

**CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES**

**Financial Statements
(With Independent Auditor's Report Thereon)**

**Independent Auditor's Report on Compliance and on
Internal Control over Financial Reporting**

Schedule of Findings

June 30, 2011 and 2010



Shull
and Co. P.C.
certified public accountants

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

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CITY OF INDIANOLA, IOWA
 INDIANOLA MUNICIPAL UTILITIES
 Officials

June 30, 2011

Electric and Water Utility Board of Trustees

Authority: Indianola City Ordinance No. 642

		<u>Term Expires</u> <u>December 31</u>	<u>Amount</u> <u>of Bond</u>
Pat Reding		2011	50,000
Clark Raney	June 2010 Chairperson	2012	50,000
Chris Boone		2013	50,000
Eric Vander Linden	July 2011 Chairperson	2014	50,000
Bob Lester		2015	50,000

Indianola Municipal Utilities Management

Todd Kielkopf	General Manager		50,000
Chris Longer	Program Coordinator		50,000
Bob Miller	Electric Superintendent		50,000
Lou Elbert	Water Superintendent		50,000

City Officials and Management

Jean Furler	Director of Finance		50,000
Roxanne Hunerdosse	Director of Human Resources		50,000
Diana Bowlin	City Clerk		50,000
Douglas Shull	City Treasurer		50,000
John Hoyman	City Solicitor		50,000

All other city employees are bonded under the Allied Insurance, "Faithful Performance Blanket Position Bond," in the amount of \$50,000.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report

March 1, 2012

To the Honorable Mayor, Members of the Council, and Citizens of the City of Indianola,

This report consists of the board and management's representations concerning the finances of Indianola Municipal Utilities. Consequently, the board and management assume full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, the board and management have established a comprehensive internal control framework that is designed both to protect the utility's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of these financial statements. Because the cost of internal controls should not outweigh their benefits, the utility's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. The board and management assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Indianola Municipal Utilities' financial statements have been audited by Shull & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2011 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Indianola Municipal Utilities' financial statements for the fiscal year ended June 30, 2011 are fairly presented. The independent auditor's report is presented as the first component of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Profile of the Utility Board of Trustees

The City of Indianola, incorporated in 1864 and the county seat of Warren County, is located in the central part of the state approximately 17 miles south of the state capital, Des Moines. Indianola is considered part of the Des Moines MSA, one of the top growth areas in the state. The City of Indianola encompasses an area of approximately nine square miles and a population of 14,782. The city provides electric, water, and telecommunications services as a discretely reported component unit under the management and control of a board of trustees. The board operates these three utilities as Indianola Municipal Utilities (IMU). This system of management and control was established by a vote of the electorate and implemented by city ordinance in 1973 as provided in Iowa Code.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report - Continued

Electric and water utility territories are fixed in that any new territory expansions must be negotiated and purchased from incumbent service providers. The telecommunications utility currently leases fiber optic lines to customers in a partnership contract with a private telecom service provider.

Utility board. Utility boards are vested with the authorities of the city in relation to these utilities, with the exceptions that the board may not certify taxes to be levied, pass ordinances or amendments, or issue general obligation or special assessment bonds. Real property is held in the name of the city, but the utility board has all the powers and authorities of the city with respect to the acquisition by purchase, condemnation, or otherwise, lease, sale, or other disposition of such property, and the management, control, and operation of the same, subject to provisions of any outstanding obligations which are payable from the revenues of the city utility. Separate funds are maintained for each utility. Utility fund balances deemed by the board of trustees to be in excess of the needs of a utility may be transferred to any other fund, upon approval by the city council. The five trustees are appointed by the mayor and approved by the city council, each serving staggered six-year terms.

Management. The board of trustees appoints a general manager to oversee the day-to-day management of the electric, water, and telecommunications utilities. The general manager appoints the employees of each of these utilities, carries out the policies of the board of trustees, and performs other duties as determined by resolution of the board.

