



Cedar Falls Utilities

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

Including Independent Auditors' Reports

**For The Years Ended
December 31, 2010 and 2009**

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Municipal Electric Utility of The City of Cedar Falls, Iowa (Municipal Electric Utility), a component unit of the City of Cedar Falls, Iowa, as of December 31, 2010, and related statements of revenues, expenses and changes in net assets and statements of cash flows for the year then ended. These financial statements are the responsibility of the Municipal Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Municipal Electric Utility as of and for the year ended December 31, 2009 were audited by other auditors whose report, dated March 29, 2010, expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Electric Utility as of December 31, 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011, on our consideration of the Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Schedules of Funding Progress enclosed in this report are not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2011

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

Management Discussion and Analysis
December 31, 2010, 2009 and 2008
Unaudited

The following discussion and analysis of the Municipal Electric Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2010, 2009 and 2008. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

- The Utility's net assets increased as a result of 2010 operating income and non-operating revenues. At December 31, 2010, 2009 and 2008, total assets were \$175,872,932, \$156,821,297 and \$154,155,141, respectively, and total liabilities were \$65,683,143, \$56,312,057 and \$58,527,157, respectively, resulting in net assets of \$110,189,789, \$100,509,240 and \$95,627,984, respectively.
- An Electric rate increase of approximately 6.0% for all customer classes was effective in January 2010.
- An Electric rate increase of approximately 2.0% for all customer classes was effective in January 2008.
- In 2010, operating revenues increased 38.0% to \$53,018,754 while operating expenses increased 26.2% to \$45,108,157.
- In 2009, operating revenues decreased 2.5% to \$38,417,765 while operating expenses increased 2.3% to \$35,745,824.
- In 2008, operating revenues increased 13.8% to \$39,390,063 while operating expenses increased 22.6% to \$34,956,886.
- In 2010, the Utility net operating income increased by 196.1% to \$7,910,597 compared to net operating income of \$2,671,941 in 2009 and \$4,433,177 in 2008.
- The Utility delivered approximately 483,148,000 kilowatt hours (kWh) of electricity to its retail customers in 2010 as compared to approximately 456,492,000 kWh in 2009 and 450,760,000 kWh in 2008.
- On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, building furnishings and equipment, meters, switches, relays, tools and rendered the Streefer Station power plant units 6 and 7 and coal handling systems inoperable and in need of major repair. The Utility began immediate clean up and work with FEMA for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA for the recovery, repair and remediation of Utility assets damaged or destroyed in the flood. Additional detail on the 2008 Flood Event can be found in Note 12.
- On July 10, 2009, the City of Cedar Falls experienced a storm with extreme winds of approximately 106 MPH. The extreme winds uprooted and sheared trees snapping Electric Utility poles and distribution lines destroying them. The Utility began immediate clean up and also began working with the Federal Emergency Management Agency (FEMA) for reconstruction and repair of destroyed Utility distribution assets. Additional detail on the 2009 Wind Event can be found in Note 13.

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Overview of the Financial Statements

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

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

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

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

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

Condensed Financial Information

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

Condensed Balance Sheet Information

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 62,705,101	\$ 46,305,981	\$ 47,424,381
Capital assets, net	110,985,955	108,356,428	102,633,879
Other noncurrent assets	2,181,876	2,158,888	4,096,881
Total assets	<u>\$175,872,932</u>	<u>\$156,821,297</u>	<u>\$154,155,141</u>
Current liabilities	\$ 8,185,595	\$ 7,177,332	\$ 7,865,707
Noncurrent liabilities	3,297,323	3,233,937	2,989,913
Long-term debt	54,200,225	45,900,788	47,671,537
Total liabilities	<u>\$ 65,683,143</u>	<u>\$ 56,312,057</u>	<u>\$ 58,527,157</u>

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Invested in capital assets, net of related debt	\$ 64,351,040	\$ 62,794,814	\$ 59,428,620
Restricted	7,162,009	6,716,184	6,846,798
Unrestricted	38,676,740	30,998,242	29,352,566
Total net assets	<u>\$110,189,789</u>	<u>\$100,509,240</u>	<u>\$ 95,627,984</u>

Condensed Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Sales of electricity	\$50,347,269	\$34,700,713	\$33,258,403
Other	2,671,485	3,717,052	6,131,660
Total operating revenues	<u>53,018,754</u>	<u>38,417,765</u>	<u>39,390,063</u>
Fuel and Purchased Power	24,314,104	13,887,910	12,263,862
Operation and maintenance	8,904,283	8,373,285	7,520,945
Depreciation and amortization	3,825,289	4,220,126	3,829,474
Services and administrative	8,064,481	9,264,503	11,342,605
Total operating expenses	<u>45,108,157</u>	<u>35,745,824</u>	<u>34,956,886</u>
Operating Income	<u>7,910,597</u>	<u>2,671,941</u>	<u>4,433,177</u>
Interest income	200,080	562,606	1,252,687
Other, net	1,569,872	1,646,709	5,622,956
Total non-operating revenues (expenses)	<u>1,769,952</u>	<u>2,209,315</u>	<u>6,875,643</u>
Change in net assets	9,680,549	4,881,256	11,308,820
Net assets, beginning of year	<u>100,509,240</u>	<u>95,627,984</u>	<u>84,319,164</u>
Net assets, end of year	<u>\$110,189,789</u>	<u>\$100,509,240</u>	<u>\$95,627,984</u>

Financial Analysis

Current assets increased 35.4% in 2010. Cash and investments - unrestricted increased by 38.1% primarily due to an increase in cash of 50.0%, \$6,894,345, most of which was transferred from the restricted construction funds for monies spent on qualified capital projects and an increase in short term investments of \$748,509. Cash and investments - restricted increased by 85.7%, \$8,116,072, in 2010 due to proceeds from the issuance of new debt in 2010. Receivables decreased 9.7%, \$897,852, in 2010. Customer accounts receivable, less allowance for doubtful accounts, increased in 2010 by 6.7%, \$249,996. Other receivables decreased \$246,862, 15.3%, due to a decrease in the receivable for MISO sales for resale and miscellaneous receivable. In addition, government grants receivable decreased 23.3%, \$779,156. Fuel inventory increased \$987,704, 16.3%, during 2010 due to an increase in Streeter Station inventories of \$940,915, Walter Scott Generating Station Unit 3 (WS3) of \$60,074 and Walter Scott Generating Station Unit 4 (WS4) of \$63,280 for coal and allowances offset by a decrease in inventory for the George Neal Unit 4 (Neal 4) of \$76,565. The Streeter Station average coal cost per ton increased \$2.03 in 2010.

Current assets decreased 2.4% in 2009. Cash and investments - unrestricted increased by 15.2% primarily due to an increase in short term investments of

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

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

Other noncurrent assets increased 1.1% in 2010 primarily due to a decrease in the long-term note receivable from the communications utility and loans receivable from customers for energy efficiency improvements. Other noncurrent assets include the long-term note receivable from the Municipal Communications Utility. The total noncurrent outstanding balance on this note at December 31, 2010 was \$923,090, a decrease of 25.1%. Deferred costs increased \$419,262, 104.6%, primarily due to the addition of an unamortized loss on reacquired debt related to the advanced refunding of the series 2003 revenue bonds and an increase of unamortized debt expense related to the issuance of new debt.

Other noncurrent assets decreased 53.1% in 2009 primarily due to \$1,992,511 of long-term restricted investments from the 2007 bonds issued becoming current. Other noncurrent assets include the long-term note receivable from the Municipal Communications Utility. The total noncurrent outstanding balance on this note at December 31, 2009 was \$1,233,090, a decrease of 20.1%.

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

Current liabilities increased 14.0% in 2010 primarily as a result of an increase in accounts payable of 40.4%, \$1,190,770, and current installments of long term debt of 32.3%, \$515,000, due to the issuance of new debt in 2010.

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

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

Retail kWh sales increased in 2010 by 5.8%, 26,655,825 kWh. Retail revenue increased 45.1% in 2010 primarily due to the increase in sales for resale and a 6% average rate increase for all customer classes and an increase of 100.2%, \$0.007 per kWh, in the energy cost adjustment (ECA) passed through to customers making the average total ECA per kWh in 2010 \$0.013 compared to \$0.006 in 2009. The increase in the ECA per kWh is attributable to the net effect of purchasing local load requirements from the MISO market, generating costs, offset by 62% of the revenue from the Western Units sales. Sales for resale increased \$9,128,237, 196.2%, due to the Utility turning over functional control of its transmission system to the non-profit Midwest Independent System Operator (MISO) effective September 1, 2009. The Utility is now a transmission owner in MISO and will receive revenue from MISO for its share of transmission revenue collected by MISO. In addition the Utility now sells the generation from its jointly owned Western Units (Water Scott Energy Center Unit 3 and Unit 4 and the George Neal Generating Station Unit 4) into the MISO market and either locally generates or purchases its local power needs from MISO. The sales from the Western Units into MISO for 2010 were \$13,073,169.

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

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

Other operating revenues decreased 28.1% in 2010 primarily as a result of a decrease of \$834,554 in FEMA grant revenue to reimburse expenses to repair operational flood and wind damage compared to 2009.

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

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

Fuel costs increased 54.8% in 2010 due to Streeter operating more in 2010 when the wholesale market was favorable and higher Western Units costs due to selling into the MISO market. Since joining MISO on September 1, 2009, Streeter now generates to offset high purchased power costs when conditions are favorable. Purchased Power costs increased 86.8% in 2010 due to the Utility buying more electricity from the wholesale market for native load to substitute for the wholesale market not being favorable to generate from Streeter Station. As discussed above, since joining MISO, the Electric Utility now buys all energy, except what it generates locally to serve its native load, from MISO. This new arrangement increases purchased power costs as well as MISO Sales for Resale as discussed above.

Fuel costs decreased 20.2% in 2009 due to Streeter not becoming operational until March 2009 and then operating only when the wholesale market was favorable. Since joining MISO on September 1, 2009, Streeter now generates to offset high purchased power costs when conditions are favorable. Purchased Power costs increased 49.5% in 2009 due to the Utility buying more electricity from the wholesale market for native load to substitute for being unable to generate from Streeter Station, due to flood damage, until March 2009. As discussed above, since joining MISO, the Electric Utility now buys all energy, except what it generates locally to serve its native load, from MISO. This new arrangement increases purchased power costs as well as MISO Sales for Resale as discussed above.

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

Operation and maintenance expenses increased 6.3%, \$530,998, in 2010. This is due to a 57.0%, \$783,577, increase in transmission cost primarily due to increased transmission by others costs, offset by other production maintenance and operations costs which decreased by 5.2%, \$242,127, in 2010.

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

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

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Depreciation and amortization expense decreased by 9.4%, \$394,837, in 2010 primarily due to changes made in the useful lives, and depreciation rates of the Western Units' assets resulting from a 2009 depreciation study.

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

Depreciation and amortization expense increased by 24.3%, \$747,967, in 2008 primarily due to Walter Scott Energy Center Unit 4 beginning generation operations and the costs being added to depreciable assets.

Services and administrative expenses decreased by 13.0% in 2010. The Utility offers customers' rebates through its House call energy efficiency program for selected energy efficiency measures. This program's expenses increased in 2010 by \$215,879, 35.4%. Administrative and general expenses decreased 21.4%, \$1,448,665, in 2010 primarily due to 65.1%, \$565,684, less in flood related repair costs, \$750,000, 50.0%, less in the payment in lieu of tax (PILOT) paid to the City of Cedar Falls, Iowa, and \$308,067, 15.9%, less in employee insurance and benefits expenses.

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

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

Interest Income decreased 64.4% due to a reduction in investments because of very low interest rates and difficulty getting banks to bid on placement of the investments during 2010. Funds that would have been invested were deposited into money market accounts waiting a strengthening in the investment markets.

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

Interest Income decreased 9.2% in 2008 primarily due to a reduction in investments of \$6,212,500 in order to make cash available for flood expenses and the drop in rates of interest earned.

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Other, net decreased 4.7%, \$76,837, in 2010 primarily due to a 7.5%, \$81,475, increase in intergovernmental grant funds revenue (FEMA reimbursements) due to repairs to capital assets caused by the 2008 flood and the 2009 wind storm, and a 2.2%, \$49,932, increase in miscellaneous revenues offset by an increase in long-term debt interest expense of \$228,144, 12.8%.

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

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

Capital Assets and Debt Administration

Net capital assets represent 63.1% of total assets for the Utility in 2010. Net capital assets increased 2.4% due to wind storm recovery capital projects, overhead to underground distribution system conversion projects, and other environmental and upgrade projects.

Net capital assets represent 69.1% of total assets for the Utility in 2009. Net capital assets increased 5.6% from 2008 due to flood recovery capital projects, and WS3 environmental and upgrade projects.

Net capital assets represented 66.6% of total assets for the Utility in 2008. Net capital assets increased 11.4% from 2007 due to transmission system upgrades additions and WS3 environmental and upgrade projects.

Additional detail on the change in capital assets can be found in Note 4.

The Utility's total long-term debt at year end 2010 was \$54,200,225 compared to \$45,900,788 at year end 2009 and \$47,671,537 at year end 2008. The change in total long-term debt is due to the principal debt payments of \$1,595,000 in 2010, \$1,535,000 in 2009 and \$1,075,000 in 2008 plus amortization of debt discounts and premiums. In addition, in December 2010 the Board of Trustees authorized the issuance of \$10,000,000 in revenue capital loan notes for electric system improvements and extensions, and environmental upgrades to the Utility's generation units, transmission, and distribution assets. Also in December 2010, the Board of Trustees authorized the issuance of \$6,870,000 in refunding revenue capital loan notes for an advanced refunding of \$6,530,000 of principal of the outstanding \$8,240,000 of the 2003 revenue bonds. The advanced refunding has left \$1,710,000 principal remaining for the 2003 revenue bond issue. Annual payments for the 2003 revenue bonds will continue until the debt is extinguished in December 2014.

Additional detail on the outstanding loan can be found in Note 5.

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Balance Sheets
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<u>Assets</u>	<u>2010</u>	<u>2009</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 181,815,583	\$ 174,309,170
Less accumulated depreciation	72,973,815	70,082,314
Capital assets, net (note 8)	<u>108,841,768</u>	<u>104,226,856</u>
Construction work in progress	2,144,187	4,129,572
Total capital assets, net	<u>110,985,955</u>	<u>108,356,428</u>
Noncurrent assets:		
Note receivable (note 9)	923,090	1,233,090
Loans receivable	438,579	524,853
Total noncurrent assets	<u>1,361,669</u>	<u>1,757,943</u>
Current assets:		
Cash and cash equivalents (note 3)	20,692,260	13,797,916
Cash - Restricted (note 2 and 3)	11,208,564	975,083
Investments - Unrestricted (note 3)	7,033,567	6,285,058
Investments - Restricted (note 2 and 3)	6,382,913	8,500,321
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$41,386 in 2010 and \$34,535 in 2009	3,984,918	3,734,922
Loans receivable	106,189	112,898
Interest (note 9)	56,526	171,647
Current installment of note receivable (note 9)	310,000	310,000
Government grants (note 12 and 13)	2,568,139	3,347,295
Other	1,371,826	1,618,688
Inventories:		
Fuel	7,060,736	6,073,032
Material and supplies	1,679,987	1,206,281
Prepayments and other	249,476	172,840
Total current assets	<u>62,705,101</u>	<u>46,305,981</u>
Deferred costs	<u>820,207</u>	<u>400,945</u>
Total assets	<u>\$ 175,872,932</u>	<u>\$ 156,821,297</u>

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

Balance Sheets
December 31, 2010 and 2009

<u>Liabilities</u>	<u>2010</u>	<u>2009</u>
Long-term debt, less current installments (note 5)	\$ 54,200,225	\$ 45,900,788
Current liabilities:		
Accounts payable	4,137,141	2,946,371
Reserve for surplus declaration (note 9)	750,000	1,500,000
Accrued wages and vacations	743,814	698,807
Accrued interest	195,734	178,575
Other accrued expenses	248,906	258,579
Current installments of long-term debt (note 5)	2,110,000	1,595,000
Total current liabilities	<u>8,185,595</u>	<u>7,177,332</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	1,280,296	1,357,947
Other liabilities (note 5 and 11)	2,017,027	1,875,990
Total noncurrent liabilities	<u>3,297,323</u>	<u>3,233,937</u>
 Total liabilities	 <u>65,683,143</u>	 <u>56,312,057</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	64,351,040	62,794,814
Restricted	7,162,009	6,716,184
Unrestricted	38,676,740	30,998,242
Total net assets	<u>110,189,789</u>	<u>100,509,240</u>
 Total liabilities and net assets	 <u>\$ 175,872,932</u>	 <u>\$ 156,821,297</u>

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

Statements of Revenues, Expenses and Changes in Net Assets
Years ended December 31, 2010, and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Sales of electricity:		
Residential	\$ 14,672,269	\$ 11,999,929
Large industrial & commercial	2,707,671	2,106,892
Small industrial & commercial	15,154,612	12,688,369
Governmental (note 9)	3,819,655	3,054,145
Sales for resale	13,779,617	4,651,380
Interdepartmental	213,445	199,998
Total sales of electricity	<u>50,347,269</u>	<u>34,700,713</u>
Other operating revenues (note 12 and 13)	2,671,485	3,717,052
Total operating revenues	<u>53,018,754</u>	<u>38,417,765</u>
Operating expenses:		
Production and generation:		
Fuel	7,873,844	5,085,636
Purchased power	16,440,260	8,802,274
Other	4,449,698	4,691,825
Transmission	2,157,236	1,373,659
Distribution	2,297,349	2,307,801
Depreciation and amortization	3,825,289	4,220,126
Customer accounts	763,144	760,256
Customer service and information expenses	1,053,239	807,666
Sales	15,104	33,596
Administrative and general (note 9)	5,310,809	6,759,474
Taxes other than income taxes	922,185	903,511
Total operating expenses	<u>45,108,157</u>	<u>35,745,824</u>
Operating income	<u>7,910,597</u>	<u>2,671,941</u>
Non-operating revenues (expenses):		
Interest income (note 9)	200,080	562,606
Net increase (decrease) in the fair value of investments	(24,408)	(176,870)
Miscellaneous revenue (expense), net (note 9)	2,307,118	2,257,186
Intergovernmental grant funds (note 12 and 13)	1,163,572	1,082,097
Interest expense on long-term debt	(2,008,568)	(1,780,424)
AFUDC (note 1)	137,336	269,680
Interest income (expense) on security deposits	(5,178)	(4,960)
Total nonoperating revenues (expenses)	<u>1,769,952</u>	<u>2,209,315</u>
Change in net assets	<u>9,680,549</u>	<u>4,881,256</u>
Net assets, beginning of year	<u>100,509,240</u>	<u>95,627,984</u>
Net assets, end of year	<u>\$ 110,189,789</u>	<u>\$ 100,509,240</u>

