

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

SCHEDULE OF FINDINGS

DECEMBER 31, 2010

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OFFICIALS
OSAGE MUNICIPAL UTILITIES

December 31, 2010

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman*	Royce Tack	December 2015
Chairman**	Steve Swenson	December 2014
Trustee	Kelvin Palsic	December 2012
Trustee	Harlan Bremer	December 2015
Trustee	Doug Lang	December 2010
Trustee	Frank Arciniega	December 2014
General Manager	Dennis Fannin	Indefinite
Board Secretary***	Paula Ross	Indefinite
Board Secretary***	Dorene Christensen	Indefinite
Cashier	Jane Michels	Indefinite
Treasurer	Beverly Miller	January 2011

*Royce Tack became Chairman of the board in Nov 2010

**Steve Swenson was replaced by Frank Arciniega in Nov 2010.

***Paula Ross retired in August 2010 Dorene Christensen started July 2010.

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Osage Municipal Utilities
Osage, Iowa

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Osage Municipal Utilities, (a component unit of the City of Osage) as of and for the year ended December 31, 2010 which collectively comprise the Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Osage Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Osage Municipal Utilities as of December 31, 2009, were audited by other auditors whose opinion dated July 12, 2010, expressed an unqualified opinion on those statements.

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

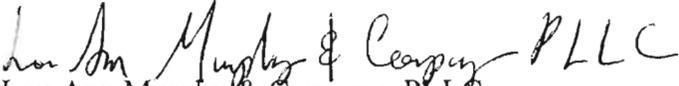
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund and the aggregate remaining fund information of Osage Municipal Utilities as of December 31, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 9, 2011 on our consideration of Osage Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 15 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Osage Municipal Utilities' basic financial statements. Other supplementary information included in schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The other supplementary information included in schedules 7 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


Lou Ann Murphy & Company PLLC
Certified Public Accountant
Osage, Iowa
August 9, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Osage Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2010. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- The Utilities' operating revenue decreased 3.5%, or approximately \$300,000 from 2009 to 2010.
- Operating expenses decreased 5.1%, or approximately \$461,000, from 2009 to 2010.
- The Utilities' net assets increased 9.0%, or approximately \$1,289,000, during 2010.
- The value of transfers to the City's General Fund, based primarily on kilowatt hours sold, increased by more than \$10,000, or almost 7.6%, from the prior year.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

The Other Supplementary Information in schedule 6 is the Schedule of Expenditures of Federal Awards and is required by U. S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The Other Supplementary Information in schedules 7 through 10 is unaudited and provides detailed information about the usage levels of each utility, as well as other information required by bond resolution.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Fund Financial Statements

Osage Municipal Utilities utilizes one kind of fund;

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

The condensed statement of net assets, shown below, shows how assets and liabilities have changed over the past two years. In 2010 capital assets decreased by approximately 5% and represent 63% of total assets. This decrease is due to capital asset retirements and depreciation exceeding purchases. Total assets increased by approximately \$1,262,000 and liabilities decreased by approximately \$27,000 resulting in the increase in net assets of approximately \$1,289,000 during the year.

Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended December 31,	
	2010	2009
Current and other assets	\$ 8,645	\$ 6,610
Capital assets (net of accumulated depreciation)	14,965	15,738
Total assets	23,610	22,348
Long-term debt outstanding	6,787	5,631
Other Liabilities	1,279	2,462
Total liabilities	8,066	8,093
Net assets		
Invested in capital assets (net of related debt)	8,179	9,228
Restricted - bond covenant	836	841
Unrestricted	6,529	4,186
Total net assets	\$ 15,544	\$ 14,255

INDIVIDUAL MAJOR FUND ANALYSIS

As Osage Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$15.5 million, an increase of more than \$1 million over last year's total of \$14.3 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

Electric Utility Results of Operations

Light and Power operating revenues increased \$378,000 or 7.3% from the prior year due to the combined impact of an approximate 1.9 million kilowatt hour increase in power usage by consumers and a modest pass through of increased wholesale power costs.

Total operating expenses for 2010 were higher by approximately \$487,000, or 11% more than in 2009. Most of the increase can be attributed to the first full year of depreciation and operating expenses of the wind turbine. The combined effect of these two factors resulted in 2010 operating income of \$620,000. This was a 14.9% decrease compared to the 2009 operating income of \$729,000. The combination of all factors resulted in the Electric Utility achieving an increase in Net Assets of more than \$522,000 in 2010, compared to an increase of \$684,000 in 2009.

The \$1,149,000 increase in Light and Power cash balances is attributed to bonding to help pay for wind turbine project expenditures incurred during 2009 and 2010.

Gas Utility Results of Operations

The volume of natural gas consumed by Osage residents and businesses decreased by approximately 48,000 mcf in 2010, while actual gas revenues dropped almost \$695,000, or 23.3%, due to the combination of reduced usage and still lower natural gas prices. Fortunately, total operating expenses decreased by \$809,000, or 27%, resulting in an increase in operating income of \$115,000 over the 2009 level.

The Gas Utility received a \$300,000 USDA matching grant to be utilized as a revolving loan to promote economic development within the city of Osage. The proceeds, along with the \$60,000 match by the Utility were loaned to the city of Osage to help pay for the new Public Safety building. This interest free loan will be paid back over ten years. These factors combined to effectively increase net assets by almost \$436,000, actually improving on the increase in net assets recorded in 2009 by more than \$535,000.

Of the total volumes of gas delivered to customers during 2010, 24% can attributed to the Gas Utility's largest customers.

The cash balance for 2010 increased by more than \$207,000, or 30% over the cash balance in 2009, as a result of customer payments on accounts receivable and income generated from operations.

Telecom Utility Results of Operations

The Communications Utility ended the year with a gain in net assets of almost \$330,000. The popularity of cellular phone usage, the struggling economy, and the predatory nature of competitor pricing strategies continues to steadily decrease the number of customers who subscribe to our telephone and cable television services. However, the number of high speed internet customers grew by 4.9% and rural wireless internet customers also grew by 3.8%. In spite of the aforementioned competitive challenges, the Telecom Utility's net assets increased by 27.2%.

An approximate \$175,000 increase in the cash balance for 2010 represented a 13% increase over the 2009 cash balance.

Telecom Utility capital assets are diminutive, at 3.4% of total assets, because telephone and cable capital assets are owned by the Electric Utility, leaving less than \$60,000 in capital assets owned by the Internet and Wireless Funds. Consequently, nearly 86% of the Telecom Utility's total assets are comprised of cash.

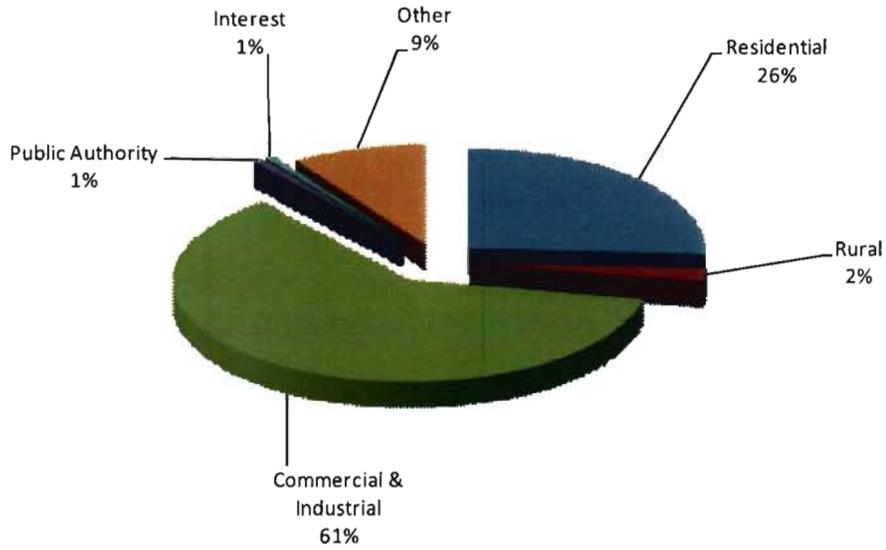
Our presence as a provider of communications services enables all Osage consumers of communications services to continue to benefit from the competitive nature of the Osage marketplace.

Combined Results of Operations

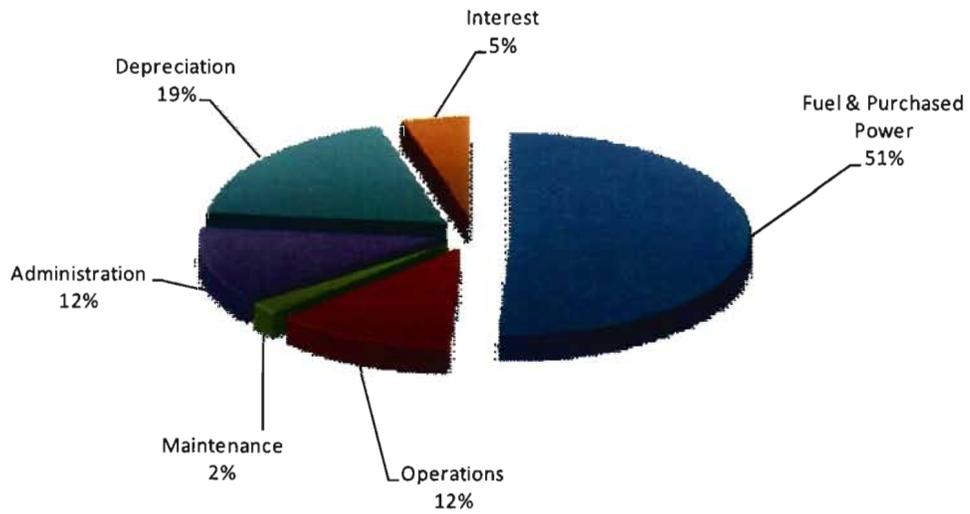
The following analysis focuses on the change in net assets for the combined divisions of Osage Municipal Utilities. The pie charts following the chart below show the source of revenues and expenses by fund for Osage Municipal Utilities.