Other officials. A director of finance serves as the chief accounting officer for all city services, including those provided by IMU, and submits budget and year-end financial reports required of the utility. There is also an appointed clerk, which serves as the secretary of the board of trustees and as such has custodial duties prescribed in Iowa Code, local ordinances, board resolutions, and by management discretion. An appointed treasurer serves as custodian for all funds. An attorney is also appointed to represent the city, its boards, and its commissions and performs certain functions prescribed in local ordinances and in the Iowa Code.

Budgeting process. The annual budget serves as the foundation for the utilities' financial planning and control. The budget process, in general, is as follows:

- The general manager submits a 5-year capital improvement project budget to the board of trustees for review and adoption.
- Departments submit operating budget requests to the general manager.
- The general manager compiles the annual budgets for review.
- The board of trustees adopts budgets for the electric, water, and telecommunications utilities. These are compiled with the City of Indianola's governmental services' budgets and that of the sewer utility for presentation to the public in publication form.
- The city council sets and conducts a public hearing on the budget.
- Any proposed changes to the IMU budget are referred back to the board of trustees.
- The city council adopts the overall budget and the budget is filed with the county auditor and the State of Iowa no later than March 15 of each year.

CITY OF INDIANOLA, IOWA
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Board of Trustees Report - Continued

The State of Iowa limits expenditures to the total amount budgeted by function. Expenditures for individual departments or services may exceed those budgeted as long as total expenditures by function are not exceeded. Budget amendments are permitted under provisions similar to the adoption of the original budget. Budget-to-actual comparisons are provided in this report on a cash accounting basis, which is consistent with the city's financial basis of accounting.

Cash management policies and practices. The board of trustees annually reviews and adopts an investment policy outlining the roles and responsibilities in making investments using available cash balances. The clerk and treasurer are jointly responsible for the investment of funds under that policy, with oversight by the board of trustees.

Cash temporarily idle during the year was invested in bank deposits or money market funds, repurchase agreements, and the Iowa Public Agency Investment Trust. These temporary cash deposits were maintained in stable value investments with a June 30, 2011 rate of return of .25%.

The utility invests reserve funds (those not intended to be expended within 365 days) in a portfolio with the assistance of an investment advisement firm. The investment portfolio includes mortgage-backed securities, obligations of the U.S. Treasury or its agencies, and cash held in a public entity money market fund. At fiscal year end, the effective duration of the portfolio was 3.24 years with a current yield of 3.74%. Reported returns may include changes in fair value during the year but do not necessarily represent continuing returns; nor is it always possible to realize changes in fair value, especially in the case of temporary changes for securities the city intends to hold until maturity.

Additional information on the utility's cash management can be found in notes to the financial statements.

Risk management. Indianola Municipal Utilities participates in the Iowa Communities Assurance Pool (ICAP), a local government risk-sharing pool with over 500 members throughout the state of Iowa. The utility makes annual contributions to ICAP recorded as disbursements from its operating funds for automobile, property, casualty, and liability coverage. The utility maintains reserve funds to meet deductibles as they occur. The utility also participates as a member of the Iowa Municipal Workers' Compensation Association (IMWCA) and pays premiums to the association on an annual basis from its operating funds. The utility purchases boiler and machinery insurance from a private carrier. In addition, the utility has an ongoing safety program to monitor its facilities and employees to maintain a safe environment for employees and the public. Additional information on Indianola Municipal Utilities' risk management activity can be found in notes to the financial statements.

Pension and other post-employment benefits. Indianola Municipal Utilities provides pension benefits for its employees. These benefits are provided through a statewide plan managed by the Iowa Public Employees Retirement System. Indianola Municipal Utilities has no obligation in connection with employee benefits offered through this plan beyond its periodic payments based on earned compensation by active employees.

CITY OF INDIANOLA, IOWA
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Board of Trustees Report - Continued

IMU also provides post-retirement access to its medical insurance plan until age 65 as required under Iowa Code. Retirees contribute an amount equal to the premium amount charged to city departments and active employees on a pay-as-you-go basis.

IMU maintains a health reimbursement arrangement (HRA) for the benefit of employees. The utility makes a fixed annual commitment that employees may use to offset premium contributions or cash payments for any medical expense allowed under IRS Code. If the employee does not utilize the full amount provided in the fiscal year, the balance is carried forward to the following year and is available in any future period, including after retirement. Disbursements are paid out of operating funds and not held in trust. They are, however, accounted for in a sub-fund that is separate from other operating funds for budgetary control.