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

Statements of Cash Flows
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$ 55,973,596	\$ 42,343,253
Intergovernmental grants	162,476	862,454
Cash paid to suppliers	(36,557,097)	(27,909,542)
Cash paid to employees	(3,766,641)	(3,692,035)
Payment in lieu of taxes to the City of Cedar Falls	(1,500,000)	(1,450,000)
Property tax paid	(471,266)	(493,891)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	13,841,068	9,660,239
	<hr/>	<hr/>
Cash flows from noncapital financing activities:		
Intergovernmental grants	1,163,572	1,082,097
Interest paid on customer deposits	(3,673)	(4,960)
	<hr/>	<hr/>
Net cash provided by (used in) noncapital financing activities	1,159,899	1,077,137
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Proceeds from issuance of capital loan notes	16,870,000	-
Premium on issuance of capital loan notes	115,126	-
Discount on issuance of capital loan notes	(151,339)	-
Cost of issuance of capital loan notes	(83,700)	-
Principal payments on long-term debt	(1,595,000)	(1,535,000)
Recall of 2003 revenue bonds	(6,790,710)	-
Interest paid	(1,967,970)	(2,022,350)
Proceeds from customer advances for construction	122,400	159,521
Refunds of customer advances for construction	(200,051)	(114,500)
Acquisition, construction and removal cost of capital assets	(7,254,148)	(9,986,665)
Proceeds from sale of capital assets	133,553	74,074
Reimbursement of utility construction costs	959,005	380,050
	<hr/>	<hr/>
Net cash provided by (used in) capital and related financing activities	157,166	(13,044,870)
	<hr/>	<hr/>
Cash flows from investing activities:		
Proceeds from repayment of loan by associated utility	310,000	310,000
Proceeds from maturities of investment securities	18,148,721	14,892,537
Purchase of investment securities	(16,804,230)	(14,809,134)
Interest received	315,201	636,605
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	1,969,692	1,030,008
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	17,127,825	(1,277,486)
Cash and cash equivalents, beginning of year	14,772,999	16,050,485
	<hr/>	<hr/>
Cash and cash equivalents, end of year (note 1)	\$ 31,900,824	\$ 14,772,999
	<hr/>	<hr/>

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

Statements of Cash Flows, Continued
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 7,910,597	\$ 2,671,941
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of capital assets	3,825,289	4,220,126
Other Income (expense), net	2,151,228	2,116,733
(Increase) decrease in accounts receivable	(3,134)	(895,300)
(Increase) decrease in loans receivable	92,983	(380,429)
(Increase) decrease in intergovernmental grants	779,156	3,813,040
(Increase) decrease in inventories	(1,461,410)	(1,412,846)
(Increase) decrease in prepayments and other	(70,782)	62,287
Increase (decrease) in accounts payable	1,190,770	(871,295)
Increase (decrease) in reserve for surplus declaration	(750,000)	50,000
Increase (decrease) in accrued wages and vacation	45,007	108,459
Increase (decrease) in other accrued expenses	(9,673)	(21,479)
Increase (decrease) in other liabilities	141,037	199,002
Net cash provided by operating activities	<u>\$ 13,841,068</u>	<u>\$ 9,660,239</u>
Reconciliation of cash and cash equivalents to statement of net assets accounts:		
Cash and cash equivalents	\$ 20,692,260	\$ 13,797,916
Cash - Restricted	<u>11,208,564</u>	<u>975,083</u>
Cash and cash equivalents	<u>\$ 31,900,824</u>	<u>\$ 14,772,999</u>

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

Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

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

The Utility's present capacity consists of one wholly owned and three jointly owned coal-fired plants, Walter Scott Energy Center Unit 3, Walter Scott Energy Center Unit 4, and George Neal Generating Station Unit 4 (Western Units) and one assigned by contract with a combined generating capacity of 114 megawatts. The Utility owns two combustion turbines with a generating capacity of 41 megawatts. The Utility also owns 1.5 megawatts of generating capacity in a jointly owned wind turbine facility. The Utility owns a total of 156.5 megawatts of generating capacity.

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

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

(b) Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 4.63% in 2010 and 4.63 2009. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: land improvements - 45 years, infrastructure - 25 to 55 years, buildings and improvements - 20 to 70 years, and equipment - 10 to 60 years. The depreciation provisions were equivalent to an overall composite rate of 2.4% and 2.7% of depreciable assets for 2010 and 2009, respectively.

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

(c) Cash and Investments

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

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

Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

(c) Cash and Investments, Continued

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December 31, 2010 and 2009 were \$2,750,000 and \$2,750,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

(d) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and are reported net of allowances.

(e) Inventories

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

(f) Bond Issue Costs

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

(g) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent debt proceeds of this capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of government entities. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted".

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

(h) Operating Revenues and Expenses

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

Revenues from the sale of electricity are based on billing rates, which are applied to customers' consumption of electricity. The Utility records estimated unbilled revenue, including amounts to be billed under a fuel adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2010 and 2009, were \$1,723,233, and \$1,607,994 respectively, and are recorded in customer accounts receivable. The Utility uses a fuel adjustment clause whereby increases or decreases in fuel costs and purchase power costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

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

Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

(i) Estimates

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

(j) Budgetary Information

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

Formal and legal budgetary control is based on the total of all four utilities as a whole. During the year 2010 there were no budget amendments.

(k) Reclassifications

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

(2) Restricted Assets

The composition of restricted assets as of December 31, 2010 and 2009 was as follows:

	2010		Total
	Cash	Investments	
Current Assets - Restricted			
Bond Reserve	\$ 886	\$4,882,913	\$ 4,883,799
Bond and Interest	355,485	-	355,485
Streeter Landfill	565,065	-	565,065
Self Insured Medical and Dental	611,817	500,000	1,111,817
Construction	9,675,311	-	9,675,311
Improvement and Extension	-	1,000,000	1,000,000
Total Current Assets - Restricted	11,208,564	6,382,913	17,591,477
Total restricted assets	<u>\$11,208,564</u>	<u>\$6,382,913</u>	<u>\$17,591,477</u>

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

Notes to Financial Statements
December 31, 2010 and 2009

(2) Restricted Assets, Continued

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

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

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2010 was \$345 and 2009 was \$345.

Deposits

At December 31, 2010, the Utility's carrying amount of deposits, including \$13,416,480 of certificates of deposits and \$25,678,952 of money market accounts, was \$42,566,959. At December 31, 2009, the Utility's carrying amount of deposits, including \$12,855,971 of certificates of deposits and \$12,022,654 of money market accounts, was \$24,878,625.

Investments

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

As of December 31, 2010, the Utility had no Federal Agency Obligation investments or maturities.

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

Notes to Financial Statements
December 31, 2010 and 2009

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

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

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

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,750,000 and \$2,750,000 at December 31, 2010 and 2009, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

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

Custodial Credit Risk - Investments

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

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

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

Notes to Financial Statements
December 31, 2010 and 2009

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

	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 345	\$ 345
Carrying amount of deposits	42,566,959	24,878,625
Carrying amount of federal agency obligations	-	1,929,408
Carrying amount of Iowa Public Agency Investment Trust	2,750,000	2,750,000
Total	<u>\$ 45,317,304</u>	<u>\$ 29,558,378</u>
Current Assets		
Cash and cash equivalents	\$ 20,692,260	\$ 13,797,916
Investments	7,033,567	6,285,058
Restricted Cash	11,208,564	975,083
Restricted Investments	6,382,913	8,500,321
Noncurrent Investments		
Restricted	-	-
Total	<u>\$ 45,317,304</u>	<u>\$ 29,558,378</u>

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

	<u>2010</u>	<u>2009</u>
Unrestricted Cash and Investments		
Board Designated		
Generation	\$ 4,034,440	\$ 2,285,058
Western Units Landfill	326,278	327,228
Security Deposits	192,086	172,767
Operating	23,173,023	17,297,921
Total Cash and Investments Unrestricted	<u>\$ 27,725,827</u>	<u>\$ 20,082,974</u>

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

Notes to Financial Statements
December 31, 2010 and 2009

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2010 and 2009 follows:

2010	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being Depreciated:				
Land	\$ 1,071,983	\$ -	\$ -	\$ 1,071,983
Construction, Work-in-progress	4,129,572	6,895,354	8,880,739	2,144,187
Total capital assets, Not being depreciated	5,201,555	6,895,354	8,880,739	3,216,170
Capital assets, being depreciated:				
Infrastructure	131,811,603	6,915,498	986,057	137,741,044
Buildings and improvements	21,923,245	1,084,793	135,249	22,872,789
Equipment	19,502,339	880,448	253,020	20,129,767
Total capital assets, being depreciated	173,237,187	8,880,739	1,374,326	180,743,600
Less accumulated depreciation	70,082,314	4,426,083	1,534,582	72,973,815
Total capital assets, being depreciated, net	103,154,873	4,454,656	(160,256)	107,769,785
Capital assets, net	\$108,356,428	\$ 11,350,010	\$ 8,720,483	\$110,985,955
2009	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being Depreciated:				
Land	\$ 991,704	\$ 80,279	\$ -	\$ 1,071,983
Construction, Work-in-progress	10,812,093	28,437,494	35,120,015	4,129,572
Total capital assets, Not being depreciated	11,803,797	28,517,773	35,120,015	5,201,555
Capital assets, being depreciated:				
Infrastructure	126,410,589	25,051,401	19,650,387	131,811,603
Buildings and improvements	13,216,261	8,787,979	80,995	21,923,245
Equipment	18,023,630	1,679,356	200,647	19,502,339
Total capital assets, being depreciated	157,650,480	35,518,736	19,932,029	173,237,187
Less accumulated depreciation	66,820,398	5,243,744	1,981,828	70,082,314
Total capital assets, being depreciated, net	90,830,082	30,274,992	17,950,201	103,154,873
Capital assets, net	\$102,633,879	\$ 58,792,765	\$ 53,070,216	\$108,356,428

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

Notes to Financial Statements
December 31, 2010 and 2009

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2010 and 2009 was as follows:

2010	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds:					
Series 2003	\$ 8,510,000	\$ -	\$ 6,800,000	\$ 1,710,000	\$ 280,000
Series 2005	22,565,000	-	655,000	21,910,000	670,000
Series 2007	16,980,000	-	670,000	16,310,000	700,000
Capital Loan Notes:					
Series 2010A	-	10,000,000	-	10,000,000	410,000
Series 2010B	-	6,870,000	-	6,870,000	50,000
Unamortized premium	282,488	115,126	9,397	388,217	-
Unamortized discount	(841,700)	(151,339)	(115,047)	(877,992)	-
	<u>47,495,788</u>	<u>16,833,787</u>	<u>8,019,350</u>	<u>56,310,225</u>	<u>\$ 2,110,000</u>
Current installments of long-term debt	(1,595,000)	(515,000)	-	(2,110,000)	
Long-term debt, less current installments	<u>45,900,788</u>	<u>16,318,787</u>	<u>8,019,350</u>	<u>54,200,225</u>	
Customer advances for construction	1,357,947	126,599	204,250	1,280,296	
Other liabilities:					
Landfill closure	789,076	15,402	17,764	786,714	
Other deferred	93,437	3,769,793	3,727,007	136,223	
Accrued severance and OPEB	<u>993,477</u>	<u>416,926</u>	<u>316,313</u>	<u>1,094,090</u>	
Noncurrent liabilities	<u>3,233,937</u>	<u>4,328,720</u>	<u>4,265,334</u>	<u>3,297,323</u>	
Total noncurrent liabilities	<u>\$49,134,725</u>	<u>\$20,647,507</u>	<u>\$12,284,684</u>	<u>\$57,497,548</u>	

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(5) Noncurrent Liabilities, Continued

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

On December 21, 2010, new capital loan notes in the amount of \$6,870,000 were issued with interest rates throughout the term of the notes ranging from 2.50% and 3.80% to advance refund \$6,530,000 of outstanding Series 2003 revenue bonds with interest rates ranging from 4.00% to 4.5%. The net proceeds of \$6,762,320 (after payment of \$136,925 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposits in an irrevocable trust with an escrow agent to provide for \$6,807,162 of future debt service payments on the old bonds. As a result, the old bonds are considered to be defeased and the liability for that portion of the old bonds has been removed from the statement of net assets.

The cash flow requirements on the old bonds prior to the advance refunding was \$9,141,210 from 2011 through 2023. The cash flow requirements on the new bonds are \$8,867,203 from 2011 through 2023. The advance refunding resulted in \$274,007 in future debt service payments and an economic gain of \$221,801.

On December 21, 2010, the Utility issued \$10,000,000 of Series 2010A revenue capital loan notes for the purpose of paying costs of improvements and extensions to the Utility and environmental upgrades of generation facilities owned or co-owned by the Utility. The notes mature in 2030 and interest rates throughout the term of the notes are in a range between 3.00% and 4.75%.

During 2007, the Utility issued \$17,825,000 of Series 2007 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility and

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Notes to Financial Statements
December 31, 2010 and 2009

(5) Noncurrent Liabilities, Continued

environmental upgrades of generation facilities owned or co-owned by the Utility. The bonds mature in 2026 and interest rates throughout the term of the bonds are in a range between 4.00% and 4.375%.

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

During 2003, the Utility issued \$10,000,000 of Series 2003 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility, including the construction of generation and related transmission facilities to serve the Utility. In 2010, after the advanced refunding described above, the remaining \$1,710,000 of Series 2003 revenue bonds mature in 2015 with interest rates ranging from 3.50% to 4.00%.

The Series 2003, 2005 and 2007 revenue bonds and 2010A and 2010B revenue capital loan notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 2.50% and 4.75%. The bonds and capital loan notes are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

Year	Series 2003 Electric Revenue Bonds		Series 2005 Electric Revenue Bonds	
	December 1 Principal Amount	3.50%-4.00% Interest Amount	December 1 Principal Amount	3.00%-4.25% Interest Amount
2011	\$ 280,000	\$ 62,750	\$ 670,000	\$ 888,513
2012	295,000	52,950	690,000	864,225
2013	555,000	42,625	1,370,000	838,350
2014	580,000	23,200	1,420,000	786,975
2015			1,480,000	730,175
2016-2020			8,335,000	2,714,875
2021-2024			7,945,000	857,006
	<u>\$ 1,710,000</u>	<u>\$ 181,525</u>	<u>\$21,910,000</u>	<u>\$ 7,680,119</u>

Year	Series 2007 Electric Revenue Bonds	
	December 1 Principal Amount	4.00%-4.375% Interest Amount
2011	\$ 700,000	\$ 680,369
2012	735,000	652,369
2013	765,000	622,969
2014	805,000	592,369
2015	840,000	560,168
2016-2020	4,855,000	2,258,350
2021-2025	6,170,000	1,144,150
2026	1,440,000	63,000
	<u>\$16,310,000</u>	<u>\$ 6,573,744</u>

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(5) Noncurrent Liabilities, Continued

Year	Series 2010A Electric Capital Loan Notes		Series 2010B Electric Revenue Refunding Capital Loan Notes	
	December 1 Principal Amount	3.00%-4.75% Interest Amount	December 1 Principal Amount	2.50%- 3.80% Interest Amount
2011	\$ 410,000	\$ 358,877	\$ 50,000	\$ 198,078
2012	395,000	367,688	50,000	208,480
2013	405,000	355,837	50,000	207,230
2014	410,000	343,688	50,000	205,980
2015	420,000	331,387	650,000	204,730
2016-2020	2,235,000	1,461,700	3,555,000	762,925
2021-2025	2,580,000	1,047,500	2,465,000	183,370
2026-2030	3,145,000	450,875		
	<u>\$10,000,000</u>	<u>\$ 4,717,552</u>	<u>\$6,870,000</u>	<u>\$1,970,793</u>

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

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2010 and 2009 were \$10,092,769 and \$3,559,231, respectively. Total customer gross revenues as defined for the same periods were \$36,567,652 and \$30,049,333. Annual principal and interest payments are expected to require 10.65% of gross revenues on average.

Iowa Administrative Code requires the Utility to place a final cover on its ash landfill site for its Streeter Station Generating Facility when it is closed and thereupon to have in place surveying monuments and an approved groundwater monitoring system. Iowa Administrative Code also requires the Utility to maintain the final cover, monitor ground water, and file reports with the Iowa Department of Natural Resources for ten years following closure of the site. Although closure and post closure costs are paid only near or after the date that the landfill is closed, the Utility reports a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. Landfill closure and post closure care costs at December 31, 2010 are estimated to be \$460,436. This represents the cumulative estimated amount to date, based on the use of 100% of the estimated capacity of the landfill, to perform all closure and post closure care in 2010. Currently, the Utility has \$565,065 in restricted funds to cover the cost of the closure (see note 2). The Utility expects to close the landfill during 2011. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. In 2008 the Utility created a Landfill Closure liability for its ownership share of Walter Scott Energy Center - Unit 3, and George Neal Generating Station - Unit 4 generating units. The Walter Scott Energy Center - Unit 3 dry ash landfill was expected to be closed December 1, 2010 and its wet ash landfill is expected to be closed December 1, 2024. The dry ash land fill is being reviewed for possible life extension. The Neal - Unit 4 land fill is expected to be closed December 1, 2015. A liability has been established and funds designated to pay the closing costs in the amount of \$326,278 (see note 3).