	Changes in Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended December 31,	
	2010	2009
Operating revenues	\$ 9,589	\$ 9,932
Operating Expenses	(8,525)	(8,986)
Operating income	1,064	946
Net non-operating revenues (expenses)	(193)	(192)
Other financing sources (uses)	418	5
Change in net assets	1,289	759
Net assets beginning of year	14,255	13,496
Net assets end of year	<u>\$ 15,544</u>	<u>\$ 14,255</u>

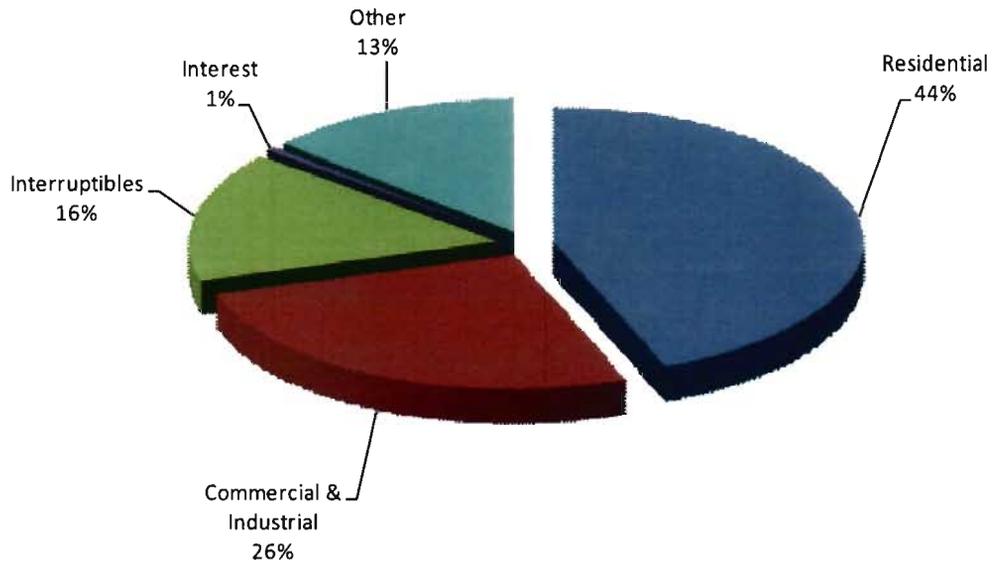
Electric Utility Source of Funds



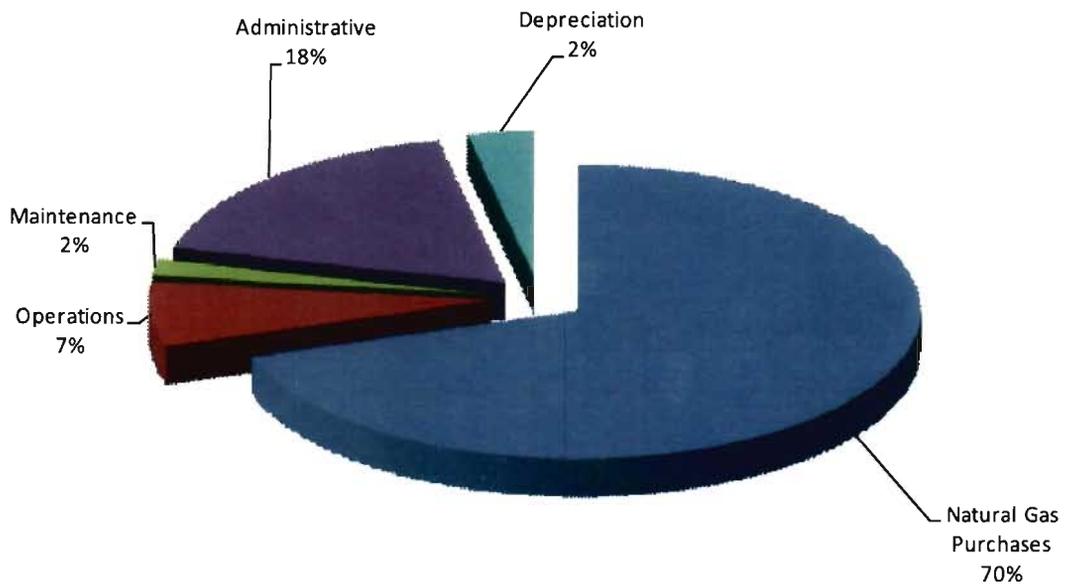
Electric Utility Use of Funds



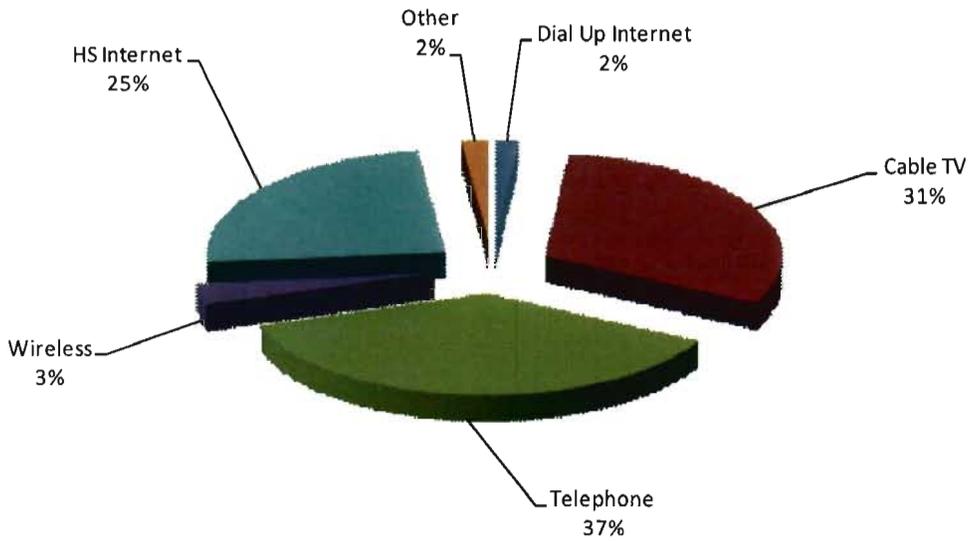
Gas Utility Source of Funds



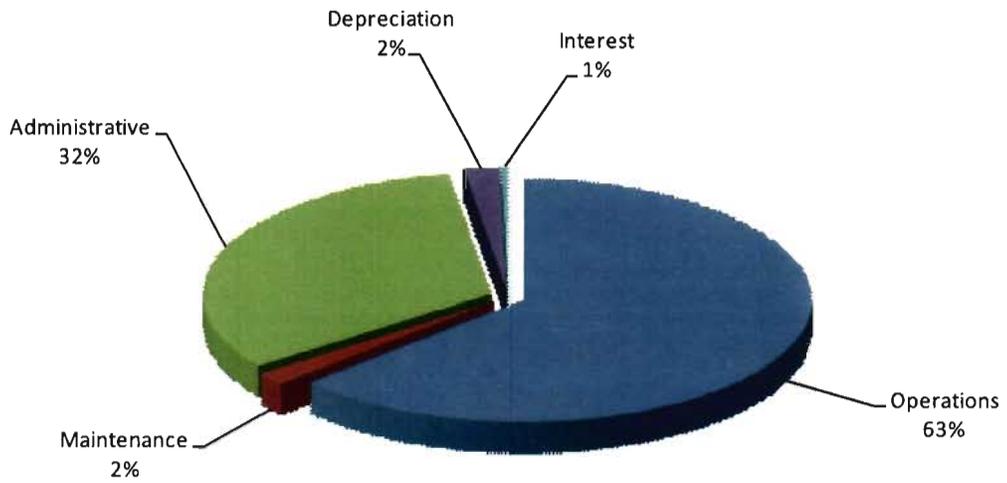
Gas Utility Use of Funds



Communications Utility Source of Funds



Communications Utility Use of Funds



BUDGETARY HIGHLIGHTS

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2010, Osage Municipal Utilities had approximately \$14.9 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net decrease in total capital assets (including additions and deletions net of depreciation) of approximately \$773,000, a 5% decline from 2009.

	Capital Assets of Business Type Activities	
	(Expressed in Thousands)	
	Year ended December 31,	
	2010	2009
Land and improvements	\$ 94	\$ 96
Buildings and improvements	908	943
Equipment and Vehicles	13,833	11,082
Construction in progress	-	3,487
Iowa Stored Energy Project	130	130
Total	\$ 14,965	\$ 15,738

The changes to capital assets can be attributed to the completion of the wind turbine project, reclassifying it as equipment, closing the construction in progress account, and its first year of depreciation.

Osage Municipal Utilities had depreciation expense of \$1,079,910 in 2010 and total accumulated depreciation of \$14,441,825 at December 31, 2010.

LONG TERM DEBT/LIABILITIES

At December 31, 2010, Osage Municipal Utilities had \$6,787,000 in revenue bonds outstanding compared to \$5,631,000 at December 31, 2009, as shown below.

	Outstanding Debt of Business Type Activities	
	(Expressed in Thousands)	
	Year ended December 31,	
	2010	2009
Revenue bonds	\$ 6,787	\$ 5,631
Total	\$ 6,787	\$ 5,631

During 2010, Osage Municipal Utilities (OMU) was assigned an “A1” credit rating, upgraded from A3, by Moody’s Investors Service on \$3.33 million Electric Revenue Refunding Capital Loan Notes. Moody’s also affirmed the A1 rating on the net remaining outstanding maturities of the Series 2001 bonds. The primary factors contributing to the upgraded credit rating are 1) maintenance of favorable debt service coverage levels, historically in excess of 2.5 times, and 2) unlimited rate setting authority.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The Electric Utility

Earlier this year the Department of Energy reported their expectation that electric rates would increase by 50% in the next seven years. Not long after that alarming prediction, Osage’s wholesale power provider, Dairyland Power, announced the need for a 22% increase to our wholesale cost of electricity.

But Osage is not alone. Besides serving Osage, Dairyland provides the wholesale electrical requirements for 15 other municipal utilities in the Upper Midwest. Collectively we are members of the Upper Midwest Municipal Power Agency (UMMPA), a joint action agency formed in 2004 to maximize its members’ buying power. UMMPA members, their governing bodies and customers expressed deep concern to Dairyland over the magnitude of the proposed increase.

Clearly, the electric industry continues to change and evolve in ways that materially affect our wholesale agreement with Dairyland. To Dairyland’s credit, they recognize this and have willingly agreed to re-evaluate the existing rate design and make contract modifications designed to mitigate the increase. We are optimistic that negotiations with Dairyland will result in more favorable contract terms that will preserve the mutual interest and intent of the parties and result in a substantially lower increase in cost.

Internally, in anticipation of some degree of increase in the cost of wholesale electricity, we have deferred more than \$500,000 in capital expenditures in 2011 and continue looking for ways to further reduce operating expenses.

In an effort to secure a more stable and potentially lower cost of electricity in the future, Osage, in conjunction with the other UMMPA members, joined a coalition of other municipal utilities and joint action agencies to engage in long-term power supply planning and explore power supply alternatives. Although the results of this effort are not yet known, the process has thus far supported the belief that utilizing a more diversified mix of generating resources can be an effective way of reducing the risks of depending almost solely on coal-based generation.

After a full year’s experience producing electricity with our 1.5 MW wind turbine, we were very pleased that actual production statistics exceeded engineers’ projections. The new turbine was projected to offset, or displace, about 8.5% of the non-renewable fossil-fueled energy purchased from our wholesale power provider, Dairyland Power. The turbine actually produced 8.8% of Osage’s electric needs, performing at slightly more than a 35% capacity factor, compared to the 32% that was projected. The electricity generated by Osage’s single wind turbine provided enough clean, renewable energy to power the equivalent of more than 500 homes in Osage.

The Osage board of trustees and management believe including wind energy in the mix of generating resources is a proactive measure, or hedge, against the likely costs associated with environmental requirements and legislation, especially those dealing with global climate change and pollution from burning coal.

The Iowa Stored Energy Plant Agency (ISEPA), of which Osage is a founding member, recently announced the termination of the Iowa Stored Energy Park (ISEP) project. As proposed, ISEP was intended to be a 270 Megawatt (MW), \$400 million compressed air energy storage (CAES) electric generation facility to be located at Dallas Center, Iowa, near Des Moines. In-service was planned for 2015. The project would have taken renewable wind and other resources available on the electric transmission grid during off-peak weeknight and weekend hours when customer electric loads and prices are low, and store the energy as compressed air in a unique sandstone aquifer 3,000 feet underground. Then, the compressed air would be used during higher value, on-peak hours on weekdays to generate electricity and deliver it back to the grid when customers need it most.

