10	5,000
Contractors equipment	4/01/09 – 4/01/10	116,392
EDP equipment	4/01/09 – 4/01/10	163,995
Miscellaneous property	4/01/09 – 4/01/10	116,944
<b>Theft</b>		
Indoor	4/01/09 – 4/01/10	13,000
Outdoor	4/01/09 – 4/01/10	13,000
<b>Automobile</b>		
Liability	4/01/09 – 4/01/10	1,000,000
Uninsured motorist	4/01/09 – 4/01/10	50,000
Underinsured motorist	4/01/09 – 4/01/10	50,000
<b>Worker's Compensation</b>		
Injury by accident (employee)	4/01/09 – 4/01/10	500,000
Injury by disease (employee)	4/01/09 – 4/01/10	500,000
Injury by disease (limit)	4/01/09 – 4/01/10	500,000

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

**INFORMATION REQUIRED BY BOND RESOLUTION      Schedule 9 - continued  
UNAUDITED**

Coverage		Amount
<b>Commercial Umbrella</b>		
Occurrence limit	4/01/09 – 4/01/10	5,000,000
Aggregate limit	4/01/09 – 4/01/10	5,000,000
<b>Linebacker</b>		
Each loss	4/01/09 – 4/01/10	1,000,000
Aggregate	4/01/09 – 4/01/10	1,000,000
Deductible	4/01/09 – 4/01/10	2,500
 <b>Insurer: Cincinnati Insurance Company</b>		
<b>Boiler and Machinery</b>		
Comprehensive limit	4/01/09 – 4/01/10	15,500,000
 <b>Insurer: State Auto</b>		
<b>Surety Bond</b>		
Employee theft	03/25/09 – 03/25/10	150,000
Deductible	03/25/09 – 03/25/10	500

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

**INFORMATION REQUIRED BY BOND RESOLUTION  
UNAUDITED**

**Schedule 9 - continued**

Electric Rates in effect at December 31, 2009:

**Residential**

Residential Rate Schedule is available to any consumer for domestic purpose only within the Osage city limits.

Monthly service charge: \$9.00 per month

All kilowatt hours per month \$ 8.46 c/kWh

**Small General Service**

Small General Service is available to any customer for single or three phase service supplied through one meter, where no more than two monthly 15 minute demands of 20 kilowatts or more shall have occurred in the previous twelve months.

Monthly service charge: \$14.50 per month.

First 1,000 kilowatt hours per month \$ 9.50 c/kWh

Excess kilowatt hours per month \$ 9.30 c/kWh

**Large General Service**

Large General Service is available to any customer where three or more monthly 15 minute demands over the previous twelve month period shall have been 20 kilowatts or more.

Demand – Maximum 15 minute demand during the billing period, but not less than 75% of the highest demand occurring during the preceding eleven months

Minimum - Demand Billing, but not less than for 20 kilowatts per month, or 75% of highest 15 minute demand recorded in the preceding eleven months, whichever is the greater.

Demand Charge: All kilowatts \$6.00 per month.

Monthly service charge: \$28.00

Energy charge

First 20,000 kilowatt hours per month \$ 7.14 c/kWh

Excess kilowatt hours per month \$ 6.78 c/kWh

**Nonprofit Organizations**

Certified nonprofit organizations; churches, service clubs, etc., will be billed for electrical service under the Small General Service or Large General Service. User classification will be determined by usage criteria.

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

**INFORMATION REQUIRED BY BOND RESOLUTION  
UNAUDITED**

**Schedule 9 - continued**

December 31, 2009

2009 Payments	\$ 738,456
2009 Net Revenues – Light and Power	\$ 1,543,311
Ratio of Debt Payments to Net Revenues*	47.8%

December 31, 2008

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

December 31, 2007

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

December 31, 2006

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

December 31, 2005

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

December 31, 2004

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

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

December 31, 2003

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

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



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

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

To the Board of Trustees of the  
Osage Municipal Utilities:

We have audited the financial statements of each major fund and the aggregate remaining fund information of Osage Municipal Utilities, a component unit of the City of Osage, Iowa, as of and for the year ended December 31, 2009, which collectively comprise Osage Municipal Utilities' basic financial statements listed in the table of contents and have issued our report thereon dated July 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Planning**

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

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

Comments involving statutory and other legal matters about Osage Municipal Utilities' operations for the year ended December 31, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Osage Municipal Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

July 12, 2010

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

**SCHEDULE OF FINDINGS**

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

- (a) An unqualified opinion was issued on the financial statements.
- (b) No material weaknesses or significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance, which is material to the financial statements.

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

**SCHEDULE OF FINDINGS**

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT CONTROL DEFICIENCIES:**

No matters were noted.

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

**SCHEDULE OF FINDINGS**

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

- III-A-09     Certified Budget - Disbursements during the year ended December 31, 2009 were within the budgeted limits.
  
- III-B-09     Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
  
- III-C-09     Travel Expense – No disbursements of the Utilities’ money for travel expenses of spouses of Utilities’ officials or employees were noted.
  
- III-D-09     Business Transactions – No business transactions between the Utilities and the Utilities’ officials or employees were noted.
  
- III-E-09     Bond Coverage – Surety bond coverage of the Utilities’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
  
- III-F-09     Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.
  
- III-G-09     Revenue Bonds – No violations of revenue bond resolution requirements were noted.
  
- III-H-09     Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policy.
  
- III-I-09     Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.