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(6) Pension and Retirement Benefits

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

Plan members were required to contribute 4.30% of their annual covered salary and the Utility was required to contribute 6.65% of annual covered payroll through June 30, 2010. Beginning July 1, 2010 plan members were required to contribute 4.50% of their annual covered salary and the Utility was required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2010, 2009, and 2008 were \$458,698; \$427,457; and \$388,089; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Prior to June 30, 2010, employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age qualified to convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit was phased out between January 1, 2008 and June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it will be reduced to 50% and zero thereafter. The Utility recognized liability of \$0 and \$98,480, respectively, for the years ended December 31, 2010 and 2009.

(7) Income Tax Status

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

(8) Jointly-Owned Capital Assets

The Utility's share of jointly owned electric facilities at December 31, 2010 and 2009 is reflected in the following table. These facilities provide approximately 27% of the Utility's total generating capacity. The Utility is required to provide financing for its share of the facilities. The Utility's share of expenses associated with these facilities is included with the appropriate operating expenses in the statements of revenues, expenses and changes in net assets.

Facility	Percentage Ownership	Capacity MW	Capital Assets, Net	
			2010	2009
Walter Scott Energy Center Unit 3	3.10%	21.40	\$12,271,536	\$11,718,667
Walter Scott Energy Center Unit 4	2.02%	15.20	26,799,736	26,818,810
George Neal Generating Station Unit 4	2.50%	15.60	2,236,929	2,280,600
Iowa Distributed Wind Generation Project	65.80%	1.50	659,312	702,413

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(9) Related Party Transactions

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2010 and 2009 were \$750,000 and \$1,500,000, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2010, the Utility's Board of Trustees approved a payment of \$750,000 related to payments in lieu of taxes for 2010.

In addition, the Utility provides electric service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$611,214 and \$525,175 in 2010 and 2009, respectively.

The Electric Utility has extended a loan to the Municipal Communications Utility of the City of Cedar Falls, Iowa (Communications Utility), with an outstanding balance of \$1,233,090 and \$1,553,090 as of December 31, 2010 and 2009, respectively. Interest accrues on the loan at 3.10% and is paid semi-annually during January and July. Semi-annual principal payments continue through 2016. Accrued interest receivable was \$21,674 and \$26,518 at December 31, 2010 and 2009, respectively. Interest income for the years ended December 31, 2010 and 2009 was \$45,395 and \$54,862 respectively.

For the years ended December 31, 2010 and 2009, the Utility earned a management fee of \$69,863 from the Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous non-operating revenue. Due to a reallocation of labor and other costs among the Electric, Gas, Water and Communications Utilities this management fee has been eliminated as of December 31, 2010.

(10) Risk Management

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2010 plan year for aggregate claims exceeding \$2.6 million.

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

	2010	2009
Unpaid claims and IBNR, beginning of year	\$ 325,000	\$ 293,600
Current year costs including IBNR	2,207,548	2,725,783
Claims paid	(2,345,548)	(2,694,383)
Unpaid claims and IBNR, end of year	<u>\$ 187,000</u>	<u>\$ 325,000</u>

The Utility has recorded \$114,070 and \$198,250 in accounts payable for its share of these unpaid claims at December 31, 2010 and 2009, respectively.

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(10) Risk Management, Continued

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

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2010.

Cash and cash equivalents and investments	\$50,122,010
Receivables	2,280,803
Other assets	850,273
Total assets	<u>\$53,253,086</u>
Total liabilities	\$26,103,027
Total equity	<u>27,150,059</u>
Total liabilities and equity	<u>\$53,253,086</u>
Total revenues	\$ 4,283,032
Total expenses	3,514,768
Distribution to members	-
Net increase in equity	<u>\$ 768,264</u>

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

(11) Other Post-Employment Benefits (OPEB)

Plan Description

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

Funding Policy

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2010, the Utilities contributed \$166,316 and retirees receiving benefits contributed \$118,483 through their required contributions.

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

Annual OPEB and Net OPEB Obligations

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

	<u>2010</u>
Annual required contribution	\$ 299,000
Interest on Net OPEB Obligation	14,004
Adjustment to annual required contribution	<u>(11,000)</u>
Annual OPEB expense	302,004
Contributions and payments made	<u>49,087</u>
Increase in net OPEB obligation	\$ 252,917
Net OPEB obligation, December 31, 2009	<u>585,532</u>
Net OPEB obligation, December 31, 2010	<u>\$ 838,449</u>

The Electric Utility's share of the December 31, 2010 Net OPEB obligation is \$524,635.

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the years ended December 31, 2010, 2009 and 2008:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 302,004	16.25%	\$ 838,449
December 31, 2009	\$ 302,004	5.64%	\$ 585,532
December 31, 2008	\$ 289,428	-4.27%	\$ 301,799

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$2,967,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$12,152,946, in 2010 and the ratio of the UAAL to the covered payroll was 24.4%.

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

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Notes to Financial Statements
December 31, 2010 and 2009

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

future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. There are no plans to fund The Plan at this time.

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

Significant methods and assumptions were as follows:

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

The schedule of funding progress, presented as Required Supplemental Information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

(12) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, building furnishings and equipment, meters, switches, relays, tools and rendered the Streeter Station power plant units 6 and 7 and coal handling systems inoperable and in need of major repair. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation and is still in the process of repairing and replacing assets lost in the flood. As of December 31, 2009, Utility administrative facilities were repaired and operational. Generation units were repaired and operational, and power plant office facilities were repaired and operational in early 2010. As of December 31, 2010 and 2009, the Electric Utility has spent \$14,662 and \$600,862, respectively, in operational expense for flood recovery. As of December 31, 2010 and 2009, the utility spent \$739,130 and \$2,429,429, respectively, in asset repair and replacement. As of December 31, 2010 and 2009, the Utility has recognized \$21,657 and \$519,515, respectively, in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$584,822 and \$967,056, respectively, in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2010 and 2009, the Utility recognized a receivable of \$1,844,487 and \$2,914,893, respectively, for FEMA flood disaster reimbursement.

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(13) Wind Event

On July 10, 2009, the City of Cedar Falls experienced a storm with extreme winds of approximately 106 MPH. The extreme winds uprooted and sheared trees, blew over poles and lines, and slammed trees and branches into Electric Utility distribution facilities doing millions of dollars worth of damage. The Utility began immediate clean up and also began working with the Federal Emergency Management Agency (FEMA) for reconstruction and repair of severely damaged Utility distribution assets. As of December 31, 2009, the damaged assets have been temporarily repaired; however, they will be permanently repaired, restored, or replaced in the upcoming years. As of December 31, 2010 and 2009, the Electric Utility has spent \$0 and \$382,931, respectively, in operational expense for wind damage recovery and \$676,992 and \$163,017, respectively, in asset repair and replacement. The Utility has recognized in \$0 in 2010 and \$336,696 in 2009 of Other Operating Revenues for FEMA reimbursement expected for operational losses and \$570,299 in 2010 and \$115,041 in 2009 of Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2010 and 2009, the Utility recognized a receivable of \$648,140 and \$425,647, respectively, for FEMA wind storm disaster reimbursement.

(14) Commitments and Contingencies

The Utility has joint ownership interest in Walter Scott Energy Center Units 3 and 4, and the George Neal Generating Station Unit 4 (see note 8). Coal procurements are made by the agent for the joint owners on a system portfolio basis, which are a mix of 1, 2, and 3-year purchases to minimize risk. The Utility is obligated to purchase at least the annual amount of coal to operate the Utility's share at minimum load. The Utility's share of coal purchases for the years 2010 and 2009 were \$4,701,383 and \$3,578,326, respectively.

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

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

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

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

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Notes to Financial Statements
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(14) Commitments and Contingencies, Continued

As of December 31, 2010, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$2,881,000 including approximately \$323,000 in flood-related capital projects and \$809,000 in wind storm-related capital projects.

(15) Subsequent Events

Effective January 1, 2011, the Board of Trustees approved a general electric rate increase. The average rate increase is approximately 5.0% for all customer classes.

Municipal Electric, Gas, Water, and Communications Utilities
Of the City of Cedar Falls, Iowa

Required Supplemental Information
December 31, 2010, 2009 and 2008

Schedule of Funding Progress for the Other
Post-Employment Benefits Plan
Unaudited

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,152,946	24.4%
January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$11,587,064	25.6%
January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.0%	\$11,162,424	30.8%

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

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

We have audited the financial statements of the Municipal Electric Utility of the City of Cedar Falls, Iowa (Municipal Electric Utility) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipal Electric Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Municipal Electric Utility in a separate letter dated March 31, 2011.

This report is intended solely for the information and use of utility management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2011



BAKER TILLY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Municipal Gas Utility of The City of Cedar Falls, Iowa (Municipal Gas Utility), a component unit of the City of Cedar Falls, Iowa, as of December 31, 2010, and related statements of revenues, expenses and changes in net assets and statements of cash flows for the year then ended. These financial statements are the responsibility of the Municipal Gas Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Municipal Gas Utility as of and for the year ended December 31, 2009 were audited by other auditors whose report, dated March 29, 2010, expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Gas Utility as of December 31, 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011, on our consideration of the Municipal Gas Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Schedules of Funding Progress enclosed in this report are not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2011

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

Management Discussion and Analysis
December 31, 2010, 2009 and 2008
Unaudited

The following discussion and analysis of the Municipal Gas Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2010, 2009 and 2008. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

- The Utility's net assets decreased as a result of operating loss in 2010. At December 31, 2010, 2009 and 2008, total assets were \$23,836,558, \$23,827,603 and \$23,023,361, respectively, and total liabilities were \$3,308,581, \$2,803,390 and \$3,404,678, respectively, resulting in net assets of \$20,527,977, \$21,024,213 and \$19,618,683, respectively.
- In 2010 operating revenues decreased by 8.2% to \$13,813,417 and operating expenses increased by 1.4% to \$14,481,802.
- In 2009 operating revenues decreased by 27.4% to \$15,048,764 and operating expenses decreased by 25.1% to \$14,277,451.
- In 2008 operating revenues increased by 18.5% to \$20,739,508 while operating expenses increased by 9.6% to \$19,065,793.
- In 2010, the Utility experienced an operating loss of \$668,385, compared to operating income of \$771,313 in 2009 and \$1,673,715 in 2008.
- On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, regulators, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA for the recovery, repair and remediation of Utility assets damaged or destroyed in the flood. Additional detail on the 2008 Flood Event can be found in Note 11.

Overview of the Financial Statements

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

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

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

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

Management Discussion and Analysis
December 31, 2010, 2009 and 2008
Unaudited

fundamental objective of this rate model is to provide adequate revenue to cover all expenses.

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

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

Condensed Financial Information

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

Condensed Balance Sheet Information

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$11,996,956	\$11,696,663	\$ 11,163,943
Capital assets, net	11,627,014	11,855,970	11,747,450
Other noncurrent assets	212,588	274,970	111,968
Total assets	<u>\$23,836,558</u>	<u>\$23,827,603</u>	<u>\$23,023,361</u>
Current liabilities	\$ 2,847,821	\$ 2,326,265	\$ 2,996,533
Noncurrent liabilities	460,760	477,125	408,145
Total liabilities	<u>\$ 3,308,581</u>	<u>\$ 2,803,390</u>	<u>\$ 3,404,678</u>
Invested in capital assets, net of related debt	\$11,627,014	\$11,855,970	\$11,747,450
Restricted	209,802	251,963	295,675
Unrestricted	8,691,161	8,916,280	7,575,558
Total net assets	<u>\$20,527,977</u>	<u>\$21,024,213</u>	<u>\$19,618,683</u>

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

Management Discussion and Analysis
December 31, 2010, 2009 and 2008
Unaudited

Condensed Revenues, Expenses and Changes in Net Assets

	2010	2009	2008
Sales of gas	\$13,727,840	\$14,966,948	\$20,415,953
Other	85,577	81,816	323,555
Total operating revenues	<u>13,813,417</u>	<u>15,048,764</u>	<u>20,739,508</u>
Natural gas purchased for resale	9,100,183	9,986,088	14,853,389
Operation and maintenance	1,235,016	1,156,526	1,059,681
Depreciation	725,255	697,521	692,695
Service and administrative	3,421,348	2,437,316	2,460,028
Total operating expenses	<u>14,481,802</u>	<u>14,277,451</u>	<u>19,065,793</u>
Operating income (loss)	<u>(668,385)</u>	<u>771,313</u>	<u>1,673,715</u>
Interest income	3,330	23,062	191,345
Other, net	168,819	611,155	451,958
Total non-operating revenues (expenses)	<u>172,149</u>	<u>634,217</u>	<u>643,303</u>
Change in net assets	<u>(496,236)</u>	<u>1,405,530</u>	<u>2,317,018</u>
Net assets, beginning of year	<u>21,024,213</u>	<u>19,618,683</u>	<u>17,301,665</u>
Net assets, end of year	<u>\$20,527,977</u>	<u>\$21,024,213</u>	<u>\$19,618,683</u>

Financial Analysis

Current assets increased 2.6% in 2010. Cash and investments - unrestricted increased by 7.6%, \$648,929. Receivables decreased by 11.8%, \$311,294, primarily due to a decrease in Customer accounts receivable, less allowance for doubtful accounts, of \$196,047 and a decrease in Government grants receivable for FEMA assistance of \$169,578 and a decrease of trade receivables of \$17,747 offset by an increase in other receivables of \$76,239.

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

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

Current liabilities increased 22.4%, \$521,556, in 2010 primarily as a result of an increase in reserve for surplus declaration of \$800,000.

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

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

Management Discussion and Analysis
December 31, 2010, 2009 and 2008
Unaudited

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

Gas revenues decreased 8.2% in 2010 primarily because of a decrease in usage of 152,991 MCF from 2009. Purchase Gas Adjustment (PGA) revenues increased 1.2%. The average PGA increased in 2010 to \$4.96 per MCF from \$4.90 per MCF during 2009, an average increase of \$0.06 per MCF.

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

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

Natural gas purchased for resale expense decreased 8.9% in 2010 primarily due to the decrease in usage from 2009. Actual average wholesale natural gas costs in 2010 were \$5.31 per MCF compared to \$5.35 per MCF in 2009.

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

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

Operation and maintenance expenses increased 6.8% in 2010. This increase is primarily attributable to an overall increase in supervision and engineering wages and gas main maintenance costs.

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

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

Service and Administrative expenses increased by 40.4% in 2010 primarily due to the \$800,000 payment in lieu of taxes (PILOT) to be paid to the City of Cedar Falls, which was not paid in 2009 or 2008, and an increase of 64.7%, \$173,103, in the Utility's House Call energy efficiency program.

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

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

Management Discussion and Analysis
December 31, 2010, 2009 and 2008
Unaudited

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

Interest income decreased 85.6% in 2010 primarily due to very low interest rates and difficulty in getting banks to bid on placement of the investments. Funds were deposited into money market accounts waiting a strengthening in the investment markets.

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

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

Other, net decreased in 2010 by 72.4% primarily due to an decrease of \$323,557 in miscellaneous non-operating income and \$86,391 decrease in contributions in aid of construction-TIF (Tax Increment Financing funds received from the City of Cedar Falls, Iowa).

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

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

Capital Assets and Debt Administration

Net capital assets represent 48.8% of total assets for the Utility in 2010. Net capital assets decreased 1.9% from the prior year primarily due decreased capital projects activity during 2010.

Net capital assets represent 49.8% of total assets for the Utility in 2009. Net capital assets increased .9% from the prior year primarily due to the completion of capital projects during 2009.

In 2008, net capital assets represented 51.0% of total assets for the Utility. Net capital assets increased 2.7% during 2008 primarily due to an increase in capital projects.

Additional detail on the change in capital assets can be found in Note 4.

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

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

Balance Sheets
December 31, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 20,185,134	\$ 19,808,964
Less accumulated depreciation	8,720,983	8,184,326
	<u>11,464,151</u>	<u>11,624,638</u>
Construction work in progress	162,863	231,332
Net capital assets	<u>11,627,014</u>	<u>11,855,970</u>
Noncurrent assets:		
Loans receivable	212,588	274,970
Total noncurrent assets	<u>212,588</u>	<u>274,970</u>
Current assets:		
Cash and cash equivalents (note 3)	9,243,253	8,594,324
Cash - Restricted (note 2 and 3)	243,462	310,463
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$16,643 in 2010 and \$21,631 in 2009	2,010,903	2,206,950
Loans receivable	69,634	73,592
Interest	98	301
Trade	12,802	30,549
Government grants (note 11)	139,947	309,525
Other	93,627	17,388
Inventories:		
Material and supplies	152,070	120,519
Prepayments and other	31,160	33,052
Total current assets	<u>11,996,956</u>	<u>11,696,663</u>
Total assets	<u>\$ 23,836,558</u>	<u>\$ 23,827,603</u>

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

Balance Sheets
December 31, 2010 and 2009

<u>Liabilities</u>	<u>2010</u>	<u>2009</u>
Current liabilities:		
Accounts payable	\$ 1,721,153	\$ 1,962,302
Reserve for surplus declaration (note 8)	800,000	-
Accrued wages and vacations	238,594	238,894
Other accrued expenses	88,074	125,069
Total current liabilities	<u>2,847,821</u>	<u>2,326,265</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	137,161	181,161
Other liabilities (note 5 and 10)	323,599	295,964
Total noncurrent liabilities	<u>460,760</u>	<u>477,125</u>
Total liabilities	<u>3,308,581</u>	<u>2,803,390</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	11,627,014	11,855,970
Restricted	209,802	251,963
Unrestricted	8,691,161	8,916,280
Total net assets	<u>20,527,977</u>	<u>21,024,213</u>
Total liabilities and net assets	<u>\$ 23,836,558</u>	<u>\$ 23,827,603</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
(A Component Unit of the City of Cedar Falls, Iowa)
Statements of Revenues, Expenses and Changes in Net Assets
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Sales of gas:		
Residential	\$ 7,793,027	\$ 8,208,598
Industrial	1,606,744	1,699,007
Commercial	3,218,046	3,580,705
Governmental (note 8)	956,703	1,165,554
Interdepartmental	153,320	313,084
Total sales of gas	13,727,840	14,966,948
Other operating revenues	85,577	81,816
Total operating revenues	13,813,417	15,048,764
Operating expenses:		
Production:		
Natural gas purchased for resale	9,100,183	9,986,088
Other	12,046	1,341
Distribution	1,222,970	1,155,185
Depreciation	725,255	697,521
Customer accounts	420,100	406,161
Customer service and information expenses	440,646	267,543
Sales	4,049	10,111
Administrative and general (note 8)	2,414,876	1,614,087
Taxes other than income taxes	141,677	139,414
Total operating expenses	14,481,802	14,277,451
Operating income (loss)	(668,385)	771,313
Non-operating revenues (expenses):		
Interest income	3,330	23,062
Miscellaneous revenue (expense), net (note 8)	118,492	543,291
Intergovernmental grant funds (note 11)	50,327	67,864
Total non-operating revenues (expenses)	172,149	634,217
Change in net assets	(496,236)	1,405,530
Net assets, beginning of year	21,024,213	19,618,683
Net assets, end of year	\$ 20,527,977	\$ 21,024,213