Economic studies performed for ISEP indicated that an innovative CAES project like this can be cost-effective compared to conventional generation alternatives, and supportive of additional wind energy development in the region. Unfortunately, the geology studies of the project site revealed the storage reservoir is not suitable for the scale of project that was envisioned. While the CAES project concept and potential long-term economics are sound, due to geology limitations specific to the Dallas Center site, the ISEPA members have easier, less expensive and less risky conventional alternatives to meet their customers' future electric needs.

Although the due diligence results of the past several months are not what we had hoped for, we are certainly better off knowing the fatal flaw before spending the estimated \$400 million cost of the project and then finding it will not work. About \$8.6 million (or about 2% of the total projected project cost) has been spent on the ISEP project to date. In addition to investments by the ISEPA members, the majority of ISEP development funding has been provided by the U.S. Department of Energy's (DOE) Energy Storage Program, with additional support from the Iowa Power Fund. The ISEPA board anticipates that the wind-up of ISEP can be accomplished during the balance of 2011 without further investments from the ISEPA members. There may even be a modest amount to return to the members; probably early next year.

The Gas Utility

Fortunately, volatility of the natural gas pricing environment seen in recent years has moderated due to solid year-on-year natural gas production increases. Despite the current lower volatility, OMU continues to believe that natural gas prepayment transactions should be an important component of a gas supply portfolio. Consequently, OMU management has taken several preliminary steps that will enable quick entry into a long-term (30-year) natural gas procurement program, once the financial markets have stabilized.

OMU continues to use price hedging throughout the year as a strategy to achieve greater purchasing efficiency and to protect our customers from the potential return of a high and volatile gas-price environment.

Communications

Osage Municipal Utilities continues a planned replacement of its community-wide phone system with Voice over Internet Protocol (VoIP) technology. Extended vendor support of the current phone system, maximizing return on the investment of the current system, strategic planning decisions on the delivery path for future telecom services and locally available soft switch resources have all influenced the rescheduling of our VoIP conversion until fall 2011. Planned DOCSIS 3.0 hardware replacement and Hybrid Fiber Coaxial (HFC) node return path laser replacements will not only prepare the communications system for our VoIP conversion, but also provide for last mile bandwidth comparable to today's Fiber-To-The-Premise (FTTP) systems at a fraction of the cost. This strategic use of our well maintained existing resources coupled with specific technological upgrades will extend the utilization of the existing HFC plant for another 8 to 10 years. This broadened window of operations places the utility in control of broadband system transformation based on rational economic decision-making rather than wholesale technological change and helps maintain a competitive advantage.

Despite the migration of younger customers to mobile phone only homes, the demographics of our aging customer base and the reliability requirements of our businesses support a stable subscriber count for our telecom phone service. Our conversion to VoIP affords reduced operating cost to counter-balance these losses. A greater concern is the National Broadband Plan which supports big business efforts to reduce inter-carrier access revenues to zero over 5 years. These payments from other carriers that use our system for the delivery of their customers' long distance calls account for 35% of our phone revenues. OMU has joined forces with state and national municipal organizations to make comments to the Federal Communications Commission (FCC) about the impact of the proposed plan and to request continued funding to support rural phone service from the Connect America Fund, renamed from the Universal Services Fund. The FCC's order is due the 4th quarter of 2011 when the actual funding details will most likely be delegated to the states. Our state municipal organization is actively joining with rural independent telephone organizations to deliver a unified message to the state explaining the vital community services that the smaller independent and municipal telecom operators have invested and continue to invest in rural Iowa when their larger competitors would not.

The battle for future cable TV content between Over-The-Top (OTT Internet) and Internet Protocol TV (IPTV) continues with commentators siding with whoever delivers the best service as the winner. Both technologies have issues to overcome before a winner is declared. Fortunately, OMU will be positioned to use any IP based content on our broadband system. Our planned DOCSYS 3.0 and HFC system laser improvements will create the foundation capable of easily supporting this content. Through partnering agreements, OMU has avoided capital intensive investment in legacy radio frequency (RF) cable TV headend equipment, and also, from having to bet on what new technologies to implement. Our loyal customer base, with an annual 2.8% churn, which is much less than the telecommunication industry's reported 10% rate, continues to support our local service. To remain successful, we can never lose sight that it is service that separates municipal operated systems from their competitors.

Broadband Internet access is the growth sector of our service. Capitalizing on a lack of qualified local business networking professionals, a pilot program implemented in late 2010 to develop this market has had great success. Several business customers' networks were redesigned with hardware and process improvements to correct serious flaws compromising security and operations. These successes have led to additional requests for local business network, disaster

recovery and business continuity assistance. Other planned improvements to the broadband system such as core switching implementation, our own ARIN IP blocks, virtual server conversion, offsite automated system redundancy and dual homed internet cloud access, all add up to a faster, more reliable conduit for our customers' business and entertainment needs.

Energy Efficiency

An efficiently operating utility committed to reducing our customers' energy usage has been a core value of Osage Municipal Utilities since its inception in early 1940. Not until the late 1970's oil embargo and economic inflationary period did energy conservation become accepted by the general public. At that time, OMU implemented some of the nation's first energy efficiency programs to help our customers deal with increasing energy costs. A load management program was initiated to limit air conditioner compressor run times during the hottest summer days to reduce peak demand. An infrared home scanning program was also begun to recommend insulation remedies for reducing energy consumption and increase comfort. After the oil embargo ended and energy prices declined, customers lost interest in energy efficiency. During the 1980's and 90's, OMU focused more on system loss reduction, generation efficiencies and peak demand reduction. The rapid increases in energy supply costs during this past decade has influenced OMU's focus to include customer incentives for implementing energy efficiency measures in their homes and businesses.

New standards in insulation, lighting, heating and cooling have revived customer interest in programs that reward those who implement energy saving measures. While individual incentives and rebates are not as equitable as utility side improvements, customers do not realize the true cost of energy when they are protected from higher prices by upstream improvements. This results in minimal reason to adopt energy saving measures. OMU's newest programs take this effect into account by offering residential, commercial and industrial incentive programs for ENERGY STAR appliances, lighting, insulation, cooling and heating. While these programs have been successful both in popularity and energy savings, there comes a point when the incentive is no longer needed to influence customer acceptance. When this occurs, newer, proven energy saving remedies that are not yet mainstream replace current programs and the cycle continues. This is but one way OMU uses incentives to sway customer acceptance of new energy savings standards.

Over time, as energy costs continue to rise, it becomes more important that each customer takes advantage of all the possible energy saving measures available to efficiently operate their homes and businesses. OMU's challenge is to mix the right amount of education with incentive to encourage customers to take action and reduce energy consumption. This step is a fundamental part of OMU's overall energy efficiency program strategy: to offer reliable advice and direction to customers' requests for energy saving solutions that actually do work.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

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

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
STATEMENTS OF NET ASSETS
AS OF DECEMBER 31:

	Enterprise	
	Light and Power	
	2010	2009
Assets		
Current assets:		
Cash and equivalents	\$ 2,564,506	\$ 1,415,009
Accounts receivable (net of allowance for uncollectibles)	539,257	535,770
Unbilled usage	355,101	330,265
Investments	845,889	629,954
Inventory	438,582	480,378
Prepaid expenses	23,484	21,892
Other assets:		
Bond discount (net of accumulated amortization)	266,156	54,576
Revolving loan receivable	-	-
Capital assets:		
Capital assets (net of accumulated depreciation)	14,172,134	14,884,088
Total assets	19,205,109	18,351,932
Liabilities		
Current liabilities:		
Accounts payable	336,763	1,373,189
Accounts payable - City of Osage	80,904	82,460
Customer meter deposits	15,204	16,387
Customer budget billing	222	33,784
Accrued expenses	51,995	63,447
Accrued interest	7,673	17,318
Deferred revenue	-	-
Revenue bonds	667,466	475,466
Noncurrent liabilities:		
Revenue bonds (net of current portion)	6,119,126	4,955,592
Bond premium (net of accumulated amortization)	50,119	-
Accrued wind expenses	9,500	-
OPEB liabilities	19,608	9,804
Total liabilities	7,358,580	7,027,447
Net assets		
Invested in capital assets (net of related debt)	7,385,542	8,373,325
Restricted - bond covenant	836,369	841,432
Unrestricted	3,624,618	2,109,728
Total net assets	\$ 11,846,529	\$ 11,324,485

See notes to the financial statements

Funds					
Gas		Non-Major Funds		Total	
2010	2009	2010	2009	2010	2009
\$ 892,098	\$ 684,938	\$ 1,495,186	\$ 1,320,426	\$ 4,951,790	\$ 3,420,373
200,068	375,252	159,143	161,160	898,468	1,072,182
270,224	337,899	-	3,789	625,325	671,953
-	-	-	-	845,889	629,954
10,490	13,052	25,428	37,908	474,500	531,338
192,692	171,402	6,206	36,026	222,382	229,320
-	-	-	-	266,156	54,576
360,000	-	-	-	360,000	-
<u>733,386</u>	<u>771,883</u>	<u>59,824</u>	<u>82,491</u>	<u>14,965,344</u>	<u>15,738,462</u>
<u>2,658,958</u>	<u>2,354,426</u>	<u>1,745,787</u>	<u>1,641,800</u>	<u>23,609,854</u>	<u>22,348,158</u>
286,590	360,241	24,894	32,179	648,247	1,765,609
-	-	-	-	80,904	82,460
31,726	35,579	15,972	19,454	62,902	71,420
153,562	195,689	-	-	153,784	229,473
21,825	39,437	30,423	25,952	104,243	128,836
-	-	-	709	7,673	18,027
-	-	120,988	145,388	120,988	145,388
-	-	-	45,000	667,466	520,466
-	-	-	155,000	6,119,126	5,110,592
-	-	-	-	50,119	-
-	-	-	-	9,500	-
10,800	5,400	10,448	5,224	40,856	20,428
<u>504,503</u>	<u>636,346</u>	<u>202,725</u>	<u>428,906</u>	<u>8,065,808</u>	<u>8,092,699</u>
733,386	771,883	59,824	82,491	8,178,752	9,227,699
-	-	-	-	836,369	841,432
<u>1,421,069</u>	<u>946,197</u>	<u>1,483,238</u>	<u>1,130,403</u>	<u>6,528,925</u>	<u>4,186,328</u>
<u>\$ 2,154,455</u>	<u>\$ 1,718,080</u>	<u>\$ 1,543,062</u>	<u>\$ 1,212,894</u>	<u>\$ 15,544,046</u>	<u>\$ 14,255,459</u>

OSAGE MUNICIPAL UTILITIES

A COMPONENT UNIT OF THE CITY OF OSAGE

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

AS OF DECEMBER 31:

	Enterprise	
	Light & Power	
	2010	2009
Operating revenues:		
Charges for service	\$ 5,547,782	\$ 5,169,314
Operating expenses:		
Business type activities	4,927,359	4,440,354
Operating income (loss)	620,423	728,960
Non-operating revenues (expenses):		
Interest income	37,927	78,921
Interest expense	(239,590)	(198,791)
Other income	53,784	55,761
Donations	(64,500)	-
Total non-operating revenues (expenses)	(212,379)	(64,109)
Other financing sources (uses):		
Operating transfers in	-	14,742
Operating transfers out	-	-
Federal awards	114,000	-
Gain (loss) on sale of capital assets	-	4,614
Total other financing sources (uses)	114,000	19,356
Change in net assets	522,044	684,207
Net assets - beginning of year	11,324,485	10,640,278
Net assets - end of year	\$ 11,846,529	\$ 11,324,485