Additional information on the utility's pension arrangements and other post-employment benefits can be found in notes to the financial statements.

Closing

State law and city ordinance require municipal utility boards to provide the city council an annual report with complete financial statements. State law also requires the city to publish within nine months of the close of each fiscal year a complete set of financial statements, including that of municipal utilities as a component unit. State law requires that financial statements must be audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to these requirements, we hereby issue this report for Indianola Municipal Utilities for the fiscal year ending June 30, 2011.

Eric Vander Linden
2011 Board Chairperson

Todd Kielkopf
General Manager

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review

Utility operations are divided into departments, all of which work toward the common goal of providing superior services to the citizens of Indianola. The IMU Board of Trustees annually adopts a Strategic Plan complete with service objectives, operating strategies, and annual goals. Performance towards plan objectives is reported on a quarterly basis.

The following summary provides a brief review of the various departmental activities and accomplishments in FY 2011.

- **Electric Utility.** The electric utility provides reliable service by purchasing wholesale energy for the community as a whole, receiving it over the transmission system, generating electricity within Indianola as needed, and distributing it safely to customers. Significant progress towards implementing operational strategies include:
 - Completed legal work and bidding out the CIPCO 69kV interconnection at the Westside Substation; ordered materials for the project and completed construction
 - Continued work on the East Side Conversion Project
 - Bid and monitored work on the Fuel Oil Storage Tank Painting Project
 - Began review of Simpson College voltage options for the next underground conversion phase
 - Worked on cost/benefit analysis of landfill gas generation project at the Metro Waste Authority; reviewed and presented ISEPA options (stored energy plant)
 - Reviewed changes to MISO cost and billing methods with MEAN to ensure consistent application of transmission costs & credits across all MEAN participants
 - Reviewed downtown plant capacity options with MEAN; reviewed implications of registering as emergency-only units under new EPA RICE regulations
 - Designed & completed Stephen Ct. underground conversion project and completed McCord Subdivision project
 - Repaired tornado & other storm damage; re-tested East Iowa Substation equipment; sent a crew when Ames called for mutual aid after storms
 - Engaged legal counsel for the CAPX2020 project and adopted agreements
 - Committed to extending service to the Summercrest Hills Development
 - Worked to establish a policy within MEAN to allow IMU to transition generating units that it receives capacity payments so that downtown plants can be registered as emergency-only units
 - Completed the Fuel Oil Storage Tank Painting Project
 - New fire alarm system installed at the plant
 - Drafted and issued RFP for architectural & engineering services for plant improvements; received report
 - Began designs for the 2011 Hwy 65/69 3-phase underground conversion project
 - Monitored Iowa Stored Energy Plant Agency activities; declined future involvement
 - Worked to replace SCADA systems damaged during storms in 2010
 - Assisted Simpson College with unexpected electric upgrades at the Blank Performing Arts Center

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Operational Review - Continued

- Performed tests and oil cleaning on the E. IA #1, Power Plant, and W. IA transformers
 - Began work on a 69kV FERC classification analysis
 - Worked on designing the Hwy 65/69 3-phase project
 - Designed Summercrest Hills subdivision layout
 - Completed the "D" & Jackson underground/conversion
 - Completed agreements on the CAPX2020 project
- **Water Utility.** The water utility provides reliable water service by pumping it from wells, treating it, keeping enough in storage to meet daily needs, and distributing it to customers. Significant progress towards implementing operational strategies include:
 - Worked on installing radio read meters
 - Repaired several water main breaks
 - Authorized engineering services to design water main improvements in conjunction with the next street replacement project
 - Purchased variable speed drive for the 3rd high service pump at the plant
 - Completed work with contractor at the Simpson water tower
 - Began design/planning for repainting the Hillcrest water tower; let contracts
 - Oversight of Well #11 systems problems; planned replacements
 - Lime pit cleaned out as best possible; lime drying in piles on the property
 - Converted 30 acre site from row crops to hay crop; reviewed Ash tree inventory
 - Completed scheduled repairs to Well #12
- **Communications Utility.** The communications utility provides the infrastructure that transmits affordable, competitive, and technologically advanced telecommunications service for both retail and other public uses. Telephone and Internet services are offered to commercial customers through a contractual private/public partnership. Significant progress towards implementing operational strategies include:
 - Began planning for IMU Network Services division as the fiber system is expanded
 - Prepared and presented, with MCG, network design options and a preliminary construction cost estimate for the area contained in the East Side electric underground conversion project
 - Developed a conceptual expansion framework that is comprised of IMU Network Services Facilities, IMU NS Partners, and IMU NS Development. Started recruitment of advisors for each of the 3 areas.
 - Developed a strategic plan for the IMU Network Services department.
 - Worked to complete as-built engineering diagrams on the existing fiber loop to plan for interconnecting new underground network (that is part of the East Side Conversion area).
 - Established pricing framework for extending agreements on the existing fiber loop where they interconnect to the new underground network.