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

Statements of Cash Flows
Years ended December 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash received from customers	\$ 14,357,288	\$ 16,759,319
Intergovernmental grants	16,666	50,158
Cash paid to suppliers	(12,080,507)	(13,031,669)
Cash paid to employees	(1,233,211)	(1,185,298)
 Net cash provided by (used in) operating activities	 <u>1,060,236</u>	 <u>2,592,510</u>
 Cash flows from capital and related financing activities:		
Proceeds from customer advances for construction	6,640	26,340
Refunds of customer advances for construction	(50,640)	(20,820)
Acquisition, construction and removal cost of capital assets	(560,684)	(813,438)
Proceeds from sale of capital assets	2,828	936
Reimbursement of utility construction costs	69,688	12,921
Intergovernmental grants	50,327	67,864
 Net cash provided by (used in) capital and related financing activities	 <u>(481,841)</u>	 <u>(726,197)</u>
 Cash flows from investing activities:		
Proceeds from maturities of investment securities	-	550,000
Interest received	3,533	29,627
 Net cash provided by (used in) investing activities	 <u>3,533</u>	 <u>579,627</u>
 Net increase (decrease) in cash and cash equivalents	 581,928	 2,445,940
Cash and cash equivalents, beginning of year	<u>8,904,787</u>	<u>6,458,847</u>
Cash and cash equivalents, end of year (note 1)	<u>\$ 9,486,715</u>	<u>\$ 8,904,787</u>

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

Statements of Cash Flows, Continued
Years ended December 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (668,385)	\$ 771,313
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	725,255	697,521
Other Income (expense), net	110,361	536,831
(Increase) decrease in accounts receivable	213,794	1,096,844
(Increase) decrease in loans receivable	66,340	(185,310)
(Increase) decrease in intergovernmental grants	169,578	260,383
(Increase) decrease in inventory	(31,551)	3,106
(Increase) decrease in prepayments and other	(74,347)	18,630
Increase (decrease) in accounts payable	(241,149)	(657,711)
Increase (decrease) in reserve for surplus declaration	800,000	-
Increase (decrease) in accrued wages and vacation	(300)	33,762
Increase (decrease) in accrued expenses	(36,995)	(46,319)
Increase (decrease) in other liabilities	27,635	63,460
Net cash provided by operating activities	<u>\$ 1,060,236</u>	<u>\$ 2,592,510</u>
Reconciliation of cash and cash equivalents to statement of net assets accounts:		
Cash and cash equivalents	\$ 9,243,253	\$ 8,594,324
Cash - Restricted	243,462	310,463
Cash and cash equivalents	<u>\$ 9,486,715</u>	<u>\$ 8,904,787</u>

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

Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

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

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

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

(b) Capital Assets and Depreciation

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

The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 15 to 65 years, buildings and improvements - 30 to 45 years, and equipment - 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 3.6% of depreciable assets for 2010 and 3.6% for 2009.

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

(c) Cash and Investments

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

The Utility considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2010 and 2009 were \$2,300,000 and \$2,300,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

(d) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and are reported net of allowances.

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

Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

(e) Inventories

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

(f) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of government entities. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted".

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

(g) Natural Gas Commodity Purchases

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

(h) Operating Revenues and Expenses

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

Revenues from the sale of gas are based on billing rates, which are applied to customers' consumption of gas. The Utility records estimated unbilled revenue, including amounts to be billed under a purchased gas adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2010 and 2009 were \$1,203,292 and \$1,546,766, respectively, and are recorded in customer accounts receivable. The Utility uses a purchased gas adjustment clause whereby increases and decreases in fuel costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

(i) Estimates

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

(j) Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all

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Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based on the total of all four utilities as a whole. During the year 2010 there were no budget amendments.

(k) Reclassifications

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

(2) Restricted Assets

The composition of restricted assets as of December 31, 2010 and 2009 was as follows:

	2010		
	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Current Assets - Restricted			
Self Insured Medical and Dental	\$ 243,462	\$ -	\$ 243,462
Total Current Assets - Restricted	243,462	-	243,462
Total restricted assets	<u>\$ 243,462</u>	<u>\$ -</u>	<u>\$ 243,462</u>

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

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

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2010 and 2009 was \$100, respectively.

Deposits

At December 31, 2010, the Utility's carrying amount of deposits, including \$4,750,000 of money market accounts, was \$7,186,615. At December 31, 2009, the Utility's carrying amount of deposits, including \$3,250,000 of money market accounts, was \$6,604,587.

Investments

The utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2010 and 2009

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

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

As of December 31, 2010 and 2009, the Utility had no Federal Agency Obligation investments or maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,300,000 and \$2,300,000 at December 31, 2010 and 2009, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

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

Custodial Credit Risk - Investments

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

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

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2010 and 2009

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

	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 100	\$ 100
Carrying amount of deposits	7,186,615	6,604,687
Carrying amount of Iowa Public Agency Investment Trust	<u>2,300,000</u>	<u>2,300,000</u>
Total	<u>\$ 9,486,715</u>	<u>\$ 8,904,787</u>
Current Assets	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 9,243,253	\$ 8,594,324
Investments	-	-
Restricted Cash	<u>243,462</u>	<u>310,463</u>
Total	<u>\$ 9,486,715</u>	<u>\$ 8,904,787</u>

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

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2010 and 2009 follows:

<u>2010</u>	<u>Beginning Balance</u>	<u>Additions and Transfers In</u>	<u>Deletions and Transfers Out</u>	<u>Ending Balance</u>
Capital Assets, not being depreciated:				
Land	\$ 41,350	\$ -	\$ -	\$ 41,350
Construction, Work-in-progress	231,332	467,425	535,894	162,863
Total capital assets, not being depreciated	<u>272,682</u>	<u>467,425</u>	<u>535,894</u>	<u>204,213</u>
Capital assets, being depreciated:				
Infrastructure	17,146,851	417,924	81,562	17,483,213
Buildings and improvements	1,942,909	103,599	78,163	1,968,345
Equipment	677,854	14,372	-	692,226
Total capital assets, being depreciated	<u>19,767,614</u>	<u>535,895</u>	<u>159,725</u>	<u>20,143,784</u>
Less accumulated depreciation	<u>8,184,326</u>	<u>729,566</u>	<u>192,909</u>	<u>8,720,983</u>
Total capital assets, being depreciated, net	<u>11,583,288</u>	<u>(193,671)</u>	<u>(33,184)</u>	<u>11,422,801</u>
Capital assets, net	<u>\$11,855,970</u>	<u>\$ 273,754</u>	<u>\$ 502,710</u>	<u>\$11,627,014</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2010 and 2009

(4) Capital Assets, Continued

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

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2010 and 2009 was as follows:

2010	Beginning Balance	Additions	Reductions	Ending Balance
Customer advances for construction	\$ 181,161	\$ 18,480	\$ 62,480	\$ 137,161
Other liabilities	295,964	124,791	97,157	323,598
Total noncurrent liabilities	\$ 477,125	\$ 143,271	\$ 159,637	\$ 460,759

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

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Notes to Financial Statements
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(6) Pension and Retirement Benefits

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

Plan members were required to contribute 4.30% of their annual covered salary and the Utility is required to contribute 6.65% of annual covered payroll through June 30, 2010. Beginning July 1, 2010 plan members are required to contribute 4.50% of their annual covered salary and the Utility is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2010, 2009, and 2008 were \$141,229; \$128,938; and \$119,626; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Prior to June 30, 2010, employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age qualified to convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit was phased out between January 1, 2008 and June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it was reduced to 50% and zero thereafter. The Utility recognized liability of \$0 and \$29,060, respectively, for the years ended December 31, 2010 and 2009.

(7) Income Tax Status

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

(8) Related Party Transactions

The Utility provides gas service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$96,494 and \$115,317 in 2010 and 2009, respectively.

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2010 and 2009 were \$800,000 and \$0, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2010, the Utility's Board of Trustees approved a payment of \$800,000 related to payments in lieu of taxes for 2010.

For the years ended December 31, 2010 and 2009, the Utility earned a management fee of \$21,424 from the Municipal Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous non-operating revenue. Due to a reallocation of labor and other costs among the Electric, Gas, Water and Communications Utilities this management fee has been eliminated as of December 31, 2010.

(9) Risk Management

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

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Notes to Financial Statements
December 31, 2010 and 2009

(9) Risk Management, Continued

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2010 plan year for aggregate claims exceeding \$2.6 million. Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

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

	<u>2010</u>	<u>2009</u>
Unpaid Claims and IBNR, beginning of year	\$ 325,000	\$ 293,600
Current year costs including IBNR	2,207,548	2,725,783
Claims Paid	<u>(2,345,548)</u>	<u>(2,694,383)</u>
Unpaid Claims and IBNR, end of year	<u>\$ 187,000</u>	<u>\$ 325,000</u>

The Utility has recorded \$33,660 and \$58,500 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2010 and 2009, respectively.

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

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2010.

Cash and cash equivalents and investments	\$50,122,010
Receivables	2,280,803
Other assets	850,273
Total assets	<u>\$53,253,086</u>
Total liabilities	\$26,103,027
Total equity	<u>27,150,059</u>
Total liabilities and equity	<u>\$53,253,086</u>
Total revenues	\$ 4,283,032
Total expenses	3,514,768
Distribution to members	-
Net increase in equity	<u>\$ 768,264</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2010 and 2009

(10) Other Post-Employment Benefits (OPEB)

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

Plan Description

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

Funding Policy

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2010, the Utilities contributed \$166,316 and retirees receiving benefits contributed \$118,483 through their required contributions.

Annual OPEB and Net OPEB Obligations

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

	<u>2010</u>
Annual required contribution	\$ 299,000
Interest on Net OPEB Obligation	14,004
Adjustment to annual required contribution	<u>(11,000)</u>
Annual OPEB expense	302,004
Contributions and payments made	<u>49,087</u>
Increase in net OPEB obligation	\$ 252,917
Net OPEB obligation, December 31, 2009	<u>585,532</u>
Net OPEB obligation, December 31, 2010	<u><u>\$ 838,449</u></u>

The Gas Utility's share of the December 31, 2010 Net OPEB obligation is \$155,457.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2010 and 2009

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

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and net OPEB obligation for the year ended December 31, 2010, 2009 and 2008:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 302,004	16.25%	\$ 838,449
December 31, 2009	\$ 302,004	5.64%	\$ 585,532
December 31, 2008	\$ 289,428	-4.27%	\$ 301,799

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$2,967,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$12,152,946, in 2010 and the ratio of the UAAL to the covered payroll was 24.4%.

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

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

Significant methods and assumptions were as follows:

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

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

Notes to Financial Statements
December 31, 2010 and 2009

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

The schedule of funding progress, presented as Required Supplemental Information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

(11) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, regulators, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation. As of December 31, 2009, Utility facilities and were repaired and operational. As of December 31, 2010 and 2009, the Gas Utility has spent \$556 and \$16,289, respectively, in operational expense for flood recovery and \$63,552 and \$261,468, respectively, in asset repair and replacement. As of December 31, 2010 and 2009, The Utility has recognized \$(656) and \$46,058, respectively, in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$50,327 and \$67,864, respectively, in Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2010 and 2009, the Utility recognized a receivable of \$122,142 and \$306,056, respectively, for FEMA flood disaster reimbursement.

(12) Commitments and Contingencies

The Utility has a natural gas transportation contract with a pipeline, which expires in 2022. Total payments include transportation charges and commodity charges. Minimum transportation payments for 2011 are expected to be approximately \$596,719 at current rates.

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

As of December 31, 2010, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$219,000.

Municipal Electric, Gas, Water, and Communications Utilities
Of the City of Cedar Falls, Iowa

Required Supplemental Information
December 31, 2010, 2009 and 2008

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,152,946	24.4%
January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$11,587,064	25.6%
January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.0%	\$11,162,424	30.8%

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

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

We have audited the financial statements of Municipal Gas Utility of The City of Cedar Falls, Iowa (Municipal Gas Utility) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipal Gas Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

We noted certain matters that we reported to management of the Municipal Gas Utility in a separate letter dated March 31, 2011.

This report is intended solely for the information and use of utility management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2011



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Municipal Water Utility of The City of Cedar Falls, Iowa (Municipal Water Utility), a component unit of the City of Cedar Falls, Iowa, as of December 31, 2010, and related statements of revenues, expenses and changes in net assets and statements of cash flows for the year then ended. These financial statements are the responsibility of the Municipal Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Municipal Water Utility as of and for the year ended December 31, 2009 were audited by other auditors whose report, dated March 29, 2010, expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Water Utility as of December 31, 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011, on our consideration of the Municipal Water Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Schedules of Funding Progress enclosed in this report are not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2011



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

Management Discussion and Analysis
December 31, 2010, 2009 and 2008
Unaudited

The following discussion and analysis of the Municipal Water Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2010, 2009 and 2008. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

- The Utility's net assets increased in 2010 as a result of non-operating revenues of rents, contributions in aid of construction and FEMA reimbursements for flood related capital projects. At December 31, 2010, 2009 and 2008, total assets were \$22,586,977, \$22,236,340 and \$21,323,118, respectively, and total liabilities were \$451,915, \$483,725 and \$695,640, respectively, resulting in net assets of \$22,135,062, \$21,752,615 and \$20,627,478, respectively.
- A water rate increase of approximately 9.0% for all customer classes was effective in January of 2010.
- A water rate increase of approximately 9.0% for all customer classes was effective in January of 2009.
- A water rate increase of approximately 10.8% for all customer classes was effective in January of 2008.
- In 2010, operating revenues decreased by 2.7% to \$2,805,864 while operating expenses decreased 1.9% to \$2,780,849. The 2010 decrease in operating revenues is due to the 2010 discovery of a meter error at the Electric Utility power plant which traced back to 2008. The amount refunded to the Electric Utility, and thus decreasing 2010 revenues, was approximately \$360,000. This was offset by the January 2010 water rate increase.
- In 2009, operating revenues increased by 9.3% to \$2,884,842 while operating expenses increased 8.5% to \$2,834,898. The 2009 increase in operating revenues is due to the 2009 rate increase and increased usage over 2008.
- In 2008, operating revenues increased by 15.0% to \$2,640,322 while operating expenses increased 6.8% to \$2,612,460. The 2008 increase in operating revenues is due to the 2008 rate increase and \$123,249 in FEMA reimbursement revenue for operations related flood expenses, which is 35.8% of the increase in operating revenue.
- In 2010, the Utility net operating income decreased 49.9% to \$25,015 compared to net operating income of \$49,944 in 2009 and \$27,862 in 2008.
- On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, well equipment, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA for the recovery, repair and remediation of Utility assets damaged or destroyed in the flood. Additional detail on the 2008 Flood Event can be found in Note 11.

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Overview of the Financial Statements

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

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

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

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

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

Condensed Financial Information

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

Condensed Balance Sheet Information

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 3,428,560	\$ 3,751,461	\$ 3,664,621
Capital assets, net	19,144,711	18,461,294	17,633,905
Other noncurrent assets	13,706	23,585	24,592
Total assets	<u>\$22,586,977</u>	<u>\$22,236,340</u>	<u>\$21,323,118</u>
Current liabilities	\$ 278,491	\$ 326,554	\$ 576,541
Noncurrent liabilities	173,424	157,171	119,099
Total liabilities	<u>\$ 451,915</u>	<u>\$ 483,725</u>	<u>\$ 695,640</u>

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Invested in capital assets, net of related debt	\$19,144,711	\$18,461,294	\$17,633,905
Restricted	96,026	97,808	136,806
Unrestricted	2,894,325	3,193,513	2,856,767
Total net assets	<u>\$22,135,062</u>	<u>\$21,752,615</u>	<u>\$20,627,478</u>

Condensed Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Sales of water	\$ 2,662,889	\$ 2,742,925	\$ 2,403,114
Other	142,975	141,917	237,208
Total operating revenues	<u>2,805,864</u>	<u>2,884,842</u>	<u>2,640,322</u>
System operation and maintenance	1,179,664	1,232,708	908,406
Depreciation and amortization	543,343	505,120	534,789
Service and administrative	1,057,842	1,097,070	1,169,265
Total operating expenses	<u>2,780,849</u>	<u>2,834,898</u>	<u>2,612,460</u>
Operating income (loss)	<u>25,015</u>	<u>49,944</u>	<u>27,862</u>
Interest income	1,459	14,729	101,633
Other, net	240,614	269,032	589,743
Total non-operating revenues (expenses)	<u>242,073</u>	<u>283,761</u>	<u>691,376</u>
Income before capital contributions	267,088	333,705	719,238
Capital contributions	115,359	791,432	686,401
Change in net assets	382,447	1,125,137	1,405,639
Net assets, beginning of year	<u>21,752,615</u>	<u>20,627,478</u>	<u>19,221,839</u>
Net assets, end of year	<u>\$22,135,062</u>	<u>\$21,752,615</u>	<u>\$20,627,478</u>

Financial Analysis

Current assets decreased 8.6% in 2010 primarily due a decrease of \$228,387 in cash and investments - unrestricted and a decrease of \$86,239 in Government grants receivable for FEMA assistance.

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

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

Current liabilities decreased 14.7% in 2010 due to a 35.3% decrease in accounts payable offset by an increase in wages and salaries payable.

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

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

Noncurrent liabilities increased \$16,252 in 2010 primarily due to increased health and life actuarial liability for post employment benefits.