See notes to the financial statements

Funds					
Gas		Non-Major Funds		Total	
2010	2009	2010	2009	2010	2009
\$2,289,544	\$2,984,148	\$1,752,072	\$1,778,321	\$9,589,398	\$9,931,783
2,189,617	2,998,942	1,408,743	1,546,318	8,525,719	8,985,614
99,927	(14,794)	343,329	232,003	1,063,679	946,169
13,161	11,466	13,660	20,398	64,748	110,785
(169)	(137)	(5,483)	(9,646)	(245,242)	(208,574)
29,233	-	14,162	-	97,179	55,761
(10,230)	(89,800)	(35,500)	(60,200)	(110,230)	(150,000)
31,995	(78,471)	(13,161)	(49,448)	(193,545)	(192,028)
-	-	-	25,000	-	39,742
-	-	-	(39,742)	-	(39,742)
300,000	-	-	-	414,000	-
4,453	512	-	-	4,453	5,126
304,453	512	-	(14,742)	418,453	5,126
436,375	(92,753)	330,168	167,813	1,288,587	759,267
1,718,080	1,810,833	1,212,894	1,045,081	14,255,459	13,496,192
\$2,154,455	\$1,718,080	\$1,543,062	\$1,212,894	\$15,544,046	\$14,255,459

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

STATEMENTS OF CASH FLOWS
AS OF DECEMBER 31:

	Enterprise	
	Light and Power	
	2010	2009
Cash flows from operating activities:		
Cash receipts from customers	\$ 5,341,082	\$ 4,936,732
Cash received from other funds	143,632	138,866
Cash payments to suppliers	(4,241,726)	(3,218,129)
Cash payments to employees	(620,281)	(453,334)
Cash payments to other funds	-	-
Cash payments for contributions	(57,590)	(54,230)
Net cash provided (used) by operating activities	<u>565,117</u>	<u>1,349,905</u>
Cash flows from noncapital financing activities:		
Transfers in	-	14,742
Transfers out	-	-
Miscellaneous non-operating revenue	53,784	55,761
Donations	(64,500)	-
Net cash provided (used) by noncapital financing activities	<u>(10,716)</u>	<u>70,503</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(269,853)	(2,499,375)
Proceeds from federal award	114,000	-
Proceeds from sale of assets	-	4,614
Proceeds from revenue bonds	5,078,000	-
Repayment of revenue bonds	(3,722,466)	(460,466)
Acquisition of unamortized discount	(177,342)	-
Cash paid for revolving loan	-	-
Cash paid for interest	(249,235)	(200,109)
Net cash Provided (used) by capital and related financing activities	<u>773,104</u>	<u>(3,155,336)</u>
Cash flows from investing activities:		
Purchases of investments	(215,935)	(3,505)
Investment income	37,927	78,921
Net cash provided (used) by investing activities	<u>(178,008)</u>	<u>75,416</u>
Net increase (decrease) in cash and cash equivalents	1,149,497	(1,659,512)
Cash and cash equivalents-beginning of year	1,415,009	3,074,521
Cash and cash equivalents-end of year	<u>\$ 2,564,506</u>	<u>\$ 1,415,009</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ 620,423	\$ 728,960
Adjustments to reconcile operating income to Net cash provided (used) by operating activities:		
Depreciation and amortization	997,688	814,351
Change in accounts receivable	(3,487)	(66,365)
Change in meter deposits and unbilled usage	(59,581)	(27,351)
Change in prepaid expenses	(1,592)	(243)
Change in inventory	41,796	(32,349)
Change in accounts payable and other liabilities	(1,030,130)	(67,098)
Net cash provided (used) by noncapital financing activities	<u>\$ 565,117</u>	<u>\$ 1,349,905</u>

See notes to the financial statements

Funds					
Gas		Non- Major Funds		Total	
2010	2009	2010	2009	2010	2009
\$ 2,486,423	\$ 3,191,245	\$ 1,729,996	\$ 1,796,920	\$ 9,557,501	\$ 9,924,897
-	-	-	-	143,632	138,866
(1,818,442)	(2,403,857)	(840,260)	(916,973)	(6,900,428)	(6,538,959)
(314,175)	(372,995)	(348,615)	(349,157)	(1,283,071)	(1,175,486)
-	-	(143,632)	(138,866)	(143,632)	(138,866)
(92,535)	(83,634)	(2,479)	(3,979)	(152,604)	(141,843)
<u>261,271</u>	<u>330,759</u>	<u>395,010</u>	<u>387,945</u>	<u>1,221,398</u>	<u>2,068,609</u>
-	-	-	25,000	-	39,742
-	-	-	(39,742)	-	(39,742)
29,233	-	14,162	-	97,179	55,761
(10,230)	(89,800)	(35,500)	(60,200)	(110,230)	(150,000)
<u>19,003</u>	<u>(89,800)</u>	<u>(21,338)</u>	<u>(74,942)</u>	<u>(13,051)</u>	<u>(94,239)</u>
(31,767)	(24,454)	(6,380)	(58,494)	(308,000)	(2,582,323)
300,000	-	-	-	414,000	-
5,661	512	-	-	5,661	5,126
-	-	-	-	5,078,000	-
-	-	(200,000)	(45,000)	(3,922,466)	(505,466)
-	-	-	-	(177,342)	-
(360,000)	-	-	-	(360,000)	-
(169)	(137)	(6,192)	(9,790)	(255,596)	(210,036)
<u>(86,275)</u>	<u>(24,079)</u>	<u>(212,572)</u>	<u>(113,284)</u>	<u>474,257</u>	<u>(3,292,699)</u>
-	-	-	-	(215,935)	(3,505)
13,161	11,466	13,660	20,398	64,748	110,785
<u>13,161</u>	<u>11,466</u>	<u>13,660</u>	<u>20,398</u>	<u>(151,187)</u>	<u>107,280</u>
207,160	228,346	174,760	220,117	1,531,417	(1,211,049)
684,938	456,592	1,320,426	1,100,309	3,420,373	4,631,422
<u>\$ 892,098</u>	<u>\$ 684,938</u>	<u>\$ 1,495,186</u>	<u>\$ 1,320,426</u>	<u>\$ 4,951,790</u>	<u>\$ 3,420,373</u>
\$ 99,927	\$ (14,794)	\$ 343,329	\$ 232,003	1,063,679	946,169
69,056	66,345	29,047	29,766	1,095,791	910,462
175,184	(5,545)	2,017	162,628	173,714	90,718
21,695	212,642	307	655	(37,579)	185,946
(21,290)	172,759	29,820	(33,051)	6,938	139,465
2,562	375	12,480	(5,095)	56,838	(37,069)
(85,863)	(101,023)	(21,990)	1,039	(1,137,983)	(167,082)
<u>\$ 261,271</u>	<u>\$ 330,759</u>	<u>\$ 395,010</u>	<u>\$ 387,945</u>	<u>\$ 1,221,398</u>	<u>\$ 2,068,609</u>

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A.) Reporting Entity

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

Jointly Governed Organizations

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

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

B.) Basis of Presentation

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

Osage Municipal Utilities has two major funds:

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

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

C.) Measurement Focus and Basis of Accounting

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

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

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

D.) Budgets and Budgetary Accounting

The budgetary comparison and related disclosure are reported as Required Supplementary Information. During the year ended December 31, 2010, disbursements did not exceed the amounts budgeted.

E.) Osage Municipal Utilities Plant and Depreciation

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

F.) Revenue, Unbilled Usage, and Deferred Revenue

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

G.) Inventory

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

H.) Rate Matters

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

I.) Use of Estimates

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

J.) Fair Value of Financial Instruments

The Utilities are required to disclose the estimated fair values for all financial instruments for which it is practicable to estimate fair value. For instruments including cash, accounts receivable and payable and accruals, it was assumed that the carrying amounts approximated fair value because of their short maturities. The carrying amounts of long term debt, which matures through the year 2029, are also assumed to approximate their fair value.

K.) Cash and Cash Equivalents

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

L.) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable as of December 31 consisted of approximately 2,550 and 2,550 uncollateralized accounts in 2010 and 2009 respectively. Accounts receivable balances older than 90 days for Osage Municipal Utilities were approximately \$5,000 for the years ended December 31, 2010 and 2009 respectfully.

Osage Municipal Utilities use the allowance method to charge off uncollectible accounts receivable. Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for doubtful accounts

and related accounts receivable write offs. A 1.5% per month penalty is charged for accounts older than 30 days. Accumulated penalties included in the accounts receivable balance at December 31, 2010 and 2009 amounted to less than \$1,000. The charges originate substantially from the Light and Power fund.

The allowance for uncollectible accounts had balances of zero as of December 31, 2010 and 2009 respectively.

NOTE 2 - CASH AND INVESTMENTS

Osage Municipal Utilities' deposits at December 31, 2010 and 2009 (which include certificates of deposit totaling \$845,889 and \$629,954 respectively) were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

Osage Municipal Utilities have funds on deposit with the Wisconsin Local Government Investment Pool as part of their Shared Transmission System Agreement with Dairyland Power Cooperative. According to the agreement, the funds can be withdrawn at any time, and have been withdrawn in the past. These deposits were \$275,095 and \$203,747 as of December 31, 2010 and 2009, respectively. The Wisconsin Local Government Investment Pool is held outside the State of Iowa. Cash is used in order to invest in transmission improvements and to cover control center costs.

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

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

NOTE 3 - REVENUE BONDS PAYABLE

The following is a summary of changes in long-term debt for the year ended December 31, 2010 and 2009.

Light and Power Fund:

	Bal. 1/1/10	Issued	Repaid	Bal. 12/31/10
Business Type activities:				
Revenue Bonds - issued September 2001	\$ 3,865,000	\$ -	\$ 3,495,000	\$ 370,000
Revenue Bonds - issued November 2008	1,566,058	-	120,466	1,445,592
Revenue Bonds - issued February 2010	-	458,000	17,000	441,000
Revenue Bonds - issued February 2010	-	1,290,000	90,000	1,200,000
Revenue Bonds - issued December 2010	-	3,330,000	-	3,330,000
Total	\$ 5,431,058	\$ 5,078,000	\$ 3,722,466	\$ 6,786,592

Light and Power Fund:

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

Telephony Fund

	Bal. 1/1/10	Issued	Repaid	Bal. 12/31/10
Business Type activities:				
Revenue bonds - issued July 2002	\$ 200,000	\$ -	\$ 200,000	\$ -
Total	\$ 200,000	\$ -	\$ 200,000	\$ -

Telephony Fund

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

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

Year Ending December 31	Light & Power Series 2001 Interest 2.5 - 5.2 %		Light & Power Series 2008 Interest 1.27 %		Light & Power SRF Note 2010 Interest 3.0 %		Light & Power Series 2010 Interest 2.0 - 4.0 %		Light & Power Series 2010 Interest 2.0 - 3.25 %		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	370,000	16,465	120,466	18,359	17,000	12,975	100,000	35,900	60,000	75,168	667,466	158,867
2012	-	-	120,466	16,829	18,000	12,450	100,000	33,900	440,000	80,063	678,466	143,242
2013	-	-	120,466	15,299	18,000	11,910	100,000	31,900	445,000	71,263	683,466	130,372
2014	-	-	120,466	13,769	19,000	11,355	100,000	29,900	455,000	62,363	694,466	117,387
2015	-	-	120,466	12,239	19,000	10,785	100,000	27,600	465,000	53,263	704,466	103,887
2016-2020	-	-	602,330	38,249	107,000	44,685	500,000	93,000	1,465,000	89,848	2,674,330	265,782
2021-2025	-	-	240,932	4,590	126,000	27,240	200,000	12,000	-	-	566,932	43,830
2026-2029	-	-	-	-	117,000	7,125	-	-	-	-	117,000	7,125
	<u>370,000</u>	<u>16,465</u>	<u>1,445,592</u>	<u>119,334</u>	<u>441,000</u>	<u>138,525</u>	<u>1,200,000</u>	<u>264,200</u>	<u>3,330,000</u>	<u>431,968</u>	<u>6,786,592</u>	<u>970,492</u>

Bond discount amortization was \$15,881 and \$327, respectively for the years ended December 31, 2010 and 2009.