CITY OF INDIANOLA, IOWA
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Operational Review - Continued

- **Administration.** All three utilities are administered by a combination of the IMU Board of Trustees and their staff, services provided by the City of Indianola through cost-sharing arrangements, and third-party contractors.

Public works activities primarily involve co-managing the public right of way. IMU also supports economic development and community betterment activities. Third, there are utility-specific services such as technical activities, safety, and utility programming. Last are the governance and professional services associated with oversight, regulatory actions, general management, human resources, fiduciary controls, public notifications and information systems, and legal compliance & risk management.

Public Works-

- Worked with City of Indianola officials to enforce ROW ordinances and IMU pole attachment resolutions for poles where IMU has removed electric facilities
- Tree trimming contractor hired and area contained in 5-year plan completed
- Reviewed and commented on drafts of MEC franchise agreement
- P&E Engineering drafting a report for staff on roadway lighting options following the successful test of induction & LED lights on N. "Y" St.
- Worked with city and legal representatives on Qwest & Mediacom electric pole removal issues (failure to remove facilities); poles removed on W. Kentucky
- Purchased high pressure sodium streetlights for the East Side conversion area after preparing cost/benefit analysis of LED and induction streetlights
- Revised pole attachment fee

Economic Development & Community Betterment-

- Funded and worked with the Indianola Development Association (IDA) to promote the community and to solicit potential customers through contacts and proposals made by the IDA, Warren County Economic Development Corp., and the Greater Des Moines Partnership
- Update the city & IMU web sites with new development information
- Co-managed proposal for a community wellness facility along with other community partners and leaders
- Helped economic development strategic planning and marketing planning
- USDA – RD revolving loan fund application submitted (Simpson College)
- Developed a lighting replacement incentive for economic development prospect
- IMU Network Services highlighted in Warren Co. marketing insert in the Business Record
- Planning undertaken to establish an Indianola Technology Development Program in partnership with Simpson College, WCEDC, and the IDA
- Submitted a proposal to serve a 4MW datacenter; reviewed and documented applicable electric and telecom assets

CITY OF INDIANOLA, IOWA
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Operational Review - Continued

Technical Services & Programs -

- Held the annual Customer Appreciation Day event complete with booths on utility operations, energy efficiency programs, and others
- Declined participation in the IAMU smart thermostat project after analyzing it
- Performed preliminary research on PEV charging stations
- Worked on easement and water stop box GIS layers
- Completed the Indianola Sustainability Study
- Presented the Indianola Sustainability Study and the positive impact of participating in a landfill gas generation project offered by MEAN
- Held 4th grade school tours of the plant and gave program on safety
- Hazard mitigation plan drafted (by a consultant) and distributed to city & IMU department heads; adopted by City Council
- IMU staff working with General Electric on meter defect (failure to transmit); worked with GE to extend warranty on ERT meters due to faulty capacitors
- Revised web site pages drafted and went on-line