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

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

System operation and maintenance expenses decreased 4.3% in 2010 primarily due to a 2.6% decrease in distribution operations and maintenance expenses, a 10.7% decrease in other which is pumping, water treatment and associated labor expense, offset by a 1.2% increase in power purchased from an affiliated utility.

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

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

Depreciation expense increased 7.6% in 2010 resulting from completion of construction projects.

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

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

Service and administrative expenses decreased 3.6% in 2010 primarily due to a decrease in employee insurance and benefits expenses.

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

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

Interest income decreased 90.1% in 2010 primarily due to a reduction in investments, very low interest rates, and difficulty getting banks to bid on placement of the investments. Funds remained deposited into money market accounts waiting a strengthening in the investment markets.

Interest income decreased 85.5% in 2009 primarily due to a reduction in investments, very low interest rates, and difficulty getting banks to bid on

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placement of the investments. Funds were deposited into money market accounts waiting a strengthening in the investment markets.

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

Other, net revenues decreased in 2010 by 10.6% primarily due to a decrease of \$19,528 in contribution in aid of construction from TIF (Tax Increment Financing) funds received from the City of Cedar Falls.

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

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

Noncash capital contributions decreased 85.4% in 2010 due to decrease in new developments requiring distribution extensions during the year.

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

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

Capital Assets and Debt Administration

Net capital assets represent 84.8% of total assets for the Utility in 2010. Net capital assets increased 3.7% from the prior year primarily due to completion of capital projects in 2010.

Net capital assets represent 83.0% of total assets for the Utility in 2009. Net capital assets increased 4.7% from the prior year primarily due to completion of capital projects in 2009.

In 2008, net capital assets represented 82.7% of total assets for the Utility. Net capital assets increased 10.0% from the prior year primarily due to completion of capital projects.

Additional detail on the change in capital assets can be found in Note 4.

The Utility had no outstanding debt as of December 31, 2010, 2009, or 2008.

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

Balance Sheets
December 31, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 26,310,330	\$ 25,460,674
Less accumulated depreciation	<u>8,053,440</u>	<u>7,570,634</u>
	18,256,890	17,890,040
Construction work in progress	<u>887,821</u>	<u>571,254</u>
Net capital assets	<u>19,144,711</u>	<u>18,461,294</u>
Noncurrent assets:		
Loans Receivable	<u>13,706</u>	<u>23,585</u>
Total noncurrent investments	<u>13,706</u>	<u>23,585</u>
Current assets:		
Cash and cash equivalents (note 2)	2,743,441	2,971,828
Cash - Restricted (note 2 and 3)	110,986	123,807
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$3,271 in 2010 and \$3,221 in 2009	393,917	397,482
Loans receivable	10,007	10,551
Government grants (note 11)	38,587	124,826
Other	6,635	7,941
Interest	62	193
Material and supplies	107,621	96,589
Prepayments and other	<u>17,304</u>	<u>18,244</u>
Total current assets	<u>3,428,560</u>	<u>3,751,461</u>
 Total assets	 <u>\$ 22,586,977</u>	 <u>\$ 22,236,340</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Balance Sheets
December 31, 2010 and 2009

<u>Liabilities</u>	<u>2010</u>	<u>2009</u>
Current liabilities:		
Accounts payable	\$ 134,299	\$ 207,522
Accrued wages and vacations	141,795	115,887
Other accrued expenses	2,397	3,145
Total current liabilities	<u>278,491</u>	<u>326,554</u>
Noncurrent liabilities:		
Other liabilities (note 5 and 10)	173,424	157,171
Total noncurrent liabilities	<u>173,424</u>	<u>157,171</u>
 Total liabilities	 <u>451,915</u>	 <u>483,725</u>
 <u>Net Assets</u>		
Invested in capital assets	19,144,711	18,461,294
Restricted	96,026	97,808
Unrestricted	2,894,325	3,193,513
Total net assets	<u>22,135,062</u>	<u>21,752,615</u>
 Total liabilities and net assets	 <u>\$ 22,586,977</u>	 <u>\$ 22,236,340</u>

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

Statements of Revenues, Expenses and Changes in Net Assets
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Sales of water:		
Residential	\$ 2,019,409	\$ 1,827,851
Industrial	47,612	37,712
Commercial	541,413	499,585
Governmental (note 8)	198,028	191,702
Interdepartmental	(143,573)	186,075
Total sales of water	<u>2,662,889</u>	<u>2,742,925</u>
Other operating revenues	142,975	141,917
Total operating revenues	<u>2,805,864</u>	<u>2,884,842</u>
 Operating expenses		
Production:		
Purchased power from affiliated utility	141,265	139,557
Other	290,408	325,027
Distribution	747,991	768,124
Depreciation	543,343	505,120
Customer accounts	214,430	210,796
Customer service and information expenses	33,691	33,970
Sales	3,066	4,518
Administrative and general	730,057	774,862
Taxes other than income taxes	76,598	72,924
Total operating expenses	<u>2,780,849</u>	<u>2,834,898</u>
 Operating income (loss)	<u>25,015</u>	<u>49,944</u>
 Non-operating revenues (expenses):		
Interest income	1,459	14,729
Miscellaneous revenue (expense), net (note 8)	217,968	250,301
Intergovernmental grant funds (note 11)	22,646	18,731
Total non-operating revenues (expenses)	<u>242,073</u>	<u>283,761</u>
 Income before contributions	<u>267,088</u>	<u>333,705</u>
 Noncash Capital contributions	<u>115,359</u>	<u>791,432</u>
 Change in net assets	382,447	1,125,137
 Net assets, beginning of year	<u>21,752,615</u>	<u>20,627,478</u>
 Net assets, end of year	<u>\$ 22,135,062</u>	<u>\$ 21,752,615</u>

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

Statements of Cash Flows
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,094,236	\$ 3,137,799
Intergovernmental grants	(309)	22,466
Cash paid to suppliers	(1,623,151)	(1,882,815)
Cash paid to employees	(660,935)	(629,882)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	809,841	647,568
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Proceeds from customer advances for construction	3,374	-
Refunds of customer advances for construction	-	(26,100)
Acquisition, construction and removal cost of capital assets	(1,149,053)	(593,772)
Proceeds from sale of capital assets	7,677	5,257
Reimbursement of utility construction costs	62,717	84,948
Intergovernmental grants	22,646	18,731
	<hr/>	<hr/>
Net cash provided by (used in) capital and related financing activities	(1,052,639)	(510,936)
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Cash flows from investing activities:		
Proceeds from maturities of investment securities	-	970,000
Interest received	1,590	29,868
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	1,590	999,868
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(241,208)	1,136,500
Cash and cash equivalents, beginning of year	3,095,635	1,959,135
	<hr/>	<hr/>
Cash and cash equivalents, end of year (note 1)	<u>\$ 2,854,427</u>	<u>\$ 3,095,635</u>

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

Statements of Cash Flows, Continued
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating income (loss)	\$ 25,015	\$ 49,944
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation of capital assets	543,343	505,120
Other Income (expense), net	185,226	212,791
(Increase) decrease in accounts receivable	3,565	(61,651)
(Increase) decrease in loans receivable	10,423	(1,249)
(Increase) decrease in intergovernmental grants	86,239	121,336
(Increase) decrease in materials and supplies	(11,032)	1,087
(Increase) decrease in prepayments and other	2,246	6,005
Increase (decrease) in accounts payable	(73,223)	(192,578)
Increase (decrease) in accrued wages and vacation	25,908	(8,075)
Increase (decrease) in other accrued expenses	(4,122)	(23,234)
Increase (decrease) in other liabilities	<u>16,253</u>	<u>38,072</u>
Net cash provided by operating activities	<u>\$ 809,841</u>	<u>\$ 647,568</u>
Noncash investing, capital and financing activities:		
Contributions from contractors in aid of construction	<u>\$ 115,359</u>	<u>\$ 791,432</u>
Reconciliation of cash and cash equivalents to statement of net assets accounts:		
Cash and cash equivalents	\$ 2,743,441	\$ 2,971,828
Cash - Restricted	<u>110,986</u>	<u>123,807</u>
Cash and cash equivalents	<u>\$ 2,854,427</u>	<u>\$ 3,095,635</u>

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

Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

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

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

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

(b) Capital Assets and Depreciation

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

The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 20 to 75 years, buildings and improvements - 30 to 45 years, and equipment - 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 2.1% of depreciable assets for 2010 and 2.0% 2009.

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

(c) Cash and Investments

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

The Utility considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2010 and 2009 were \$1,470,000 and \$1,470,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

(d) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and are reported net of allowances.

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

Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

(e) Inventories

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

(f) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of government entities. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted".

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

(g) Operating Revenues and Expenses

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

Revenues from the sale of water are based on billing rates, which are applied to customers' consumption of water. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed as of December 31, 2010 and 2009, were \$131,998 and \$105,366, respectively, and are recorded in customer accounts receivable.

(h) Capital Contributions

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

(i) Estimates

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

(j) Budgetary Information

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

Formal and legal budgetary control is based on the total of all four utilities as a whole. During the year 2010, there were no budget amendments.

(k) Reclassifications

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

(2) Restricted Assets

The composition of restricted assets as of December 31, 2010 and 2009 was as follows:

	2010		
	Cash	Investments	Total
Current Assets - Restricted			
Self Insured Medical and Dental	\$ 110,986	\$ -	\$ 110,986
Total Current Assets - Restricted	110,986	-	110,986
Total restricted assets	\$ 110,986	\$ -	\$ 110,986

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

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

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2010 was \$45 and 2009 was \$45.

Deposits

At December 31, 2010, the Utility's carrying amount of deposits, including \$700,000 of money market accounts, was \$1,384,382. At December 31, 2009, the Utility's carrying amount of deposits, including \$700,000 of money market accounts, was \$1,625,590.

Investments

The utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial

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

Notes to Financial Statements
December 31, 2010 and 2009

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

paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of December 31, 2010 and 2009, the Utility had no Federal Agency Obligation investments or maturities.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,470,000 and \$1,470,000 at December 31, 2010 and 2009, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

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

Custodial Credit Risk - Investments

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

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

Notes to Financial Statements
December 31, 2010 and 2009

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

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

	2010	2009
Cash on hand	\$ 45	\$ 45
Carrying amount of deposits	1,384,382	1,625,590
Carrying amount of Iowa Public Agency Investment Trust	1,470,000	1,470,000
Total	\$ 2,854,427	\$ 3,095,635
Current Assets		
Cash and cash equivalents	\$ 2,743,441	\$ 2,971,828
Investments	-	-
Restricted Cash	110,986	123,807
Total	\$ 2,854,427	\$ 3,095,635

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

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2010 and 2009 follows:

	2010	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:					
Land	\$ 63,466	\$ -	\$ -	\$ -	\$ 63,466
Construction, Work-in-progress	571,254	1,232,735	916,168	887,821	887,821
Total capital assets, not being depreciated	634,720	1,232,735	916,168	916,168	951,287
Capital assets, being depreciated:					
Infrastructure	24,179,598	862,383	33,157	25,008,824	25,008,824
Buildings and improvements	799,063	41,994	33,355	807,702	807,702
Equipment	418,547	11,791	-	430,338	430,338
Total capital assets, being depreciated	25,397,208	916,168	66,512	66,512	26,246,864
Less accumulated depreciation	7,570,634	555,146	72,340	8,053,440	8,053,440
Total capital assets, being depreciated, net	17,826,574	361,022	(5,828)	(5,828)	18,193,424
Capital assets, net	\$18,461,294	\$1,593,757	\$ 910,340	\$ 910,340	\$19,144,711

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2010 and 2009

(4) Capital Assets, Continued

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

(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2010 and 2009 was as follows:

2010	Beginning Balance	Additions	Reductions	Ending Balance
Other liabilities	\$ 157,171	\$ 60,005	\$ 43,752	\$ 173,424
Total noncurrent liabilities	<u>\$ 157,171</u>	<u>\$ 60,005</u>	<u>\$ 43,752</u>	<u>\$ 173,424</u>
2009	Beginning Balance	Additions	Reductions	Ending Balance
Other liabilities	\$ 119,099	\$ 54,075	\$ 16,003	\$ 157,171
Total noncurrent liabilities	<u>\$ 119,099</u>	<u>\$ 54,075</u>	<u>\$ 16,003</u>	<u>\$ 157,171</u>

(6) Pension and Retirement Benefits

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

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2010 and 2009

(6) Pension and Retirement Benefits, Continued

Plan members were required to contribute 4.30% of their annual covered salary and the Utility is required to contribute 6.65% of annual covered payroll through June 30, 2010. Beginning July 1, 2010 plan members are required to contribute 4.50% of their annual covered salary and the Utility is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2010, 2009 and 2008, were \$72,841; \$68,847; and \$64,319; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Prior to June 30, 2010, employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age qualified to convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit was phased out between January 1, 2008 and June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it was reduced to 50% and zero thereafter. The Utility recognized liability of \$0 and \$12,915, respectively, for the years ended December 31, 2010 and 2009.

(7) Income Tax Status

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

(8) Related Party Transactions

The Utility provides water service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$78,115 and \$88,737 in 2010 and 2009, respectively.

The Utility also provides billing and collection services to the City for the City's sanitary sewer system and garbage and refuse service. Revenues from the service provided amounted to \$159,596 in 2010 and \$159,535 in 2009, and are recorded in miscellaneous non-operating revenue.

For the years ended December 31, 2010 and 2009, the Utility earned a management fee of \$1,863 from the Municipal Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous non-operating revenue. Due to a reallocation of labor and other costs among the Electric, Gas, Water and Communications Utilities this management fee has been eliminated as of December 31, 2010.

(9) Risk Management

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2010 plan year for aggregate claims exceeding \$2.6 million. Liabilities of the risk management account are reported

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2010 and 2009

(9) Risk Management, Continued

when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

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

	<u>2010</u>	<u>2009</u>
Unpaid claims and IBNR, beginning of year	\$ 325,000	\$ 293,600
Current year costs including IBNR	2,207,548	2,725,783
Claims paid	(2,345,548)	(2,694,383)
Unpaid claims and IBNR, end of year	<u>\$ 187,000</u>	<u>\$ 325,000</u>

The Utility has recorded \$14,960 and \$26,000 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2010 and 2009, respectively.

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

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2010.

Cash and cash equivalents and investments	\$50,122,010
Receivables	2,280,803
Other assets	850,273
Total assets	<u>\$53,253,086</u>
Total liabilities	\$26,103,027
Total equity	<u>27,150,059</u>
Total liabilities and equity	<u>\$53,253,086</u>
Total revenues	\$ 4,283,032
Total expenses	3,514,768
Distribution to members	-
Net increase in equity	<u>\$ 768,264</u>

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

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

Notes to Financial Statements
December 31, 2010 and 2009

(10) Other Post-Employment Benefits (OPEB)

Plan Description

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

Funding Policy

The Utility, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2010, the Utility contributed \$166,316 and retirees receiving benefits contributed \$118,483 through their required contributions.

Annual OPEB and Net OPEB Obligations

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

	2010
Annual required contribution	\$ 299,000
Interest on Net OPEB Obligation	14,004
Adjustment to annual required contribution	(11,000)
Annual OPEB expense	302,004
Contributions and payments made	49,087
Increase in net OPEB obligation	\$ 254,171
Net OPEB obligation, December 31, 2009	585,532
Net OPEB obligation, December 31, 2010	\$ 838,449

The Water Utility's share of the December 31, 2010 Net OPEB obligation is \$98,739.

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

Notes to Financial Statements
December 31, 2010 and 2009

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

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the year ended December 31, 2010, 2009 and 2008:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 302,004	16.25%	\$ 838,449
December 31, 2009	\$ 302,004	5.64%	\$ 585,532
December 31, 2008	\$ 289,428	-4.27%	\$ 301,799

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$2,967,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$12,152,946, in 2010 and the ratio of the UAAL to the covered payroll was 24.4%.

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

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

Significant methods and assumptions were as follows:

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

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

Notes to Financial Statements
December 31, 2010 and 2009

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

The schedule of funding progress, presented as Required Supplemental Information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

(11) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, meters, well equipment, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation. As of December 31, 2009, Utility facilities and were repaired and operational. As of December 31, 2010 and 2009, the Water Utility has spent \$247 and \$6,545, respectively, in operational expense for flood recovery and \$21,041 and \$123,257, respectively, in asset repair and replacement. As of December 31, 2010 and 2009, the Utility has recognized \$(309) and \$20,470, respectively, in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$22,646 and \$18,731, respectively, in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2010 and 2009, the Utility recognized a receivable of \$38,352 and \$123,187, respectively, for FEMA flood disaster reimbursement.

(12) Commitments and Contingencies

As of December 31, 2010, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$261,000.

(13) Subsequent Events

Effective January 1, 2011, the Board of Trustees approved a general water rate increase. The average rate increase is approximately 9.0% for all customer classes.

Municipal Electric, Gas, Water, and Communications Utilities
Of the City of Cedar Falls, Iowa

Required Supplemental Information
December 31, 2010, 2009 and 2008

Schedule of Funding Progress for the Other
Post-Employment Benefits Plan
Unaudited

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,152,946	24.4%
January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$11,587,064	25.6%
January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.0%	\$11,162,424	30.8%

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

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

We have audited the financial statements of Municipal Water Utility of The City of Cedar Falls, Iowa (Municipal Water Utility) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipal Water Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Municipal Water Utility in a separate letter dated March 31, 2011.