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

A.) The bond will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.

B.) Sufficient monthly transfers shall be made to the sinking fund for the purpose of making the note principal and interest payments when due.

C.) Sufficient monthly transfers shall be made to a reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund. The reserve fund set aside amounted to \$678,659 and \$682,710 at December 31, 2010 and 2009 respectively.

D.) Sufficient monthly transfers shall be made to an improvement fund to be used solely for the purpose of paying principal or interest on the bonds should insufficient money be available in the sinking and reserve funds; and to the extent not required for the foregoing purposes to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget or revenues and current expenses, or capital improvements to the system. The required minimum balance in the reserve is \$100,000 and has been achieved as of December 31, 2010 and 2009.

Due to substantial decrease in interest rates from 2.5%-5.20% to 2.00%-3.25% the Utilities called the 2001 Electric Revenue Bonds with a balance of \$3,140,000 and refunded on December 28, 2010 the December 1, 2012 through 2018 maturities of the Utilities Electric Revenue Capital Loan Notes, Series 2001 dated October 11, 2001 and replaced with maturities of December 1, 2011 thru 2018. Providing for a net present value savings of \$183,714.

NOTE 4 - INTEREST COSTS

During the years ended December 31, 2010 and 2009, the interest incurred and expensed by the Light and Power Fund was \$239,590 and \$198,791 respectively. The Light and Power Fund incurred an additional \$23,585 in interest during 2009 that was capitalized as part of the wind turbine project. During the years ended December 31, 2010 and 2009, interest incurred and expensed by the Telephony Fund was \$4,899 and \$9,306 respectively.

NOTE 5 - PENSION AND RETIREMENT BENEFITS

Osage Municipal Utilities contribute to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute, to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9177, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 4.50% through December 2010 (4.30% through June 30, 2010 and 4.10% through June 30, 2009) of their salary and Osage Municipal Utilities was required to contribute 6.95% through December 2010 (6.65% through June 30, 2010 and 6.35% through June 30, 2009) of covered payroll. Contribution requirements are established by State statute. Osage Municipal Utilities' contributions to IPERS for the years ended December 31, 2010, 2009 and 2008 were \$74,475, \$72,429, and \$66,508 respectively, equal to the required contributions for each year.

NOTE 6 - RISK MANAGEMENT

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

NOTE 7 - COMPENSATED ABSENCES

Osage Municipal Utilities' employees accumulate a limited amount of earned but unused vacation. Osage Municipal Utilities' approximate liability for earned vacation payment payable to employees at December 31, 2010 and 2009 is as follows:

December 31, 2010	Light and Power	Gas	Non-Major	Total
Vacation	<u>\$ 37,833</u>	<u>\$ 13,793</u>	<u>\$ 6,726</u>	<u>\$ 58,352</u>
December 31, 2009	Light and Power	Gas	Non-Major	Total
Vacation	<u>\$ 29,837</u>	<u>\$ 15,768</u>	<u>\$ 7,800</u>	<u>\$ 53,405</u>

NOTE 8 - INTERFUND TRANSFERS

There were no interfund transfers made during the year ended December 31, 2010, but there were interfund transfers made during the year ended December 31, 2009. The transfers are detailed below.

Transfers for the year ended December 31, 2009:		
Transferred from:	Transferred to:	Amount
Internet	Wireless	\$ 25,000
Cable	Light and Power	4,552
Telephony	Light and Power	10,190

NOTE 9 - JOINT LEASE AGREEMENT

Osage Municipal Utilities' Light and Power Fund constructed a Fiber Optic System to facilitate information transmission. Portions of this system are leased to the Cable, Internet, Telephony and Wireless funds under a thirty-year operating lease, requiring annual payments of \$142,408. Future minimum lease payments are as follows:

Year Ending:	Payments
2011	\$ 142,408
2012	142,408
2013	142,408
2014	142,408
2015	142,408
2016-2020	712,040
2021-2025	712,040
2026-2030	712,040
2031-2035	712,040
Total	<u>\$3,560,200</u>

NOTE 10 - CAPITAL ASSETS

The following schedules disclose the major fixed assets additions for the years ended December 31, 2010 and 2009.

Light and Power Fund - 2010

	Balance			Balance
Capital Assets	12/31/09	Increases	Decreases	12/31/10
Capital Assets not being depreciated:				
Land	\$ 41,029	\$ -	\$ -	\$ 41,029
Iowa Stored Energy Park Agency	90,000	-	-	90,000
Construction in progress	-	-	-	-
Capital Assets being depreciated:				
Buildings and improvements	1,214,007	-	-	1,214,007
Generating equipment and lines	14,325,946	127,866	-	14,453,812
HFC distribution center	5,757,149	10,130	-	5,767,279
Equipment and vehicles	1,470,240	29,197	24,543	1,474,894
Broadband room and digital cable	196,262	-	-	196,262
Wind Energy	3,487,366	102,660	-	3,590,026
Total Capital assets	26,581,999	269,853	24,543	26,827,309
Less: Accumulated depreciation	11,697,911	981,807	24,543	12,655,175
Book Value	<u>\$ 14,884,088</u>			<u>\$ 14,172,134</u>

Light and Power Fund - 2009

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

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

Gas Fund - 2010

Capital Assets	Balance 12/31/09	Increases	Decreases	Balance 12/31/10
Capital Assets not being depreciated:				
Land	\$ 7,734	\$ -	\$ -	\$ 7,734
Iowa Stored Energy Park Agency	40,000	-	-	40,000
Capital Assets being depreciated:				
Buildings and improvements	588,741	-	-	588,741
Peak shaving plant	237,888	-	-	237,888
Gas Plant, lines and meters	858,036	28,802	-	886,838
Equipment and vehicles	568,250	2,965	49,007	522,208
Total Capital assets	2,300,649	31,767	49,007	2,283,409
Less: Accumulated depreciation	1,528,766	69,056	47,799	1,550,023
Book Value	<u>\$ 771,883</u>			<u>\$ 733,386</u>

Gas Fund - 2009

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

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

Internet and Wireless Funds (combined) - 2010

	Balance 12/31/09	Increases	Decreases	Balance 12/31/10
Capital Assets				
Capital Assets not being depreciated:				
Equipment	\$ 249,595	\$ 6,380	\$ -	\$ 255,975
Organizational Costs	40,476	-	-	40,476
Total Capital assets	290,071	6,380	-	296,451
Less: Accumulated depreciation	207,580	29,047	-	236,627
Book Value	<u>\$ 82,491</u>			<u>\$ 59,824</u>

Internet and Wireless Funds (combined) - 2009

	Balance 12/31/08	Increases	Decreases	Balance 12/31/09
Capital Assets				
Capital Assets not being depreciated:				
Equipment	\$ 191,101	\$ 58,494	\$ -	\$ 249,595
Organizational Costs	40,476	-	-	40,476
Total Capital assets	231,577	58,494	-	290,071
Less: Accumulated depreciation	177,814	29,766	-	207,580
Book Value	<u>\$ 53,763</u>			<u>\$ 82,491</u>

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

NOTE 11 - RESTRICTED ASSETS

As required by bond resolution, the Light and Power Fund of Osage Municipal Utilities has set aside the following reserve funds for the years ended December 31, 2010 and 2009:

	December 31, 2010			
	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	\$ 682,710	\$ 58,722	\$ 100,000	\$ 841,432
Deposits	-		-	-
Withdrawals	4,051	1,012	-	5,063
Balance, end of year	<u>\$ 678,659</u>	<u>\$ 57,710</u>	<u>\$ 100,000</u>	<u>\$ 836,369</u>

December 31, 2009

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

NOTE 12 - ECONOMIC DEVELOPMENT

Osage Municipal Utilities' Board of Trustees has agreed to contribute financially to assist in constructing the Cedar River Recreation & Fine Arts Complex. The contributions were \$100,000 and \$150,000 for the years ended December 31, 2010 and 2009 respectively. The annual contributions are anticipated to be \$100,000 per year for the next 11 years. The contributions may only come from surpluses generated by Osage Municipal Utilities and are expected to attract economic activity to the region.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description. Osage Municipal Utilities operates a single-employer health plan which provides medical/ prescription drug benefits for employees and retirees and their spouses. There are 21 active members and 0 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

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

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

As of December 31 2010, and 2009 Osage Municipal Utilities' had an OPEB prepaid balance of \$3,128 and \$1,564 and an OPEB Liability balance of \$20,428 and \$40,856 respectfully. The following table shows the components of the Osage Municipal Utilities' annual OPEB cost for the years ended December 31, 2010 and December 31 2009, the amount actually contributed to the plan and changes in Osage Municipal Utilities' net OPEB obligations:

	December 31, 2010			
	Light and Power	Gas	Nonmajor Funds	Total
Annual required contribution	\$ 9,804	\$ 9,987	\$ 5,677	\$ 25,468
Interest on net OPEB obligation	-	-	-	-
Adjustment to annual required contribution	-	-	-	-
Annual OPEB cost	9,804	9,987	5,677	25,468
Contributions made	-	4,587	2,017	6,604
Increase in net OPEB obligation	9,804	5,400	3,660	18,864
Net OPEB obligation beginning of year	9,804	5,400	3,660	18,864
Net OPEB obligation end of year	<u>\$ 19,608</u>	<u>\$ 10,800</u>	<u>\$ 7,320</u>	<u>37,728</u>

	December 31, 2009			
	Light and Power	Gas	Nonmajor Funds	Total
Annual required contribution	\$ 9,804	\$ 9,987	\$ 5,677	\$ 25,468
Interest on net OPEB obligation	-	-	-	-
Annual employer contribution	-	4,587	2,017	6,604
Annual OPEB cost	9,804	5,400	3,660	18,864
Net OPEB obligation beginning of year	-	-	-	-
Net OPEB obligation end of year	<u>\$ 9,804</u>	<u>\$ 5,400</u>	<u>\$ 3,660</u>	<u>18,864</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2010.

For the years ended December 31, 2010 and 2009, the Utilities contributed \$ 0 to the medical plan. Plan members eligible for benefits contributed \$ 0 of the OPEB liability. No Osage Municipal Utilities retirees are currently in the retirement benefit plan.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	25,468	25.9%	18,864
December 31, 2010	25,468	25.9%	37,728

Funded Status and Funding Progress. As of January 1, 2009, the most recent actuarial valuation date for the period January 1, 2009 through December 31, 2009, the actuarial accrued liability was \$181,857, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$181,857. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,163,935 and the ratio of the UAAL to covered payroll was 15.6%. As of December 31, 2010 and 2009, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

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

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

NOTE 14 - SUBSEQUENT EVENTS

In May 2011 Michael Banta replaced Dorene Christensen as Board Secretary.