Governance and Professional Services-

- Performed annual review of the Strategic Plan; implemented and held IMU Performance Committee meetings comprising of management staff, supervisors, crew members, and other administrative staff
- Eligible employees achieved advancement in the electric apprenticeship program
- Participated in the Employee Insurance Committee with other city departmental staff and facilitator Debbie Dean (Benefit Source, Inc.)
- APPA designation as a Reliable Public Power Provider (RP3)
- New City of Indianola Director of Finance & Administrative Services hired and began performing duties
- Completed update of 2008 Electric Rate study and adopted new rates
- Water Quality Report issued with required notices
- Completed bi-annual customer survey and reported results
- New digital cable video server equipment purchased and installed at City Hall
- New phone system installed and programmed at IMU
- New online billing options provided to customers
- Joined the Central Iowa Regional Drinking Water Commission
- IMWCA recognized Worker's Comp. containment for their Best Practices Award
- APPA recognized the Electric Utility's incident rate for being very low
- IMU GM elected to NMPP board
- Accepted UMR proposal for health pool third party administrator
- Analyzed water utility financial conditions and adopted new rates
- Completed and adopted new Water Service Plan, Procedures Manual for Materials & Construction Standards, and associated schedules
- Worked on feasibility study for the Downtown Electric Plant; received report



Shull

and Co. P.C.
certified public accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited the accompanying statement of net assets of the Indianola Municipal Utilities, a component unit of the City of Indianola, Iowa, as of June 30, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indianola Municipal Utilities as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012, on our consideration of the Indianola 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 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 13 through 19 and 35 through 36, are not a required part of the basic financial statements, but are supplementary information required by Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Shull & Co., P.C.

January 31, 2012

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A)

Indianola Municipal Utilities offers readers of its financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in this report.

2011 Financial Highlights

- Indianola Municipal Utilities has ending cash balances totaling \$7,604,302 to meet the utility's ongoing obligations to citizens, creditors, for capital reinvestment in utility operations, and for emergency repairs.
- The utility annually uses prior years' positive cash flow and balances to reinvest in capital assets, as detailed in the "Long term financial planning" section of this MD&A.
- As reported on the Statement of Cash Flows, total cash balances decreased by \$4,394,759, primarily from investing \$3,411,763 into capital projects and calling \$775,000 of electric revenue debt prior to its maturity.
- Net cash provided by operating activities was \$363,107, which decreased by \$2,777,294 from the prior year. The primary reasons for this decrease is a combination of 1) a non-recurring decrease in accounts payable (use of cash) in the amount of \$1,172,776; and 2) an increase of \$1,141,472 in inventories associated non-recurring capital projects.
- At the end of the current fiscal year, unrestricted and undesignated net assets totaled \$11,236,364, which decreased by \$2,147,367 over the prior year. Construction contracts were signed in FY2010 that used available funds for capital asset purchases in FY2011.
- The utility's total liabilities decreased \$2,018,258 during the current fiscal year. Current liabilities decreased by \$824,892 primarily due to the timing of receiving wholesale electric bills in FY2010. Long-term liabilities decreased \$1,902,713; \$775,000 of that decrease was due to calling electric revenue debt prior to maturity.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows:

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

The Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. These statements provide information about the activities of the utility as a whole and present an overall view of the utility's finances.

CITY OF INDIANOLA, IOWA
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Management Discussion and Analysis (MD&A) - Continued

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

Basis of accounting. Indianola Municipal Utilities maintains its financial records on the accrual basis and the financial statements presented in this report are prepared on that basis. The financial statements present the financial position and changes in financial position of the funds in accordance with U.S. generally accepted accounting principles.

Reporting the Utility's Financial Activities

One of the most important questions asked about the utility's finances is, "Is Indianola Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Financial Statements reports information which helps answer this question.

Fund Accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Separate funds are maintained for each utility. These funds are classified as business type, or proprietary, funds for reporting purposes.

Financial Statements. The Statement of Net Assets presents information on each utility's assets, liabilities, and equity. Over time, increases or decreases in unrestricted and undesignated net assets may serve as a useful indicator of whether the financial position of the utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets details the financial operating results of the utility during the most recent fiscal year, with a comparison to the prior year.

The Statement of Cash Flows provides the net increase or decrease in cash and investments as a result of operating, financing, and investment activities.

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Management Discussion and Analysis (MD&A) - Continued

Analysis of Financial Activities

This section of the MD&A summarizes the financial data contained in the utility's financial statements. It also provides an analysis of the major activities affecting changes from the previous fiscal year.