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

This report is intended solely for the information and use of utility management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Madison, Wisconsin
March 31, 2011

Baker Tilly Virchow Krause, LLP

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Municipal Communications Utility of The City of Cedar Falls, Iowa (Municipal Communications Utility), a component unit of the City of Cedar Falls, Iowa, as of December 31, 2010, and related statements of revenues, expenses and changes in net assets and statements of cash flows for the year then ended. These financial statements are the responsibility of the Municipal Communications Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Municipal Communications Utility as of and for the year ended December 31, 2009 were audited by other auditors whose report, dated March 29, 2010, expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Communications Utility as of December 31, 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011, on our consideration of the Municipal Communications Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Schedules of Funding Progress enclosed in this report are not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2011

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

Management Discussion and Analysis
December 31, 2010, 2009 and 2008
Unaudited

The following discussion and analysis of the Municipal Communications Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2010, 2009 and 2008. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

Financial Highlights

- The Utility's net assets increased in 2010 as a result of operating income. At December 31, 2010, 2009 and 2008, total assets were \$34,494,078 and \$19,311,878, and \$13,995,150 respectively, and total liabilities were \$21,624,072 and \$9,204,082, and \$6,445,103 respectively, resulting in net assets of \$12,870,006 in 2010 and net assets of \$10,107,796 in 2009 and net assets of \$7,550,047 in 2008.
- Rate increases in Basic Lifeline and Basic Plus of 9.3%, Digital Premier Premium channel service of 5.9%, CyberHome/FiberHome data services of 12.5%, CyberOffice/FiberOffice data services of 4.5% and CyberOffice Plus/FiberOffice Plus data services of 6.3% were effective in January 2010.
- A rate increase in premium movie channel packages of approximately 16% and Digital Signature add-on package of 2.8% were effective in January of 2009.
- A rate increase of approximately 10.9% for all customers with Basic and Basic Plus and Digital Premier customers was effective in January 2008.
- In 2010 operating revenues increased 8.0% to \$12,198,451 while operating expenses increased 3.6% to \$9,249,195.
- In 2009 operating revenues increased 2.7% to \$11,296,748 while operating expenses increased 3.6% to \$8,924,912.
- In 2008 operating revenues increased 13.1% to \$10,995,281 while operating expenses increased 14.5% to \$8,617,364.
- In 2010, the Utility net operating income increased 24.3% to \$2,949,256 compared to net operating income of \$2,371,836 in 2009 and \$2,377,917 in 2008.
- On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA for the recovery, repair and remediation of Utility assets damaged or destroyed in the flood. Additional detail on the 2008 Flood Event can be found in Note 11.
- On July 10, 2009, the City of Cedar Falls experienced a storm with extreme winds of approximately 106 MPH. The extreme winds uprooted and sheared trees snapping poles and distribution lines damaging or destroying them. The Utility began immediate clean up and also began working with the Federal Emergency Management Agency (FEMA) for reconstruction and repair of destroyed Utility distribution assets. For additional detail on the 2009 Wind Storm Event see Note 12.

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

Management Discussion and Analysis
December 31, 2010, 2009 and 2008
Unaudited

Overview of the Financial Statements

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

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

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

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

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

Condensed Financial Information

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

Condensed Balance Sheet Information

	2010	2009	2008
Current assets	\$ 19,151,954	\$ 9,574,768	\$ 5,653,390
Capital assets, net	15,228,810	9,670,506	8,337,135
Other noncurrent assets	113,314	66,604	4,625
Total assets	<u>\$34,494,078</u>	<u>\$19,311,878</u>	<u>\$13,995,150</u>
Current liabilities	\$ 3,112,766	\$ 2,484,205	\$ 1,990,541
Noncurrent liabilities	262,768	301,108	264,360
Long-term debt	18,248,538	6,418,769	4,190,202
Total liabilities	<u>\$ 21,624,072</u>	<u>\$ 9,204,082</u>	<u>\$ 6,445,103</u>

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Invested in capital assets, net of related debt	\$ 3,747,880	\$ 3,313,508	\$ 3,146,933
Restricted	1,914,866	474,765	1,137,679
Unrestricted	7,207,260	6,319,523	3,265,435
Total net assets	<u>\$12,870,006</u>	<u>\$10,107,796</u>	<u>\$ 7,550,047</u>

Condensed Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cable television	\$ 6,948,349	\$ 6,240,462	\$ 6,115,836
High speed data communications	5,220,455	4,891,370	4,679,163
Other Operating Revenue	29,647	164,916	200,282
Total operating revenues	<u>12,198,451</u>	<u>11,296,748</u>	<u>10,995,281</u>
System operation and maintenance	5,826,954	5,393,888	5,150,562
Depreciation	1,415,969	1,306,029	1,400,177
Sales, customer service, corporate operations	2,006,272	2,224,995	2,066,625
Total operating expenses	<u>9,249,195</u>	<u>8,924,912</u>	<u>8,617,364</u>
Operating income	2,949,256	2,371,836	2,377,917
Interest Income	12,650	22,402	94,244
Interest Expense	(327,114)	(169,578)	(197,159)
Other, net	127,418	333,089	132,371
Total non-operating revenues (expenses)	<u>(187,046)</u>	<u>185,913</u>	<u>29,456</u>
Change in net assets	2,762,210	2,557,749	2,407,373
Net assets, beginning of year	<u>10,107,796</u>	<u>7,550,047</u>	<u>5,142,674</u>
Net assets, end of year	<u>\$12,870,006</u>	<u>\$10,107,796</u>	<u>\$ 7,550,047</u>

Financial Analysis

Current assets increased 100.0% in 2010. Cash and investments - unrestricted increased by 2.7% and cash and investments - restricted increased 536.5% primarily due to funds received from the issuance of new debt in 2010. Receivables decreased 15.1%, \$282,919, primarily due to a 63.5%, \$107,288, decrease in Government grants receivable and other receivables decreased 70.7%, \$275,246, primarily due to a decrease in miscellaneous accounts receivable.

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

Current assets increased 27.7% in 2008. Cash and investments - unrestricted increased by 66.2% and Cash and investments - restricted increased 9.0% primarily due to growth in the self-insured medical and dental funds. Receivables increased

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15.2%, \$199,678, primarily due to a 10.8%, \$124,592, increase in Customer accounts, less allowance for doubtful accounts and \$87,163 in Government grants receivable.

Current liabilities increased 25.3% in 2010 primarily due the \$640,000 increase in current installments of long-term debt offset by a 9.4%, \$106,106, decrease in accounts payable.

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

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

Noncurrent liabilities decreased 12.7% in 2010 primarily due to a 36.0%, \$44,649, decrease in customer advances for construction offset by a 3.6%, \$6,309, increase in the severance and retirement benefit liability.

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

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

Long-term debt increased 184.3%, \$11,829,769, during 2010. Long-term debt, less current installments increased 234.1%, \$12,139,769, as a result of the issuance of new debt in 2010, offset by a decrease in advances from affiliated companies of 25.1%, \$310,000.

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

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

Cable television operating revenues increased 11.3% in 2010. This is primarily due to rate changes in 2010. Basic service revenues increased 30.9% in 2010 primarily due to a \$2.00 per subscriber per month rate increase. Basic Plus service revenues increased 9.6% in 2010 primarily because of a \$2.00 per subscriber per month rate increase. Digital Premier service revenues decreased \$4,230, 3.4%, due to a \$2.00 per subscriber per month rate increase offset by a 7.7% reduction in subscribers to the service. Finally, advertising sales revenues increased by 32.5%, \$155,449, in 2010.

Cable television operating revenues increased 2.0% in 2009. This is primarily due to a rate changes in 2009. Basic Plus service revenues increased 1.7% in 2009 primarily because of a \$1.00 per subscriber per month rate increase at mid-year; premium movie channel and pay-per-view revenues increased approximately 13.8% due to an increased number of subscribers and the introduction Video On Demand services; because of programming and channel line-up changes, Digital Signature was split into 2 separate services - Digital Signature and Signature Sports - with no rate change impact and HD Essentials service rates were reduced by \$7.00 per

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subscriber per month. Additional High Definition programming being available to subscribers requires converter boxes which increased subscribers and, thus, equipment revenue by 15.1%. Finally, advertising sales revenues decreased by 18.4%, \$108,232.

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

Data communications operating revenues increased 6.7% in 2010. An increase of 396 subscribers in 2010 and a rate increase of \$5 per subscriber, not also subscribing to cable television service, accounts for the increase. Network access wholesale revenues increased 9.0% and modem-based data service sales increased by 7.1% offset by a 5.4% decrease in point-to-point data service revenues.

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

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

Total system operation and maintenance expenses increased 8.0% in 2010 due to Cable television programming cost increases of \$346,974, 10.0%, and a 58.9%, \$72,720, increase in network administration expense, a 32.2%, \$20,499, increase in engineering expense and a 22.1%, \$50,126, increase in access (Bandwidth) expenses in Data communications.

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

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

Total sales, customer services, and corporate operations expenses decreased 9.8% in 2010. Cable television sales expenses decreased by \$15,262, 5.0%, primarily due to a \$43,683 decrease in product advertising expense, a \$75,868 decrease in corporate operations primarily due a decrease in employee insurance and benefits expense, offset by an increase of \$25,217 in Customer Operations. Data communication customer sales expense increased by 46.2% due to a \$27,848 increase in product advertising, offset by a \$44,210 decrease in customer operations and a \$134,846 decrease in corporate operations expenses due to decrease in employee insurance and benefits expense and reduction of payments to consultants in 2010 by \$70,000.

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Total sales, customer services, and corporate operations expenses increased 7.7% in 2009. Cable television sales expenses increased by \$25,778, 9.2%, primarily due to a \$26,988 increase in product advertising expense, an increase of \$16,693 in Customer Operations primarily due to uncollectable accounts. Data communication customer operations expenses increased by 20.8% due to increased customer education expense required due changing email products and an increase in uncollectible accounts. Corporate operations expenses decreased by \$25,507 due to a decrease in flood-related operational expenses.

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

Interest income decreased 43.5% in 2010 due to much lower interest rates for investments and cash accounts. Interest expense increased 92.9%, \$157,536, in 2010 primarily due to a full year of 2009 issued debt and new debt issued in 2010. Other, net decreased by 61.7%, \$205,671, in 2010 primarily due to a 85.6%, \$246,960, decrease in Contributions in Aid of Construction revenues offset by 189.5%, \$65,968, of increased Allowance for Funds Used During Construction - AFUDC.

Interest income decreased 76.2% in 2009 due to much lower interest rates for investments and cash accounts. Interest expense decreased 14.0% in 2009 primarily due to higher principal payments on long-term debt resulting in less interest paid in 2009. Other, net increased by 151.6%, \$200,718, in 2009 primarily due to an increase of \$17,163 in other non-operating income and \$140,072, in Contributions in Aid of Construction revenues and a 126.8%, \$19,461, increase in the Allowance for Funds Used During Construction (AFUDC).

Interest income decreased 23.3% in 2008 due to lower interest rates in 2008. Interest expense decreased 12.5% in 2008 primarily due to higher principal payments on long-term debt resulting in less interest paid in 2008. Other, net decreased 12.5% in 2008 was primarily due to a 72.8%, \$70,357, reduction in Contributions in Aid of Construction revenues.

Capital Assets and Debt Administration

Net capital assets represent 44.1% of total assets for the Utility in 2010. Net capital assets increased 57.5% in 2010 primarily due to beginning the Fiber-to-the-Premise build out that is replacing the current fiber-coax hybrid system.

Net capital assets represent 50.1% of total assets for the Utility in 2009. Net capital assets increased 16.0% in 2009 primarily due to digital set top box equipment, and head end equipment.

In 2008, net capital assets represented 59.6% of total assets for the Utility. Net capital assets increased 5.2% in 2008 primarily due to digital set top box equipment, ad insertion equipment, and video on demand equipment purchases.

Additional detail on the change in capital assets can be found in Note 4.

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The Utility's total long-term debt at year end 2010, excluding the outstanding loan with the Municipal Electric Utility, was \$17,325,448 compared to \$5,185,679 at year end 2009. The change in total long-term debt is primarily due to issuing \$13,130,000 in new debt during 2010.

The Utility's total long-term debt at year end 2009, excluding the outstanding loan with the Municipal Electric Utility, was \$5,185,679 compared to \$2,647,112 at year end 2008. The change in total long-term debt is due to the repayment of \$3,337,112 of debt and issuing \$5,960,000 in new debt during 2009.

The Utility has an outstanding loan with the Municipal Electric Utility totaling \$1,233,090, \$1,543,090, and \$1,853,090 at December 31, 2010, 2009 and 2008, respectively. Additional detail on the outstanding loan can be found in Note 5.

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Balance Sheets
Years ended December 31, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents (note 3)	\$ 5,568,343	\$ 4,880,448
Cash - Restricted (note 2 and 3)	8,775,696	1,278,377
Investments - Unrestricted (note 3)	-	539,000
Investments - Restricted (note 2 and 3)	1,678,178	364,000
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$25,700 in 2010 and \$31,613 in 2009	1,417,540	1,309,067
Interest	2,847	11,765
Government grants (note 11 and 12)	61,525	168,753
Other	114,228	389,474
Material and supplies	1,429,977	546,608
Prepayments and other	103,620	87,276
Total current assets	<u>19,151,954</u>	<u>9,574,768</u>
Noncurrent assets:		
Capital assets: (note 4)		
Capital assets, in service	22,276,826	18,819,786
Less accumulated depreciation	<u>10,226,623</u>	<u>9,622,347</u>
	12,050,203	9,197,439
Construction work in progress	<u>3,178,607</u>	<u>473,067</u>
Net capital assets	<u>15,228,810</u>	<u>9,670,506</u>
Deferred costs, net of amortization	<u>113,314</u>	<u>66,604</u>
Total noncurrent assets	<u>15,342,124</u>	<u>9,737,110</u>
 Total assets	 <u>\$ 34,494,078</u>	 <u>\$ 19,311,878</u>

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Balance Sheets

Years ended December 31, 2010 and 2009

<u>Liabilities</u>	<u>2010</u>	<u>2009</u>
Current liabilities:		
Accounts payable	\$ 1,022,348	\$ 1,128,454
Accrued wages and vacation	206,255	163,775
Accrued interest	68,764	30,110
Other accrued liabilities	115,399	101,866
Current installments of note payable (note 5)	310,000	310,000
Current installments of long-term debt (note 5)	1,390,000	750,000
Total current liabilities	<u>3,112,766</u>	<u>2,484,205</u>
Noncurrent liabilities: (note 5)		
Other liabilities (note 5 and 10)	183,375	177,066
Customer advances for construction	79,393	124,042
Total noncurrent liabilities	<u>262,768</u>	<u>301,108</u>
Long-term Debt (note 5)		
Long-term note payable, less current installments (note 5)	923,090	1,233,090
Long-term debt, less current installments (note 5)	17,325,448	5,185,679
	<u>18,248,538</u>	<u>6,418,769</u>
Total liabilities and Long-term debt	<u>21,624,072</u>	<u>9,204,082</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,747,880	3,313,508
Restricted	1,914,866	474,765
Unrestricted	7,207,260	6,319,523
Total net assets	<u>12,870,006</u>	<u>10,107,796</u>
Total liabilities and net assets	<u>\$ 34,494,078</u>	<u>\$ 19,311,878</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Statements of Revenues, Expenses and Changes in Net Assets
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Cable system revenues	\$ 6,948,349	\$ 6,240,462
Data services revenue	4,833,685	4,514,451
Network access revenue	229,609	210,719
Local private line revenue	157,161	166,200
Other Operating Income	29,647	164,916
Total operating revenues	<u>12,198,451</u>	<u>11,296,748</u>
Operating expenses:		
Plant specific and programming	4,875,955	4,588,742
Depreciation	1,415,969	1,306,029
Plant nonspecific	950,999	805,146
Customer operations	630,430	649,423
Sales	374,374	363,391
Corporate operations (note 8)	1,001,468	1,212,181
Total operating expenses	<u>9,249,195</u>	<u>8,924,912</u>
Operating income	<u>2,949,256</u>	<u>2,371,836</u>
Non-operating revenues (expenses):		
Interest income	12,650	22,402
Miscellaneous revenue (expense), net	72,103	319,845
Intergovernmental grant funds (note 11 and 12)	(68)	33,296
Interest expense on long-term debt (note 5)	(327,114)	(169,578)
AFUDC (note 1)	100,778	34,810
Interest expense on affiliated note payable (note 5 and 8)	(45,395)	(54,862)
Total non-operating revenues (expenses)	<u>(187,046)</u>	<u>185,913</u>
Change in net assets	2,762,210	2,557,749
Net assets beginning of year	<u>10,107,796</u>	<u>7,550,047</u>
Net assets end of year	<u>\$ 12,870,006</u>	<u>\$ 10,107,796</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Statements of Cash Flows
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$ 12,513,840	\$ 10,913,550
Intergovernmental grants	(502)	64,613
Cash paid to suppliers	(7,599,695)	(6,091,201)
Cash paid to employees	(1,187,312)	(1,140,964)
	<u>3,726,331</u>	<u>3,745,998</u>
Net cash provided by (used in) operating activities		
Cash flows from noncapital financing activities:		
Payments on advance from affiliated utility	(310,000)	(310,000)
Interest paid Note Payable	(50,239)	(59,764)
	<u>(360,239)</u>	<u>(369,764)</u>
Net cash provided by (used in) used in noncapital financing activities		
Cash flows from capital and related financing activities:		
Proceeds from issuance of GO Bonds and Capital Loan Notes	13,130,000	5,960,000
Premium on issuance of revenue bonds	490,762	46,268
Discount on issuance of revenue bonds	(94,971)	(70,589)
Cost of issuance of revenue bonds	(55,011)	(66,604)
Principal payments on long-term debt	(750,000)	(3,340,000)
Interest payments on long-term debt	(271,337)	(172,134)
Refunds of customer advances for construction	(17,649)	(8,678)
Acquisition, construction and removal cost of capital assets	(6,893,272)	(2,939,877)
Proceeds from sale of capital assets	11,823	49,325
Reimbursement of utility construction costs	22,455	574,422
Intergovernmental grants	(68)	33,296
	<u>5,572,732</u>	<u>65,429</u>
Net cash provided by (used in) capital and related financing activities		
Cash flows from investing activities:		
Proceeds from maturities of investment securities	903,000	903,000
Purchase of investment securities	(1,678,178)	(903,000)
Interest received	21,568	30,258
	<u>(753,610)</u>	<u>30,258</u>
Net cash provided by (used in) investing activities		
Net increase (decrease) in cash and cash equivalents	8,185,214	3,471,921
Cash and cash equivalents, beginning of year	<u>6,158,825</u>	<u>2,686,904</u>
Cash and cash equivalents, end of year (note 1)	<u>\$ 14,344,039</u>	<u>\$ 6,158,825</u>

See accompanying notes to financial statements.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Statements of Cash Flows, Continued
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,949,256	\$ 2,371,836
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	1,415,969	1,306,029
Other income (expense), net	30,602	31,384
(Increase) decrease in accounts receivable	166,773	(289,826)
(Increase) decrease in intergovernmental grants	107,228	(81,590)
(Increase) decrease in materials and supplies	(883,369)	(89,618)
(Increase) decrease in prepayments and other	(16,344)	3,720
Increase (decrease) in accounts payable	(106,106)	424,389
Increase (decrease) in accrued wages and vacation	42,480	24,869
Increase (decrease) in other accrued liabilities	13,533	(621)
Increase (decrease) in other noncurrent liabilities	6,309	45,426
Net cash provided by operating activities	<u>\$ 3,726,331</u>	<u>\$ 3,745,998</u>

Reconciliation of cash and cash equivalents to

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

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

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

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

(b) Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 4.92% in 2010 and 4.92% in 2009. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 18 to 35 years and equipment - 5 to 20 years. The depreciation provision was equivalent to an overall composite rate of 6.3% and 7.4% of depreciable assets for 2010 and 2009, respectively.