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through August 9, 2011.

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

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

DECEMBER 31, 2010

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
Receipts:			
Charges for service	9,589,398	10,271,066	(681,668)
Use of money & property	64,748	42,550	22,198
Miscellaneous	97,179	189,694	(92,515)
Total receipts	9,751,325	10,503,310	(751,985)
Disbursements:			
Program:			
Business type activities	8,881,191	10,355,991	1,474,800
Total disbursements	8,881,191	10,355,991	1,474,800
Excess (deficiency) of receipts Over (under) disbursements	870,134	147,319	722,815
Other financing sources, net	418,453	1,895,000	(1,476,547)
Net income	1,288,587	2,042,319	<u>(753,732)</u>
Balance beginning of year	<u>14,255,459</u>	<u>14,691,541</u>	
Balance end of year	<u><u>15,544,046</u></u>	<u><u>16,733,860</u></u>	

OSAGE MUNICIPAL UTILITIES

A COMPONENT UNIT OF THE CITY OF OSAGE

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

DECEMBER 31, 2010

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

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

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

For the year ended December 31, 2010, Osage Municipal Utilities did not exceed budgeted expenditures.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(In Thousands)**

DECEMBER 31, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
January 1, 2009	\$ -	\$ 182	\$ 182	0.00%	\$ 1,144	15.91%
January 1, 2010	-	182	182	0.00%	1,164	15.64%

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

See accompanying independent auditor's report.

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

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

AS OF DECEMBER 31:

	Internet		Enterprise	
	Cable		Cable	
	2010	2009	2010	2009
Assets				
Current assets:				
Cash and equivalents	\$ 162,025	\$ 150,448	\$ 670,249	\$ 469,083
Accounts receivable (net of allowance for uncollectibles)	860	1,423	88,050	95,996
Unbilled usage	-	1,416	-	-
Inventory	-	-	16,952	-
Prepaid expenses	-	-	4,948	3,355
Capital assets:				
Capital assets (net of accumulated depreciation)	651	676	-	-
Total assets	163,536	153,963	780,199	568,434
Liabilities				
Current liabilities:				
Accounts payable	374	(425)	9,635	7,833
Customer meter deposits	-	-	12,216	15,036
Accrued expenses	3,850	7,652	4,291	6,923
Accrued interest	-	-	-	-
Deferred revenue	-	-	82,740	80,014
Revenue bonds	-	-	-	-
Noncurrent liabilities:				
Revenue bonds (net of current portion)	-	-	-	-
OPEB liabilities	3,984	1,992	-	-
Total liabilities	8,208	9,219	108,882	109,806
Net assets				
Invested in capital assets (net of related debt)	651	676	-	-
Unrestricted	154,677	144,068	671,317	458,628
Total net assets	\$ 155,328	\$ 144,744	\$ 671,317	\$ 458,628

See notes to the financial statements

Funds					
Telephony		Rural Wireless		Total	
2010	2009	2010	2009	2010	2009
\$ 602,402	\$ 667,756	\$ 60,510	\$ 33,139	\$ 1,495,186	\$ 1,320,426
65,122	58,513	5,111	5,228	159,143	161,160
-	2,373	-	-	-	3,789
8,476	37,908	-	-	25,428	37,908
1,258	32,671	-	-	6,206	36,026
-	-	59,173	81,815	59,824	82,491
<u>677,258</u>	<u>799,221</u>	<u>124,794</u>	<u>120,182</u>	<u>1,745,787</u>	<u>1,641,800</u>
14,487	24,214	398	557	24,894	32,179
1,956	2,618	1,800	1,800	15,972	19,454
22,282	11,377	-	-	30,423	25,952
-	709	-	-	-	709
33,102	60,395	5,146	4,979	120,988	145,388
-	45,000	-	-	-	45,000
-	155,000	-	-	-	155,000
6,464	3,232	-	-	10,448	5,224
<u>78,291</u>	<u>302,545</u>	<u>7,344</u>	<u>7,336</u>	<u>202,725</u>	<u>428,906</u>
-	-	59,173	81,815	59,824	82,491
<u>598,967</u>	<u>496,676</u>	<u>58,277</u>	<u>31,031</u>	<u>1,483,238</u>	<u>1,130,403</u>
<u>\$ 598,967</u>	<u>\$ 496,676</u>	<u>\$ 117,450</u>	<u>\$ 112,846</u>	<u>\$ 1,543,062</u>	<u>\$ 1,212,894</u>

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

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

AS OF DECEMBER 31:

	Internet		Cable		Enterprise
	2010	2009	2010	2009	
	Operating revenues:				
Charges for service	\$ 30,482	\$ 44,422	\$ 995,394	\$ 972,224	
Operating expenses:					
Business type activities	19,802	47,977	785,799	805,087	
Operating income (loss)	<u>10,680</u>	<u>(3,555)</u>	<u>209,595</u>	<u>167,137</u>	
Non-operating revenues (expenses):					
Interest income	1,404	2,646	5,685	6,920	
Interest expense	-	-	(511)	(288)	
Other income	-	-	2,420	-	
Donations	<u>(1,500)</u>	<u>(1,200)</u>	<u>(4,500)</u>	<u>(20,500)</u>	
Total non-operating revenues (expenses)	<u>(96)</u>	<u>1,446</u>	<u>3,094</u>	<u>(13,868)</u>	
Other financing sources (uses):					
Operating transfers in	-	-	-	-	
Operating transfers out	<u>-</u>	<u>(25,000)</u>	<u>-</u>	<u>(4,552)</u>	
Total other financing sources (uses)	<u>-</u>	<u>(25,000)</u>	<u>-</u>	<u>(4,552)</u>	
Change in net assets	10,584	(27,109)	212,689	148,717	
Net assets - beginning of year	<u>144,744</u>	<u>171,853</u>	<u>458,628</u>	<u>309,911</u>	
Net assets - end of year	<u><u>\$ 155,328</u></u>	<u><u>\$ 144,744</u></u>	<u><u>\$ 671,317</u></u>	<u><u>\$ 458,628</u></u>	

See notes to the financial statements

Funds					
Telephony		Rural Wireless		Total	
2010	2009	2010	2009	2010	2009
\$ 664,603	\$ 709,879	\$ 61,593	\$ 51,796	\$ 1,752,072	\$ 1,778,321
546,827	639,741	56,315	53,513	1,408,743	1,546,318
117,776	70,138	5,278	(1,717)	343,329	232,003
6,172	10,554	399	278	13,660	20,398
(4,899)	(9,306)	(73)	(52)	(5,483)	(9,646)
11,742	-	-	-	14,162	-
(28,500)	(37,300)	(1,000)	(1,200)	(35,500)	(60,200)
(15,485)	(36,052)	(674)	(974)	(13,161)	(49,448)
-	-	-	25,000	-	25,000
-	(10,190)	-	-	-	(39,742)
-	(10,190)	-	25,000	-	(14,742)
102,291	23,896	4,604	22,309	330,168	167,813
496,676	472,780	112,846	90,537	1,212,894	1,045,081
\$ 598,967	\$ 496,676	\$ 117,450	\$ 112,846	\$ 1,543,062	\$ 1,212,894

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

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

AS OF DECEMBER 31:

	Internet		Enterprise	
	Cable		Cable	
	2010	2009	2010	2009
Cash flows from operating activities:				
Cash receipts from customers	\$ 32,461	\$ 44,732	\$ 1,003,246	\$ 962,873
Cash payments to suppliers	(13,165)	(27,625)	(563,961)	(570,628)
Cash payments to employees	(809)	(7,580)	(163,524)	(166,073)
Cash payments to other funds	(4,335)	(7,725)	(77,689)	(70,529)
Cash payments for contributions	(2,479)	(2,979)	-	(500)
Net cash provided (used) by operating activities	<u>11,673</u>	<u>(1,177)</u>	<u>198,072</u>	<u>155,143</u>
Cash flows from noncapital financing activities:				
Transfers in	-	-	-	-
Transfers out	-	(25,000)	-	(4,552)
Miscellaneous non-operating revenue	-	-	2,420	-
Donations	(1,500)	(1,200)	(4,500)	(20,500)
Net cash provided (used) by noncapital financing activities	<u>(1,500)</u>	<u>(26,200)</u>	<u>(2,080)</u>	<u>(25,052)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	-	-	-	-
Repayment of revenue bonds	-	-	-	-
Cash paid for interest	-	-	(511)	(288)
Net cash (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>(511)</u>	<u>(288)</u>
Cash flows from investing activities:				
Investment income	1,404	2,646	5,685	6,920
Net cash provided by investing activities	<u>1,404</u>	<u>2,646</u>	<u>5,685</u>	<u>6,920</u>
Net increase (decrease) in cash and cash equivalents	11,577	(24,731)	201,166	136,723
Cash and cash equivalents-beginning of year	150,448	175,179	469,083	332,360
Cash and cash equivalents-end of year	<u>\$ 162,025</u>	<u>\$ 150,448</u>	<u>\$ 670,249</u>	<u>\$ 469,083</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Income (loss) from operations	\$ 10,680	\$ (3,555)	\$ 209,595	\$ 167,137
Adjustments to reconcile operating income to Net cash provided by operating activities:				
Depreciation and amortization	25	190	-	-
Change in accounts receivable	563	309	7,946	(13,541)
Change in meter deposits and unbilled usage	1,416	-	(2,820)	4,190
Change in prepaid expenses	-	-	(1,593)	(1,581)
Change in inventory	-	-	(16,952)	-
Change in accounts payable and other liabilities	(1,011)	1,879	1,896	(1,062)
Net cash provided (used) by noncapital financing activities	<u>\$ 11,673</u>	<u>\$ (1,177)</u>	<u>\$ 198,072</u>	<u>\$ 155,143</u>

See notes to financial statements

Funds					
Telephony		Rural Wireless		Total	
2010	2009	2010	2009	2010	2009
\$ 632,412	\$ 739,069	\$ 61,877	\$ 50,246	\$ 1,729,996	\$ 1,796,920
(247,810)	(307,247)	(15,324)	(11,473)	(840,260)	(916,973)
(176,445)	(167,638)	(7,837)	(7,866)	(348,615)	(349,157)
(57,317)	(56,058)	(4,291)	(4,554)	(143,632)	(138,866)
-	(500)	-	-	(2,479)	(3,979)
<u>150,840</u>	<u>207,626</u>	<u>34,425</u>	<u>26,353</u>	<u>395,010</u>	<u>387,945</u>
-	-	-	25,000	-	25,000
-	(10,190)	-	-	-	(39,742)
11,742	-	-	-	14,162	-
(28,500)	(37,300)	(1,000)	(1,200)	(35,500)	(60,200)
<u>(16,758)</u>	<u>(47,490)</u>	<u>(1,000)</u>	<u>23,800</u>	<u>(21,338)</u>	<u>(74,942)</u>
-	-	(6,380)	(58,494)	(6,380)	(58,494)
(200,000)	(45,000)	-	-	(200,000)	(45,000)
(5,608)	(9,450)	(73)	(52)	(6,192)	(9,790)
<u>(205,608)</u>	<u>(54,450)</u>	<u>(6,453)</u>	<u>(58,546)</u>	<u>(212,572)</u>	<u>(113,284)</u>
6,172	10,554	399	278	13,660	20,398
<u>6,172</u>	<u>10,554</u>	<u>399</u>	<u>278</u>	<u>13,660</u>	<u>20,398</u>
(65,354)	116,240	27,371	(8,115)	174,760	220,117
667,756	551,516	33,139	41,254	1,320,426	1,100,309
<u>\$ 602,402</u>	<u>\$ 667,756</u>	<u>\$ 60,510</u>	<u>\$ 33,139</u>	<u>\$ 1,495,186</u>	<u>\$ 1,320,426</u>
\$ 117,776	\$ 70,138	\$ 5,278	\$ (1,717)	\$ 343,329	\$ 232,003
-	-	29,022	29,576	29,047	29,766
(6,609)	176,280	117	(420)	2,017	162,628
1,711	(2,405)	-	(1,130)	307	655
31,413	(31,470)	-	-	29,820	(33,051)
29,432	(5,095)	-	-	12,480	(5,095)
(22,883)	178	8	44	(21,990)	1,039
<u>\$ 150,840</u>	<u>\$ 207,626</u>	<u>\$ 34,425</u>	<u>\$ 26,353</u>	<u>\$ 395,010</u>	<u>\$ 387,945</u>