Statement of Net Assets	Year ended June 30,	
	2011	2010
Assets		
Current	\$ 13,090,704	16,042,984
Restricted	1,939,754	1,815,450
Other	67,927	86,353
Capital	41,148,314	39,355,953
Total Assets	<u>56,246,699</u>	<u>57,300,740</u>
Liabilities		
Current	2,951,969	3,068,643
Long Term	10,191,799	12,092,845
Total Liabilities	<u>13,143,768</u>	<u>15,161,488</u>
Net Assets		
Invested Capital Assets	30,866,515	27,178,108
Restricted	813,170	1,397,084
Designated	186,882	180,329
Unrestricted & Undesignated	11,236,364	13,383,731
Total Net Assets	<u>\$ 43,102,931</u>	<u>42,139,252</u>

As shown above, total utility net assets remained relatively stable, improving \$964,217. Invested Capital Assets increased by \$3,690,074 as major construction projects progressed. This is also reflected in the decrease in Current Assets. The utility also repaid \$2,018,258 of indebtedness in FY 2011.

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Management Discussion and Analysis (MD&A) - Continued

Net Income	Year ended June 30,	
	2011	2010
Operating revenues		
Sales of electricity	\$ 10,026,640	8,973,880
Electrical capacity contract fees	357,531	336,050
Sales of water	2,020,234	1,963,686
Fiber communications rental fees	174,207	161,763
Other	184,247	96,608
Total operating revenue	12,762,859	11,531,987
Operating expenses		
Electric utility	8,783,984	7,477,743
Water utility	1,225,805	1,181,551
Fiber communications utility	22,063	63,319
Administrative and general	1,355,624	1,344,811
Transfer to city for Clerk's operations	297,300	277,700
Transfer to city in lieu of property taxes	475,300	456,200
Total operating expenses	12,160,076	10,801,324
Income from operations	602,783	730,663
Nonoperating revenue (expenses)		
Revenue	710,267	499,264
Expenses	(464,716)	(165,050)
Net Income	\$ 848,334	1,064,877

Income from operations decreased by \$127,880 primarily due to the timing of a significant increase in electric utility operating expenses (purchased energy) and the timing of the associated electric rate increase (in FY 2012).

Budgetary Highlights

The board of trustees annually adopts a budget for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level (i.e. proprietary) for the city as a whole, not at the fund or fund type level. Notice is given and a public hearing is held on the budget. The budget may be amended during the year utilizing similar statutorily prescribed procedures. None of the amendments made, if any, negatively affect the following year's budget.

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Management Discussion and Analysis (MD&A) - Continued

Information pertaining to budgetary to actual receipts, disbursements, and changes in balances is provided in the financial statements on a cash basis. Highlights include:

- Disbursements were \$2,142,302 less than the amended budget due to unforeseen timing of capital project disbursements (that are based on a percentage of project completion).
- Ending balances were \$645,532 less than budgeted. Those funds are allocated to capital projects and are not available for ongoing operating expenditures in the future.

Capital Asset and Debt Administration

The utility pledges electric rates to be sufficient to pay its pro-rata share of outstanding debt obligations of the Municipal Energy Agency of Nebraska under its wholesale energy contract.

The utility's bond rating remained A2 (Moody's) and A+ (S&P).

	Outstanding Debt at	
	Year ended June 30,	
	<u>2011</u>	<u>2010</u>
Electric utility		
Revenue bonds	\$ 9,040,000	9,970,000
Water utility		
Revenue bonds	1,590,000	1,825,000
General Obligation bonds (issued by city)	735,000	795,000
Fiber communications utility	-	-
 Total	 <u>\$ 11,365,000</u>	 <u>12,590,000</u>
 Internal loan from Electric utility to Water utility	 <u>\$ 3,090,335</u>	 <u>3,249,948</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Economic Factors and Next Year's Budgets and Rates

Local economy. The City of Indianola currently enjoys a favorable economic environment and local indicators point to continued moderate growth. The projection in 2015 is for Indianola to grow to a population of approximately 15,500, which represents an increase of 5% from the 2010 census. Although a primarily residential community, the varied nature of the educational, light manufacturing, agriculture services, and retail sectors of the local economy provides relative employment stability. Close proximity to the Des Moines metro area, the state capital with a combined population of approximately 460,000, provides employment for approximately 60% of the available workforce. Over the past 7 years, retail sales have grown at an annual average of over 1.5% and new single-family dwellings have been constructed at an average annual rate in excess of 50 units.