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

(c) Cash and Investments

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

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December 31, 2010 and 2009 were \$250,000 and \$250,000, respectively, for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

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Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

(d) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and are reported net of allowances.

(e) Inventories

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

(f) Bond Issue Costs

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

(g) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of government entities. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted".

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

(h) Operating Revenues and Expenses

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

Revenues are based on billing rates, which are applied to customers' consumption of communications services. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not billed at December 31, 2010 and 2009, were \$368,809 and \$366,347, respectively.

(i) Estimates

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

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
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(1) Summary of Significant Accounting Policies, Continued

(j) Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Formal and legal budgetary control is based on the total of all four utilities as a whole. During the year 2010, there were no budget amendments.

(k) Reclassifications

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

(2) Restricted Assets

The composition of restricted assets as of December 31, 2010 and 2009 was as follows:

	2010		
Current Assets - Restricted	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Bond Reserve	\$ -	\$ 1,678,178	\$ 1,678,178
Bond and Interest	162,923	-	162,923
Self Insured Medical and Dental	145,165	-	145,165
Construction	8,467,608	-	8,467,608
Total Current Assets - Restricted	<u>\$ 8,775,696</u>	<u>\$ 1,678,178</u>	<u>\$10,453,874</u>
Total restricted assets	<u>\$ 8,775,696</u>	<u>\$ 1,678,178</u>	<u>\$10,453,874</u>
	2009		
Current Assets - Restricted	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Bond Reserve	\$ -	\$ 364,000	\$ 364,000
Bond and Interest	20,258	-	20,258
Self Insured Medical and Dental	136,348	-	136,348
Construction	1,121,771	-	1,121,771
Total Current Assets - Restricted	<u>\$ 1,278,377</u>	<u>\$ 364,000</u>	<u>\$ 1,642,377</u>
Total restricted assets	<u>\$ 1,278,377</u>	<u>\$ 364,000</u>	<u>\$ 1,642,377</u>

The monies deposited into the various accounts have been invested in interest-bearing securities as required by the bond resolution. Amounts deposited in the above funds may only be used for the purposes as set forth in the bond resolution and as a result are classified as restricted. Amounts deposited in the Self-Insured Medical and Dental fund may only be used for medical and dental reserves and expenses.

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

Notes to Financial Statements
December 31, 2010 and 2009

(3) Cash on Hand, Deposits, and Investments

Cash on Hand

Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2010 and 2009 was \$60.

Deposits

At December 31, 2010, the Utility's carrying amount of deposits, including \$364,000 of certificates of deposits and \$12,280,465 of money market accounts, was \$14,457,979. At December 31, 2009, the Utility's carrying amount of deposits, including \$903,000 of certificates of deposits and \$1,275,000 of money market accounts, was \$6,811,765.

Investments

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

As of December 31, 2010 the Utility had \$1,314,178 in Federal Agency Obligation investments maturing September 8, 2011. This investment has a Standard & Poor's and Moody's Investor Services credit rating of AAA. As of December 31, 2009, the Utility had no Federal Agency Obligation investments or maturities.

The Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$250,000 and \$250,000 at December 31, 2010 and 2009, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

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

Notes to Financial Statements
December 31, 2010 and 2009

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

Custodial Credit Risk - Deposits

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

Custodial Credit Risk - Investments

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

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

	2010	2009
Cash on hand	\$ 60	\$ 60
Carrying amount of deposits	14,457,979	6,811,765
Carrying amount of federal Agency obligations	1,314,178	-
Carrying amount of Iowa Public Investment Trust	250,000	250,000
Total	\$ 16,022,217	\$ 7,061,825
Current Assets		
Cash and cash equivalents	\$ 5,568,343	\$ 4,880,448
Investments	-	539,000
Restricted Cash	8,775,696	1,278,377
Restricted Investments	1,678,178	364,000
Total	\$ 16,022,217	\$ 7,061,825

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

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Notes to Financial Statements
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(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2010 and 2009 follows:

2010	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Construction, Work-in-progress	\$ 473,067	\$6,982,175	\$4,276,635	\$ 3,178,607
Total capital assets, not being depreciated	<u>473,067</u>	<u>6,982,175</u>	<u>4,276,635</u>	<u>3,178,607</u>
Capital assets, being depreciated:				
Infrastructure	18,490,268	4,220,376	819,595	21,891,049
Equipment	329,518	56,259	-	385,777
Total capital assets, being depreciated	<u>18,819,786</u>	<u>4,276,635</u>	<u>819,595</u>	<u>22,276,826</u>
Less accumulated depreciation	<u>9,622,347</u>	<u>1,428,622</u>	<u>824,346</u>	<u>10,226,623</u>
Total capital assets, being depreciated, net	<u>9,197,439</u>	<u>2,848,013</u>	<u>(4,751)</u>	<u>12,050,203</u>
Capital assets, net	<u>\$ 9,670,506</u>	<u>\$9,830,188</u>	<u>\$4,271,884</u>	<u>\$ 15,228,810</u>
2009	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Construction, Work-in-progress	\$ 446,402	\$ 2,688,668	\$ 2,662,003	\$ 473,067
Total capital assets, not being depreciated	<u>446,402</u>	<u>2,688,668</u>	<u>2,662,003</u>	<u>473,067</u>
Capital assets, being depreciated:				
Infrastructure	17,034,888	2,612,186	1,156,806	18,490,268
Equipment	279,701	49,817	-	329,518
Total capital assets, being depreciated	<u>17,314,589</u>	<u>2,662,003</u>	<u>1,156,806</u>	<u>18,819,786</u>
Less accumulated depreciation	<u>9,423,856</u>	<u>1,355,415</u>	<u>1,156,924</u>	<u>9,622,347</u>
Total capital assets, being depreciated, net	<u>7,890,733</u>	<u>1,306,588</u>	<u>(118)</u>	<u>9,197,439</u>
Capital assets, net	<u>\$ 8,337,135</u>	<u>\$ 3,995,256</u>	<u>\$ 2,661,885</u>	<u>\$ 9,670,506</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
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(5) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended December 31, 2010 and 2009 was as follows:

2010	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation capital loan notes- Series 2009B	\$2,320,000	\$ -	\$425,000	\$1,895,000	\$145,000
Note payable - Municipal Electric Utility	1,543,090	-	310,000	1,233,090	310,000
Revenue capital loan notes-Series 2009	3,640,000	-	325,000	3,315,000	325,000
Revenue capital loan notes-Series 2010	-	13,130,000	-	13,130,000	920,000
Unamortized discount	(70,589)	(94,971)	(8,109)	(157,451)	-
Unamortized premium	46,268	490,762	4,131	532,899	-
	<u>7,478,769</u>	<u>13,525,791</u>	<u>1,056,022</u>	<u>19,948,538</u>	<u>\$1,700,000</u>
Current installments of long-term debt	<u>(1,060,000)</u>	<u>(640,000)</u>	<u>-</u>	<u>(1,700,000)</u>	
Long-term debt, less current installments	6,418,769	12,885,791	1,056,022	18,248,538	
Other noncurrent liabilities:					
Customer advances for construction	124,042	-	44,649	79,393	
Other liabilities	177,066	73,176	66,867	183,375	
Noncurrent liabilities	<u>301,108</u>	<u>73,176</u>	<u>111,516</u>	<u>262,768</u>	
Total noncurrent liabilities	<u>\$6,719,877</u>	<u>\$12,958,967</u>	<u>\$1,167,538</u>	<u>\$18,511,306</u>	

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Notes to Financial Statements
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(5) Noncurrent Liabilities, Continued

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

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

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA
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Notes to Financial Statements
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(5) Noncurrent Liabilities, Continued

Year	General Obligation Capital Loan Notes, Series 2009B	
	December 1 Principal Amount	.75%-3.80% Interest Amount
2011	\$ 145,000	\$ 51,415
2012	155,000	49,893
2013	155,000	47,878
2014	165,000	45,242
2015	105,000	41,860
2016-2020	600,000	163,375
2021-2024	570,000	53,700
	\$1,895,000	\$ 453,363

The Series 2009 and 2010 revenue capital loan notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 3.0% and 4.30%. The debt is secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

Year	Communications Utility Revenue Capital Loan Notes, Series 2009		Communications Utility Revenue Capital Loan Notes, Series 2010	
	December 1 Principal Amount	3.00%-4.30% Interest Amount	December 1 Principal Amount	3.00% Interest Amount
2011	\$ 325,000	\$ 119,760	\$ 920,000	\$ 393,900
2012	335,000	110,010	1,065,000	366,300
2013	345,000	99,960	1,095,000	334,350
2014	355,000	89,610	1,120,000	301,500
2015	165,000	78,960	1,360,000	267,900
2016-2020	910,000	299,850	7,570,000	698,850
2021-2024	880,000	95,993		
	\$3,315,000	\$ 894,143	\$13,130,000	\$2,362,800

In 2010, the Utility issued \$13,130,000 Communications Utility Revenue Capital Loan Notes, Series 2010 for the purpose of paying costs of improvements and extensions to the Utility. The notes mature in 2020 and interest rates throughout the term of the notes are 3.00%.

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

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Notes to Financial Statements
December 31, 2010 and 2009

(5) Noncurrent Liabilities, Continued

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

The Board of Trustees of the Municipal Electric Utility authorized a loan to be extended to the Utility under Resolutions No. 2759, 2840, 2939, 2994, and 3086. The December 31, 2010 and 2009 outstanding balances on this loan were \$1,108,090 and \$1,293,090, respectively, bearing interest at 3.1%. The Board of Trustees of the Municipal Electric Utility approved an additional loan be extended to the Utility under Resolution No. 3497. The December 31, 2010 and 2009 outstanding balances on this loan were \$125,000 and \$250,000, respectively, bearing interest at 3.1%. Semiannual debt service payments are required on January 1 and July 1. Total debt service requirements are as follows:

<u>Notes Payable to the Municipal Electric Utility</u>		
<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2011	\$ 310,000	\$ 40,630
2012	185,000	31,059
2013	185,000	25,247
2014	185,000	19,550
2015	185,000	13,815
2016	183,090	10,476
	<u>\$1,233,090</u>	<u>\$ 140,777</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2010 and 2009 were \$446,596 and \$2,127,813, respectively. Total customer gross revenues as defined for the same periods were \$12,168,804 and \$11,131,832. Annual principal and interest payments are expected to require 11.56% of gross revenues on average.

(6) Pension and Retirement Benefits

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

Plan members were required to contribute 4.30% of their annual covered salary and the Utility is required to contribute 6.65% of annual covered payroll through June 30, 2010. Beginning July 1, 2010 plan members are required to contribute 4.50% of their annual covered salary and the Utility is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2010, 2009, and 2008, were \$138,226; \$118,351; and \$100,992, respectively, equal to the required contributions for each year.

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Notes to Financial Statements
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(6) Pension and Retirement Benefits, Continued

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Prior to June 30, 2010, employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age qualified to convert their accrued sick leave value into paid health insurance premiums upon retirement. This benefit was phased out between January 1, 2008 and June 30, 2010. In 2008 the benefit was reduced to 75% of accrued sick leave and in 2009 to June 30, 2010 it was reduced to 50% and zero thereafter. The Utility recognized liability of \$0 and \$20,988; respectively, for the years ended December 31, 2010 and 2009.

(7) Income Tax Status

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

(8) Related Party Transactions

The Utility provides communications service to the City. Operating revenues from the service provided amounted to \$61,535 and \$69,017 in 2010 and 2009, respectively.

Outstanding loan balances from the Municipal Electric Utility are \$1,233,090, and \$1,543,090 as of December 31, 2010, and 2009, respectively. Interest accrues on the loan at 3.1%, and is paid semi-annually during January and July. Annual principal payments continue through 2016 (see note 5). Accrued interest payable was \$21,674 and \$26,518 at December 31, 2010 and 2009, respectively. Interest expense for the years ended December 31, 2010 and 2009 was \$45,395 and \$54,862 respectively.

The Utility pays the Municipal Electric, Gas, and Water Utilities a management fee for administration, finance, human resources and legal services as part of the program to equitably allocate Communications costs. For the years ended December 31, 2010 and 2009, the Utility recorded a management fee to the Municipal Electric Utility of \$69,863; the Municipal Gas Utility of \$21,424; and the Municipal Water Utility of \$1,863. Due to a reallocation of labor and other costs among the Electric, Gas, Water and Communications Utilities this management fee has been eliminated as of December 31, 2010.

See note 5 for description of debt with the City. The interest paid to the City was \$54,485 and \$56,120 for the years ended December 31, 2010 and 2009, respectively. The accrued interest related to this debt was \$4,285 and \$1,065 at December 31, 2010 and 2009, respectively.

(9) Risk Management

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

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2010 plan year for aggregate claims exceeding \$2.6 million.

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Notes to Financial Statements
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(9) Risk Management, Continued

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

	<u>2010</u>	<u>2009</u>
Unpaid claims and IBNR, beginning of year	\$ 325,000	\$ 293,600
Current year costs including IBNR	2,207,548	2,725,783
Claims paid	(2,345,548)	(2,694,383)
Unpaid claims and IBNR, end of year	<u>\$ 187,000</u>	<u>\$ 325,000</u>

The Utility has recorded \$24,310 and \$42,250 in accounts payable for its share of these unpaid claims at December 31, 2010 and 2009, respectively.

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

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2010.

Cash and cash equivalents and investments	\$50,122,010
Receivables	2,280,803
Other assets	850,273
Total assets	<u>\$53,253,086</u>
Total liabilities	\$26,103,027
Total equity	<u>27,150,059</u>
Total liabilities and equity	<u>\$53,253,086</u>
Total revenues	\$ 4,283,032
Total expenses	3,514,768
Distribution to members	<u>-</u>
Net increase in equity	<u>\$ 768,264</u>

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

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Notes to Financial Statements
December 31, 2010 and 2009

(10) Other Post-Employment Benefits (OPEB)

Plan Description

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

Funding Policy

The Utilities, with assistance from their third-party administrators, establishes and amends contribution requirements for both active and retiree members on an annual basis. The current funding policy is to pay health claims as they occur and the required contribution is based on pay-as-you-go financing. For the year ending December 31, 2010, the Utility contributed \$166,316 and retirees receiving benefits contributed \$118,483 through their required contributions.

Annual OPEB and Net OPEB Obligations

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

	<u>2010</u>
Annual required contribution	\$ 299,000
Interest on Net OPEB Obligation	14,004
Adjustment to annual required contribution	<u>(11,000)</u>
Annual OPEB expense	302,004
Contributions and payments made	<u>49,087</u>
Increase in net OPEB obligation	\$ 252,917
Net OPEB obligation, December 31, 2009	<u>585,532</u>
Net OPEB obligation, December 31, 2010	<u><u>\$ 838,449</u></u>

Annual OPEB and Net OPEB Obligations

The Communications Utility's share of the December 31, 2010 Net OPEB obligation is \$62,013.

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

Notes to Financial Statements
 December 31, 2010 and 2009

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

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and net OPEB obligation for the year ended December 31, 2010, 2009 and 2008:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 302,004	16.25%	\$ 838,449
December 31, 2009	\$ 302,004	5.64%	\$ 585,532
December 31, 2008	\$ 289,428	-4.27%	\$ 301,799

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL) for benefits was \$2,967,000. The Plan is unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because The Plan is unfunded, the AAL and UAAL are equal. The covered payroll is the yearly payroll of actives covered by the plan and was \$12,152,946, in 2010 and the ratio of the UAAL to the covered payroll was 24.4%.

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

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

Significant methods and assumptions were as follows:

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

The schedule of funding progress, presented as Required Supplemental Information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

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

Notes to Financial Statements
December 31, 2010 and 2009

(11) Flood Event

On June 10, 2008, Cedar Falls Utilities experienced a major flood event that destroyed or severely damaged many Utility assets. The flood destroyed the first floor of the administrative building, office furnishings and equipment, and tools. The Utility began immediate clean up and work with the Federal Emergency Management Agency (FEMA) for reconstruction, repair and remediation of Utility facilities. The Utility continues working with FEMA submitting costs related to recovery, repair and remediation. As of December 31, 2009, Utility facilities were repaired and operational. As of December 31, 2010 and 2009, the Communications Utility has spent \$808 and \$9,850, respectively, in operational expense for flood recovery and \$0 and \$25,510, respectively, in asset repair and replacement. As of December 31, 2010 and 2009, the Utility has recognized \$(502) and \$33,264, respectively, in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$(68) and \$26,424, respectively, in Other Non-operating Revenues for FEMA settlement reimbursement expected for capital losses. As of December 31, 2010 and 2009, the Utility recognized a receivable of \$57,042 and \$131,112, respectively, for FEMA flood disaster reimbursement.

(12) Wind Storm Event

On July 10, 2009, the City of Cedar Falls experienced a storm with extreme winds of approximately 106 MPH. The extreme winds uprooted and sheared trees, blew over poles and lines, and slammed trees and branches into Communications Utility distribution facilities severely damaging them. The Utility began immediate clean up and also began working with the Federal Emergency Management Agency (FEMA) for reconstruction and repair of damaged Utility distribution assets. As of December 31, 2010, the damaged assets have been temporarily repaired, permanently repaired, restored, or replaced. As of December 31, 2010 and 2009, the Communications Utility has spent \$0 and \$44,406, respectively, in operational expense for wind damage recovery and \$0 and \$8,843, respectively, in asset repair and replacement. The Utility has recognized \$0 in 2010 and \$31,349 in 2009 in Other Operating Revenues for FEMA reimbursement expected for operational losses and \$0 in 2010 and \$6,872 in 2009 in Other Non-Operating Revenues for FEMA reimbursement expected for capital losses. As of December 31, 2010 and 2009, the Utility recognized a receivable of \$4,483 and \$37,641, respectively, for FEMA wind storm disaster reimbursement.