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
COMBINING SCHEDULES OF OPERATING REVENUES
ENTERPRISE FUNDS**

AS OF DECEMBER 31:

	Enterprise	
	Light and Power	
	2010	2009
Operating Revenues:		
Rural	\$ 122,198	\$ 114,918
Residential sales	1,487,139	1,332,254
Commercial and industrial	3,530,308	3,330,868
Public buildings	45,673	40,381
Interruptibles	-	-
Bookkeeping fee - City of Osage	9,000	9,000
Other operating fees	353,464	341,893
	\$ 5,547,782	\$ 5,169,314

See notes to the financial statements

Funds					
Gas		Non-Major Funds		Total	
2010	2009	2010	2009	2010	2009
\$ -	\$ -	\$ -	\$ -	\$ 122,198	\$ 114,918
1,163,396	1,392,457	1,746,596	1,758,400	4,397,131	4,483,111
689,245	829,865	-	-	4,219,553	4,160,733
-	-	-	-	45,673	40,381
418,014	698,026	-	-	418,014	698,026
9,000	9,000	-	-	18,000	18,000
9,889	54,800	5,476	19,921	368,829	416,614
<u>\$ 2,289,544</u>	<u>\$ 2,984,148</u>	<u>\$ 1,752,072</u>	<u>\$ 1,778,321</u>	<u>\$ 9,589,398</u>	<u>\$ 9,931,783</u>

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

**COMBINING SCHEDULES OF OPERATING EXPENSES
ENTERPRISE FUNDS**

AS OF DECEMBER 31:

	Enterprise	
	Light & Power	
	2010	2009
Operating expenses:		
Plant expenses:		
Supervision and labor	109,801	104,325
Payroll taxes	18,035	15,093
Fuel	27,257	32,252
Insurance	24,275	28,896
Supplies	5,971	9,407
Power purchased	2,623,912	2,732,725
Maintenance	29,035	17,289
Miscellaneous	4,030	6,057
Total plant expenses	<u>2,842,316</u>	<u>2,946,044</u>
Wind expenses:		
Supervision and labor	29,897	-
Insurance	14,360	-
Supplies	3,067	-
Maintenance	36,781	-
School and travel	23,092	-
Property lease	4,750	-
Total wind expenses	<u>111,947</u>	<u>-</u>
Distribution expenses:		
Supervision and labor	176,179	158,454
Payroll taxes	33,258	30,823
Insurance	44,191	40,234
Truck expense	22,356	12,420
Supplies	113,667	77,931
Maintenance	10,685	6,765
Natural gas purchases	-	-
Internet, cable and phone	-	-
Utilities	-	-
Miscellaneous	17,971	33,518
Total distribution expenses	<u>418,307</u>	<u>360,145</u>

See notes to the financial statements

Funds					
Gas		Non-Major Funds		Total	
2010	2009	2010	2009	2010	2009
-	-	-	-	\$ 109,801	\$ 104,325
-	-	-	-	18,035	15,093
-	-	-	-	27,257	32,252
-	-	-	-	24,275	28,896
-	-	-	-	5,971	9,407
-	-	-	-	2,623,912	2,732,725
-	-	-	-	29,035	17,289
-	-	-	-	4,030	6,057
-	-	-	-	2,842,316	2,946,044
-	-	-	-	29,897	-
-	-	-	-	14,360	-
-	-	-	-	3,067	-
-	-	-	-	36,781	-
-	-	-	-	23,092	-
-	-	-	-	4,750	-
-	-	-	-	111,947	-
93,221	90,832	183,226	130,440	452,626	379,726
17,206	21,110	26,311	30,483	76,775	82,416
23,221	32,499	34,198	38,232	101,610	110,965
12,307	4,183	6,554	6,041	41,217	22,644
20,213	9,581	50,392	24,895	184,272	112,407
18,572	36,939	18,587	27,538	47,844	71,242
1,533,283	2,224,812	-	-	1,533,283	2,224,812
-	-	585,653	555,193	585,653	555,193
200	-	24,230	21,077	24,430	21,077
670	11,007	8,249	7,472	26,890	51,997
1,718,893	2,430,963	937,400	841,371	3,074,600	3,632,479

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

**COMBINING SCHEDULES OF OPERATING EXPENSES
ENTERPRISE FUNDS**

AS OF DECEMBER 31:

	Enterprise	
	Light & Power	
	2010	2009
Office and administrative expenses:		
Office salaries	218,066	45,559
Payroll taxes	23,593	20,799
Use tax	5,235	4,988
Property taxes	2,518	2,620
Trustee fees	1,280	1,520
Professional fees	5,917	5,283
Insurance	139,454	107,910
Global warming assessment	5,330	5,119
Office supplies and postage	19,551	23,820
Janitorial services	9,245	9,090
Office equipment	9,548	2,218
Dues	11,304	10,110
Contributions in lieu of taxes	57,590	54,230
Energy efficiency	9,645	7,762
Bad debts	6,216	4,621
Joint lease expense	-	-
Miscellaneous	32,609	14,165
Total office and administrative expenses	557,101	319,814
Other expenses:		
Depreciation	981,807	814,024
Amortization	15,881	327
Total other expenses	997,688	814,351
Total operating expenses	4,927,359	4,440,354

See notes to the financial statements

Funds					
Gas		Non-Major Funds		Total	
2010	2009	2010	2009	2010	2009
152,933	255,650	132,777	221,937	503,776	523,146
33,203	32,266	10,772	10,771	67,568	63,836
1,893	889	1,344	2,315	8,472	8,192
-	-	13,425	13,070	15,943	15,690
1,280	1,520	2,560	3,040	5,120	6,080
7,729	5,438	6,345	4,973	19,991	15,694
44,797	61,392	47,364	44,528	231,615	213,830
3,009	3,988	-	-	8,339	9,107
18,183	22,679	10,992	14,810	48,726	61,309
9,245	9,090	-	-	18,490	18,180
5,190	1,946	2,072	508	16,810	4,672
8,163	6,882	3,258	3,516	22,725	20,508
92,535	83,634	2,479	3,979	152,604	141,843
10,994	4,605	-	-	20,639	12,367
1,477	4,741	1,232	144,684	8,925	154,046
-	-	143,632	138,865	143,632	138,865
11,037	6,914	64,044	68,185	107,690	89,264
<u>401,668</u>	<u>501,634</u>	<u>442,296</u>	<u>675,181</u>	<u>1,401,065</u>	<u>1,496,629</u>
69,056	66,345	29,047	29,766	1,079,910	910,135
-	-	-	-	15,881	327
<u>69,056</u>	<u>66,345</u>	<u>29,047</u>	<u>29,766</u>	<u>1,095,791</u>	<u>910,462</u>
<u>2,189,617</u>	<u>2,998,942</u>	<u>1,408,743</u>	<u>1,546,318</u>	<u>8,525,719</u>	<u>8,985,614</u>

Revised

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Program Expenditures</u>
Direct:			
US Department of Agriculture Rural Economic Development Loans/grants	10.854		<u>\$ 300,000</u>
Indirect:			
Environmental Protection Agency Iowa Finance Authority* ARRA Capitalization Grants for Clean Water - State Revolving Funds	66.458	SRF CS-192503-01	<u>\$ 572,000</u>
			<u><u>\$ 872,000</u></u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Osage Municipal Utilities and is presented on the accrual or modified accrual basis of accounting. 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

*This line was inadvertently left out of original copy.

See accompanying independent auditor's report.

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
COMPARATIVE SCHEDULE OF KILOWATT HOURS
UNAUDITED

Light and Power Divisions

For the Years ended December 31, 1990 through 2010

Year Ended December 31,	Kilowatt Hours Generated	Kilowatt Hours Purchased	Total Kilowatt Hours	Annual Kilowatt Increase (Decrease)	Percent of Increase (Decrease)
1990	195,800	34,914,806	35,110,606	1,628,843	4.86
1991	610,800	35,807,244	36,418,044	1,307,438	3.72
1992	335,400	35,384,218	35,719,618	(698,426)	(1.92)
1993	333,800	37,725,285	38,059,085	2,339,467	6.55
1994	497,500	40,560,924	41,058,424	2,999,339	7.88
1995	875,500	43,360,285	44,235,785	3,177,361	7.74
1996	800,250	44,184,580	44,984,830	749,045	1.69
1997	549,520	45,186,175	45,735,695	750,865	1.67
1998	894,890	46,596,929	47,491,819	1,756,124	3.84
1999	1,535,101	46,692,000	48,227,101	735,282	1.55
2000	1,818,897	48,355,200	50,174,097	1,946,996	4.04
2001	2,296,623	48,501,131	50,797,754	623,657	1.24
2002	781,178	49,953,600	50,734,778	(62,976)	(0.12)
2003	999,120	50,807,677	51,806,797	1,072,019	2.11
2004	731,018	52,793,581	53,524,599	1,717,802	3.32
2005	614,150	54,234,617	54,848,767	1,324,168	2.47
2006	968,520	54,668,395	55,636,915	778,148	1.42
2007	1,926,827	55,106,967	57,033,794	1,396,879	2.51
2008	346,990	55,272,976	55,619,966	(1,413,828)	(2.48)
2009	167,898	52,931,581	53,099,479	(2,520,487)	(4.53)
2010	4,779,018	50,599,077	55,378,095	2,278,616	4.29

See accompanying independent auditor's report

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

**COMPARATIVE OPERATING STATISTICS
UNAUDITED**

Gas Division

For the Years ended December 31, 1990 through 2010

Year ended December 31,	Heating Consumers		Total Consumers	
	Residential	Nonresidential	Residential	Nonresidential
1990	1,389	196	1,403	203
1991	1,424	192	1,439	198
1992	1,428	200	1,443	209
1993	1,444	199	1,458	209
1994	1,446	202	1,459	212
1995	1,457	200	1,468	210
1996	1,471	204	1,481	214
1997	1,481	211	1,492	221
1998	1,493	214	1,503	224
1999	1,506	216	1,512	225
2000	1,515	217	1,526	226
2001	1,523	222	1,534	230
2002	1,537	221	1,548	229
2003	1,544	225	1,555	242
2004	1,553	233	1,565	250
2005	1,565	240	1,578	256
2006	1,570	234	1,583	242
2007	1,575	233	1,588	241
2008	1,585	235	1,598	244
2009	1,585	235	1,598	244
2010	1,593	234	1,606	243