(13) Commitments and Contingencies

As of December 31, 2010, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$438,000.

(14) Subsequent Events

Effective January 1, 2011, the Board of Trustees approved rate increases of approximately 8.3% for Digital Premier service, 26.3% for Digital Signature service, 20.2% for HDTV Essentials service, and 8.8% for premium movie channel services.

Municipal Electric, Gas, Water, and Communications Utilities
Of the City of Cedar Falls, Iowa

Required Supplemental Information
December 31, 2010, 2009 and 2008

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$12,152,946	24.4%
January 1, 2009	\$ -	\$2,967,000	\$2,967,000	0.0%	\$11,587,064	25.6%
January 1, 2007	\$ -	\$3,436,000	\$3,436,000	0.0%	\$11,162,424	30.8%

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

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

We have audited the financial statements of Municipal Communications Utility of The City of Cedar Falls, Iowa (Municipal Communications Utility) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipal Communications Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

We noted certain matters that we reported to management of the Municipal Communications Utility in a separate letter dated March 31, 2011.

This report is intended solely for the information and use of utility management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2011

**THE MUNICIPAL ELECTRIC, GAS, WATER, AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

REPORT ON INTERNAL CONTROL

(Including Required Auditor Communications to the Board of Trustees)

December 31, 2010



Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
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bakertilly.com

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

In planning and performing our audit of the financial statements of the Municipal Electric, Gas, Water, and Communications Utilities of the City of Cedar Falls, Iowa (Utility or Utilities) as of and for the year ended December 31, 2010, 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, we considered its internal control over financial reporting (internal control) 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

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

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. We did not identify any significant deficiencies or material weaknesses during the course of our audit.

This report is intended solely for the information and use of the board and management and is not intended to be, and should not be, used by anyone other than the specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2011

COMMUNICATION TO THE BOARD OF TRUSTEES

This portion of the letter is to inform the board about significant matters related to the annual audit so that it can appropriately discharge its oversight responsibility of the financial reporting process.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the 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. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or (those charged with governance) of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to the Board and management.

QUALITATIVE ASPECT OF ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Utilities are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the Utilities during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were those related to unbilled revenues, incurred but not recorded claims, allowance for doubtful accounts and other post employment benefits. Other estimates include the recording of depreciation expense on utility infrastructure.

COMMUNICATION TO THE BOARD OF TRUSTEES (cont.)

FINANCIAL STATEMENT DISCLOSURES

The disclosures in the financial statements are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

AUDIT ADJUSTMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Utilities' financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. We did not encounter any audit adjustments during the course of the audit. We also did not encounter any immaterial passed audit adjustments during the course of the audit.

DISAGREEMENTS WITH MANAGEMENT

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

CONSULTATIONS WITH OTHER ACCOUNTANTS

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter is attached.

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of for the year ended December 31, 2010, Baker Tilly Virchow Krause, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the Utilities and provided no services to the Utilities other than audit services provided in connection with the audit of the current year's financial statements.

COMMUNICATION TO THE BOARD OF TRUSTEES (cont.)

OTHER AUDIT FINDINGS OR ISSUES

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

We appreciate the courtesy and assistance extended to us by your personnel during the audit. If you have any questions on our comments, or if we can offer our services in any other way during the year, don't hesitate to contact us. Thank you for allowing us to serve the Utilities.



March 31, 2011

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707

We are providing this letter in connection with your audits of the financial statements of The Municipal Electric, Gas, Water and Communications Utilities of the City of Cedar Falls, Iowa (Utility or Utilities), each a component unit of the City of Cedar Falls, Iowa, as of December 31, 2010 and 2009 and for the years then ended for the purpose of expressing opinions as to whether the financial statements of each Utility presents fairly, in all material respects, the respective financial position, results of operations, and cash flows of the Utility in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. For purposes of this letter, materiality is as follows for each utility: (1) Electric - \$250,000, (2) Gas - \$100,000 (3) Water - \$30,000 and (4) Communications - \$100,000. Items are considered material regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America, and include all disclosures necessary for such fair presentation and disclosures otherwise required to be included therein by the laws and regulations to which the Utilities are subject.
2. We have made available to you all:
 - a. Financial records and related data

- b. Minutes of the meetings of our governing body and we have provided drafts minutes of the of the March 9, 2011 meeting and an agenda for the March 30, 2011 meeting for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We are not aware of any deficiencies in the design or operation of internal control over financial reporting.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Utilities involving:
 - a. Management,
 - b. Employees who have significant roles in internal control over financial reporting, or
 - c. Others where the fraud could have a material effect on the combined financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Utilities received in communications from employees, former employees, analysts, regulators, or others.

(As to items 6, 7 and 8, we understand the term "fraud" to mean those matters described in Statement on Auditing Standards No. 99.).
9. We, along with the Board, are responsible for the Utilities' compliance with laws and regulations applicable to each utility, including debt contracts and debt covenants; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
10. There have been no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the combined financial statements or as a basis for recording a loss contingency.
11. The Utilities have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
12. The following, if material, have been properly recorded or disclosed in the combined financial statements:
 - a. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

(We understand the term "related party" to include those entities described in Statement on Auditing Standards No. 45, footnote 1.).
 - b. Joint ventures
 - c. Guarantees, whether written or oral, under which the Utilities are contingently liable.

- d. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. (Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.)
13. Each Utility has appropriately reconciled its books and records (e.g., general ledger accounts) underlying the financial statements to their related supporting information (e.g., sub ledger or third-party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the combined financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an income statement account and vice versa. All consolidating entries have been properly recorded. Each Utility has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the combined financial statements.
14. Each Utility has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
15. Plant-in-Service is stated at original cost and includes only property that is used and useful in the Utility's business. The depreciation rates for 2010 and 2009 are appropriate for each Utility. All depreciation is structured for full recovery in rates.
16. All cash and bank accounts and all other properties and assets of the Utilities, of which we are aware, are included in the financial statements at December 31, 2010 and 2009.
17. There are no arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements, except that some cash is restricted as to bond agreements and is disclosed in the financial statements.
18. Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet dates and are not subject to discount. Receivables classified as current do not include any material amounts which are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.
19. We have reviewed any loans receivable for impairment, applied a systematic methodology for measuring and documenting loan losses and made appropriate allowances thereon, if necessary.
20. Materials and supplies recorded in the financial statements are stated at the lower of cost or market, cost being determined on the basis of average cost, and due provision was made to reduce all slow-moving, obsolete, or unusable inventories to their estimated useful or scrap values. Inventory quantities at the balance sheet dates were determined from the Utilities' perpetual inventory records, which have been adjusted on the basis of physical inventories taken

by competent employees at various times during the year. Liabilities for amounts unpaid are recorded for all items included in inventories at the balance sheet dates.

21. All borrowings and financial obligations of the Utilities, of which we are aware, are included in the financial statements at December 31, 2010 and 2009, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.
22. The Utilities have not violated any covenants or requirements of the bond resolutions and other agreements related to outstanding Utilities securities during any of the periods reported. We have fully disclosed to you all covenants and information related to how we determined our compliance with the terms of the covenants.
23. Tax-exempt bonds issued have retained their tax-exempt status.
24. We assume responsibility for the findings of specialists in evaluating coal inventory and the self-insurance reserves and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give nor cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the objectivity of the specialists.
25. The Utilities have reviewed tangible long-lived assets, any operating lease agreements that contain return provisions that require the leased assets to be returned in the same condition that existed at lease inception (i.e., the agreement requires the removal of any leasehold improvements at the end of the lease term) and other agreements for associated asset retirement obligations (AROs), and have recognized related liabilities where required, in accordance with FASB Statement No. 143, *Accounting for Asset Retirement Obligations* and FIN 47 *Accounting for Conditional Asset Retirement Obligations*. The methods and assumptions used to measure the fair value of recorded or considered AROs are appropriate and reasonable under the circumstances and utilize the best available information. If no liability amounts for these areas have been recorded it has been determined that they do not exist at December 31, 2010 and 2009.
26. The Utilities record contributions in aid of construction from customer contributions, primarily relating to expansions to the Utilities' facilities, as Non-operating Revenues in the statements of revenues, expenses and changes in net assets. Non-Cash contributions of capital are valued at estimated market cost.
27. We are not aware of any commitments for future purchases of electricity for quantities in excess of anticipated requirements or at prices that will result in a loss or lack of ability to recover costs through current and future rates. There are no provisions for losses to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.
28. All liabilities of the Utilities, of which we are aware, are included in the financial statements at the balance sheet dates. Except as described in the notes to the financial statements, there are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by *ASC 450 Contingencies* (Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*), and no unasserted claims or assessments that our legal counsel has advised us are probable of assertion and required to be disclosed in accordance with that Statement.

29. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified.
30. With respect to information required by the Governmental Accounting Standards Board (GASB) to be presented with the basic financial statements (required supplementary information or RSI):
 - a. RSI is presented and measured according to authoritative guidelines on a basis consistent with that of the prior year.
 - b. RRSI is consistent with the basic financial statements.
 - c. Management's discussion and analysis (MD&A) is based on facts, decisions, or conditions currently known to management.
31. The Utilities are in compliance with the requirements of the Code of Iowa Section 388.10 *Municipal Utilities Providing Telecommunications Services* regarding the subsidization of telecommunications operations by the electric and water utilities
32. With respect to federal and state award programs -
 - a. We are responsible for understanding and complying and have complied with the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, the State Single Audit Guidelines, and any other applicable laws and regulations and provisions of contracts and grant agreements, including requirements relating to preparation of the schedule of expenditures of federal and state awards.
 - b. We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133 and the State Single Audit Guidelines, and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal and state agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
 - c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
 - d. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and the State Single Audit Guidelines.
 - e. We are responsible for understanding and complying with, and have complied with in all material respects the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions

of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.

- f. We are responsible for establishing and maintaining, and have established and maintained effective internal control over compliance requirements applicable to federal and state programs that provide reasonable assurance that we are administering our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions reported in the schedule of findings and questioned costs.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relating to each major federal and state program.
- h. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- i. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement and the State Single Audit Guidelines, relating to federal and state awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal and state awards, including the results of other audits or program reviews.
- j. We are not aware of any instances of noncompliance with the applicable compliance requirements subsequent to the period covered by the auditors' report.
- k. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, if any, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- l. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relates to the objectives of the compliance audit, if any, including findings received and corrective actions taken up to the date of the auditors' report.
- m. We have charged costs to federal and state awards in accordance with applicable cost principles.
- n. We have made available to you all documentation related to the compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- o. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been

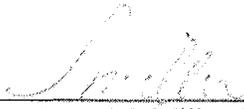
prepared, and are prepared on a basis consistent with the schedule of expenditures of federal and state awards.

- p. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
- q. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and the State Single Audit Guidelines and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
- r. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- s. We are responsible for preparing and implementing a corrective action plan for each audit finding.
- t. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned combined financial statements.

Signed: 
James R. Krieg, General Manager/CEO

Date 3/31/11

Signed: 
Lynn M. Miller, Director of Finance/CFO

Date 3-31-11

**THE MUNICIPAL ELECTRIC, GAS, WATER AND
COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

REPORT ON FEDERAL AWARDS

For the Year Ended December 31, 2010

**THE MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

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

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

We have audited the financial statements of the Municipal Electric, Gas, Water, and Communications Utilities of the City of Cedar Falls, Iowa (Cedar Falls Utilities), component units of the City of Cedar Falls, Iowa, as of and for the year ended December 31, 2010, and have issued our report thereon dated March 31, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cedar Falls 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 Cedar Falls Utilities internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cedar Falls 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 the 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cedar Falls 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Cedar Falls Utilities in a separate letter dated March 31, 2011.

This report is intended solely for the information and use of Cedar Falls Utilities management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS

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

Compliance

We have audited the Municipal Electric, Gas, Water, and Communications Utilities of the City of Cedar Falls, Iowa (Cedar Falls Utilities), component units of the City of Cedar Falls, Iowa, compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended December 31, 2010. Cedar Falls Utilities major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Cedar Falls Utilities management. Our responsibility is to express an opinion on Cedar Falls Utilities compliance based on our audit.

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

In our opinion, Cedar Falls Utilities complied, in all material respects with the compliance requirements referred to above that could have a direct and material effect on each of its major federal major programs for the year ended December 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 10-01.

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

Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the statements of Cedar Falls Utilities as of and for the year ended December 31, 2010 and have issued our report thereon dated March 31, 2011. Our audit was performed for the purpose of forming opinions on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Cedar Falls Utilities response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Cedar Falls Utilities response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2011, except for the schedule of expenditures of
Federal Awards, as to which the date is July 21, 2011

**THE MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2010

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Identifying Number	Federal Expenditures
FEDERAL PROGRAMS			
U. S. Department of Housing and Urban Development			
Pass- through program from:			
City of Cedar Falls, Iowa:			
Community Development Block Grants/Entitlement Grants			
2010 Entitlement	81.128		\$ 80,000
2010 Block Grant Low Income	81.128		<u>80,000</u>
Total Department of Housing and Urban Development			<u>160,000</u>
U.S. Department of Energy			
Renewable Energy Research and Development Program	81.087	DE-EE0000398	16,277
Pass- through program from:			
Office of Energy Independence:			
State Energy Program Grant	81.041	DE-EE000162	<u>61,864</u>
Total U.S. Department of Energy			<u>78,141</u>
U.S. Department of Homeland Security			
Pass- through program from:			
Iowa Departments of Homeland Security:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters) - Flood 2008	97.036	013-000CA-00	677,917
Disaster Grants - Public Assistance (Presidentially Declared Disasters) - Wind Storm 2009 406 program	97.036	013-000CA-00	570,299
Disaster Grants - Public Assistance (Presidentially Declared Disasters) - Floodwall Pumps	97.039	HMGP-DR-1688-0035-01	<u>8,451</u>
Total U.S. Department of Homeland Security			<u>1,256,667</u>
TOTAL FEDERAL PROGRAMS			<u>\$ 1,494,808</u>

See accompanying notes to schedule of expenditures of federal awards.

**THE MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2010

NOTE 1 – REPORTING ENTITY

This report on Federal Awards includes the federal awards of The Municipal Electric, Gas, Water, and Communications Utilities of the City of Cedar Falls, Iowa (Cedar Falls Utilities). The reporting entity for Cedar Falls Utilities is based upon criteria established by the Governmental Accounting Standards Board.

NOTE 2 – BASIS OF PRESENTATION

The accounting records for the federal awards are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

**THE MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2010

SECTION I – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS

Type of auditors’ report issued: unqualified

Internal control over financial reporting:

- > Material weakness identified? yes X no
- > Significant deficiency identified? yes X none reported

Noncompliance material to financial statements noted?

 yes X no

FEDERAL AWARDS

Internal control over major programs:

- > Material weakness identified? yes X no
- > Significant deficiency identified? yes X none reported

Type of auditor’s report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

 X yes no

Auditee qualified as low-risk auditee?

 yes X no

Dollar threshold used to distinguish between type A and type B programs:

 \$ 300,000

Identification of major federal programs:

CFDA Number

Name of Federal Program

97.036

Disaster Grants – Public Assistance,
Residentially Declared Disaster

**THE MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES
OF THE CITY OF CEDAR FALLS, IOWA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2010**

**SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

None

SECTION III – FEDERAL FINDINGS AND QUESTIONED COST

Finding 10-01:

97.036 Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Criteria:

OMB Common Rule A-102 requires that Federal agencies, or their subgrantees, shall not award contracts to vendors that are debarred or suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549. Agencies, or subgrantees, shall establish procedures for the effective use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure that they do not contract with listed parties in violation of the Executive Order.

Condition:

The utility did not verify that vendors were not suspended or debarred before approving contracts with them.

Effect:

The utility could be awarding federal funds to vendors or subrecipients that have been suspended or debarred from federal contracts.

Cause:

The utility was unaware of this requirement.

Recommendation:

We recommend that the utility incorporate this step into the normal contracting process.

Management Response:

We were unaware of this requirement and will incorporate this step as recommended in the future. However, all vendors used were not on the suspended or debarred listing.

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

In planning and performing our audit of federal awards of the Municipal Electric, Gas, Water, and Communications Utilities of the City of Cedar Falls, Iowa (Cedar Falls Utilities), component units of the City of Cedar Falls, Iowa, as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Guidelines*, we considered its internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinions on the federal awards, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control, which are defined by auditing standards to fall within three categories:

- > A **control deficiency** 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 **significant deficiency** is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- > 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 Utilities financial statements will not be prevented, or detected and corrected on a timely basis.

The following pages contain descriptions of identified control deficiencies.

This communication is intended solely for the information and use of the Board of Trustees and management and is not intended to be, and should not be, used by anyone other than the specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
July 21, 2011

REPORT ON INTERNAL CONTROLS - DETAILS

COMMENT 1: REPORTING REVIEW

Results: During our audit we noted, that the progress reports submitted to the Iowa Homeland Security and Emergency Management Division were not being reviewed by a second individual prior to submission.

Recommendation: We recommend that CFU review their reporting process to ensure all report are reviewed prior to submission.

Management Response: Wind reports were reviewed by a second individual, however a signed review copy was not made and kept in the file. The flood disaster was prepared by the Director and no second review was made. Beginning in 2011, current procedures have the quarterly flood report prepared by staff with the review by the Director. The reviews of both reports are now documented in the file.

COMMENT 2: SUSPENSION AND DEBARMENT VERIFICATION

Results: During our audit we noted that suspension and debarment verification checks were not being performed prior to contracting with vendors.

Recommendation: We recommend CFU review their process and procurement manual to incorporate the suspension and debarment verification requirements.

Management Response: We were unaware of this requirement and will incorporate this step as recommended in the future. However, all vendors used were not on the suspended or debarred listing.