See accompanying independent auditor's report

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

**COMPARATIVE OPERATING STATISTICS
UNAUDITED**

Gas Division

Year ended December 31,	Billing Data					
	Residential		Commercial		Standby	
	Amount	MCF (1)	Amount	MCF (1)	Amount	MCF (1)
1990	\$ 678,942	155,167	\$ 281,574	67,512	\$270,861	81,660
1991	713,609	167,090	300,575	74,119	288,276	86,160
1992	593,936	153,933	249,691	68,061	281,595	94,587
1993	690,925	171,566	336,158	88,407	231,796	74,664
1994	733,788	163,399	362,972	86,487	203,753	58,589
1995	704,277	167,318	345,864	86,840	300,109	96,177
1996	763,742	179,473	346,428	85,189	333,220	100,551
1997	850,400	167,041	395,344	80,844	386,724	98,835
1998	643,333	140,178	313,188	71,325	294,678	83,203
1999	650,939	143,900	328,910	76,751	298,119	81,389
2000	811,621	144,775	426,606	79,081	386,495	71,704
2001	1,434,837	154,619	746,438	82,203	533,385	79,082
2002	1,077,415	147,528	562,619	80,392	442,895	77,903
2003	1,157,292	151,024	588,351	79,744	493,646	78,281
2004	1,219,129	142,242	612,513	73,933	760,702	101,179
2005	1,454,893	140,364	923,304	89,974	844,526	80,914
2006	1,562,040	134,268	1,024,777	92,028	829,359	85,568
2007	1,442,619	136,913	878,695	87,117	603,850	83,917
2008	1,636,778	149,264	1,004,636	94,253	835,243	84,575
2009	1,495,393	144,630	874,969	90,465	710,221	92,256
2010	\$1,202,274	136,263	\$ 712,657	84,585	\$425,255	58,099

(1) MCF=1,000 cubic feet

See accompanying independent auditor's report

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

**DISTRIBUTION OF ENERGY
UNAUDITED**

Light and Power Division

For the Year ended December 31, 2010

	<u>Meters</u>	<u>Kilowatt Hours</u>
Rural	92	1,087,010
Residential	1,705	14,290,944
Commercial	315	36,587,660
Public Authority	32	415,295
Rural Security Lighting on Flat Rate per Month, Unmetered	164	115,059
	<u>2,308</u>	<u>52,495,968</u>
Kilowatt Hours Used for Free Street Lighting		279,565
Kilowatt Hours Used at Plant		203,503
Kilowatt Hours Used at Municipal Building and Donated		114,260
Kilowatt Hours Lost and Unaccounted For		2,284,799
		<u>55,378,095</u>
Kilowatt Hours Purchased		50,599,077
Kilowatt Hours Generated		125,266
Kilowatt Hours Generated - Wind		4,653,752
		<u>55,378,095</u>
Lost and unaccounted for as a percentage of Kilowatts purchased and generated		4.13%

See accompanying independent auditor's report

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

**DISTRIBUTION OF ENERGY
UNAUDITED**

Light and Power Division

For the Year ended December 31, 2009

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

See accompanying independent auditor's report

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
INFORMATION REQUIRED BY BOND RESOLUTION
UNAUDITED

The following insurance policies were in force at December 31, 2010

Coverage		Amount
Insurer: Employers Mutual Casualty Company		
Property, including buildings, generating equipment and other contents, 90% coinsurance	4/01/10- 4/01/11	5,000,290
Property, including buildings, generating equipment and other contents, 90% coinsurance	4/01/10- 4/01/11	21,220,638
General Liability		
Aggregate limit	4/01/10- 4/01/11	2,000,000
Operations limit	4/01/10- 4/01/11	2,000,000
Personal injury	4/01/10- 4/01/11	1,000,000
Each occurrence	4/01/10- 4/01/11	1,000,000
Fire damage limit	4/01/10- 4/01/11	100,000
Medical insurance	4/01/10- 4/01/11	5,000
Contractors equipment	4/01/10- 4/01/11	116,392
EDP equipment	4/01/10- 4/01/11	163,995
Miscellaneous property	4/01/10- 4/01/11	116,944
Theft		
Indoor	4/01/10- 4/01/11	13,000
Outdoor	4/01/10- 4/01/11	13,000
Automobile		
Liability	4/01/10- 4/01/11	1,000,000
Uninsured motorist	4/01/10- 4/01/11	50,000
Underinsured motorist	4/01/10- 4/01/11	50,000
Worker's Compensation		
Injury by accident (employee)	4/01/10- 4/01/11	500,000
Injury by disease (employee)	4/01/10- 4/01/11	500,000
Injury by disease (limit)	4/01/10- 4/01/11	500,000
Commercial Umbrella		
Occurrence limit	4/01/10- 4/01/11	5,000,000
Aggregate limit	4/01/10- 4/01/11	5,000,000
Linebacker		
Each loss	4/01/10- 4/01/11	1,000,000
Aggregate	4/01/10- 4/01/11	1,000,000
Deductible	4/01/10- 4/01/11	2,500
Insurer: Cincinnati Insurance Company		
Boiler and Machinery		
Comprehensive limit	4/01/10 - 4/01/13	20,000,000
Insurer: State Auto		
Surety Bond		
Employee theft	03/25/10 - 03/25/11	150,000
Deductible	03/25/10 - 03/25/11	500

See accompanying independent auditor's report

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

**INFORMATION REQUIRED BY BOND RESOLUTION
UNAUDITED**

Electric Rates in effect at December 31, 2010:

Residential

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

Monthly service charge: \$9.00 per month

All kilowatt hours per month

8.46 c/kWh

Small General Service

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

Monthly service charge: \$14.50 per month

First 1,000 kilowatt hours per month

Excess kilowatt hours per month

9.50 c/kWh

9.30 c/kWh

Large General Service

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

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

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

Demand Charge: All kilowatts \$6.00 per month.

Monthly service charge: \$28.00

Energy charge

First 20,000 kilowatt hours per month

Excess kilowatt hours per month

7.14 c/kWh

6.78 c/kWh

Nonprofit Organizations

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

See accompanying independent auditor's report

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
INFORMATION REQUIRED BY BOND RESOLUTION
UNAUDITED**

December 31, 2010	
2010 Payments	\$ 735,868
2010 Net Revenues – Light and Power	\$ 1,627,915
Ratio of Debt Payments to Net Revenues*	45.2%
December 31, 2009	
2009 Payments	\$ 738,456
2009 Net Revenues – Light and Power	\$ 1,543,311
Ratio of Debt Payments to Net Revenues*	47.8%
December 31, 2008	
2008 Payment	\$ 665,015
2008 Net Revenues – Light and Power	\$ 1,250,975
Ratio of Debt Payments to Net Revenues*	53.2%
December 31, 2007	
2007 Payments	\$ 539,405
2007 Net Revenues – Light and Power	\$ 1,363,524
Ratio of Debt Payment to Net Revenues*	39.6%
December 31, 2006	
2006 Payments	\$542,532
2006 Net Revenues – Light and Power	\$ 1,285,980
Ratio of Debt to Net Revenues*	42.2%
December 31, 2005	
2005 Payments	\$540,753
2005 Net Revenues – Light and Power	\$953,595
Ratio of Debt Payments to Net Revenues*	56.7%
December 31, 2004	
2004 Payments	\$542,100
2004 Net Revenues – Light and Power	\$988,732
Ratio of Debt Payments to Net Revenues*	54.8%
December 31, 2003	
2003 Payments	\$ 537,837
2003 Net Revenues – Light and Power	\$ 940,535
Ratio of Debt Payments to Net Revenues*	\$ 57.2%

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

See accompanying independent auditor's report.

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

To the Board of Trustees of the
Osage Municipal Utilities:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of Osage Municipal Utilities, a component unit of the City of Osage, Iowa as of and for the year ended December 31, 2010, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated August 9, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Osage Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. In Part II of the accompanying Schedule of Findings and Questioned Costs no items were noted to be significant deficiencies.

Compliance and Other Matters

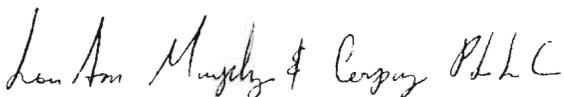
As part of obtaining reasonable assurance about whether Osage Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Osage Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit Osage Municipal Utilities' responses and, accordingly, we express no opinion on them.

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

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



Lou Ann Murphy & Company PLLC
Certified Public Accountant
Osage, Iowa
August 9, 2011

Independent Auditor's 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

To the Board of Trustees of the
Osage Municipal Utilities:

Compliance

We have audited Osage Municipal Utilities, a component unit of the City of Osage, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on Osage Municipal Utilities' major federal program for the year ended December 31, 2010. Osage Municipal Utilities' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Osage Municipal Utilities' management. Our responsibility is to express an opinion on Osage Municipal Utilities' compliance based on our audit.

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

In our opinion, Osage Municipal Utilities complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

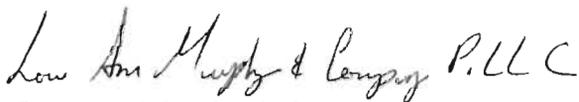
The management of Osage Municipal Utilities is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Osage Municipal Utilities' internal control over compliance with the requirements that

could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Osage Municipal 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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance 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 all significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

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



Lou Ann Murphy & Company PLLC

Certified Public Accountant

Osage, Iowa

August 9, 2011

OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Part I: Summary of the Independent Auditor's Results

- a) Unqualified opinions were issued on the financial statements.
- b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.
- d) No material weaknesses in internal control over the major program were noted.
- e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section 510(a).
- g) The major programs were CFDA Number 10.854 U.S. Department of Agriculture – Rural Economic Development Grant and CFDA Number 66.458 Environmental Protection Agency ARRA – Capital Grants for Clean Water – State Revolving Funds.
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i) Osage Municipal Utilities did not qualify as a low-risk auditee.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Part II: Findings related to the General Purpose Financial Statements

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties –One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that each of the office personnel has control over several incompatible office and accounting functions.

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

Response – We have segregated the accounting duties, cash receipts, cash posting, cash deposits, and bank reconciliations to the fullest extent possible.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

**OSAGE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF OSAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-10 Certified Budget – Disbursements during the year ended December 31, 2010 were within the budget limits.
- IV-B-10 Questionable Disbursements – We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- IV-C-10 Travel Expense – No disbursements of the Utilities’ money for travel expense of spouses of Utilities’ officials or employees were noted.
- IV-D-10 Business Transaction – No business transactions between the Utilities and the Utilities’ officials or employees were noted.
- IV-E-10 Bond Coverage – Surety bond coverage of the Utilities’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-10 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.

Although minutes of Board proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The Utilities should publish minutes as required.

Response – We will continue to make every effort to publish minutes as required. However, with a local paper that is published only once per week, with a cutoff 3 days before publication, it can be difficult to do so within 15 days.

Conclusion – Response accepted.

- IV-G-10 Revenue Bonds – No violations of revenue bond resolution requirements were noted.
- IV-H-10 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policy.
- IV-I-10 Telecommunication Services – No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.