The region (which includes the City of Indianola and the surrounding unincorporated area within Warren County) has a moderate growth employment outlook over the next several years. New commercial construction is occurring along the four-lane highway between the City of Indianola and the Des Moines metropolitan area. A four-lane bypass to the south of the Des Moines metro, completed in 2002, provides increased commercial development opportunities for the community as it improved traffic flow from Indianola to the western Des Moines suburbs and the interstate highway system. The utility makes annual financial commitments to the Indianola Development Corporation and Warren County Economic Development Corporation, both non-related entities to the city, to support economic development in the region. The utility also offers its own revolving loan program to spur economic development and participates in the Choose Des Moines Communities program of the Greater Des Moines Partnership.

Long-term financial planning. The utility annually adopts a 5-year capital improvement budget that prioritizes foreseen projects. Those with potential long-term significant impacts to the cash balances and financial operations of the utility are:

- Phase II of the long-term electric underground conversion project. Additional debt of \$5 million can be structured within current electric rates. It is anticipated this would be issued within 3-5 years.
- Water main replacements estimated at \$600,000 using G.O. bond proceeds issued by the City of Indianola as part of street reconstruction projects.
- Construction of additional fiber optic trunk lines within the next 5 years (amount dependent upon opportunities to obtain adequate financial returns on investment).

Potential regulatory changes over the next 3-5 years with the most fiscal impact is climate control legislation and renewable energy purchasing requirements. Both could increase wholesale energy purchase costs per kwh. However, the cost of energy adjustment could be imposed to recover unanticipated costs without the need for board action.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Management Discussion and Analysis (MD&A) - Continued

Budgets and Rates. Indianola Municipal Utilities increased electrical rates in FY 2011 and additional annual rate increases are planned for the foreseeable future to maintain bond coverage for new debt being issued to fund capital projects and to pay for projected wholesale energy costs. Water rates increased \$.80/1,000 gallons in FY 2011.

Requests for Information

This financial report is designed to provide a general overview of Indianola Municipal Utilities' finances for all those with an interest in the utility's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance or to the City Clerk, who serves as the Secretary of the Board of Trustees. Their offices are located at 110 N. First St., PO Box 299, Indianola, IA 50125 with a telephone number of 515-961-9410.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Net Assets
June 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
Current assets		
Cash and investments	\$ 7,604,302	12,123,365
Accounts receivable - customers	2,278,529	1,897,372
Other accounts receivable	34,974	18,477
Accrued interest receivable	52,118	24,461
Inventories	<u>3,120,781</u>	<u>1,979,309</u>
Total current assets	<u>13,090,704</u>	<u>16,042,984</u>
 Restricted assets - cash and investments		
Electric revenue note and interest sinking fund	113,349	37,500
Electric revenue note debt service reserve fund	1,056,500	1,008,000
Electric revenue note improvement fund	207,691	207,691
Water revenue bond and interest sinking fund	166,514	166,559
Water revenue bond debt service reserve fund	320,700	320,700
Water revenue bond water improvement fund	<u>75,000</u>	<u>75,000</u>
	<u>1,939,754</u>	<u>1,815,450</u>
 Electric utility plant and equipment, net of accumulated depreciation of \$21,728,534 (2010 - \$20,542,963)	26,700,983	24,794,670
Water utility plant and equipment, net of accumulated depreciation of \$8,977,793 (2010 - \$8,447,008)	14,334,785	14,430,347
Fiber communications utility plant and equipment, net of accumulated depreciation of \$737,164 (2010 - \$718,775)	<u>112,546</u>	<u>130,936</u>
	<u>41,148,314</u>	<u>39,355,953</u>
 Bond and note issue costs, net of accumulated amortization of \$15,188 (2010 - \$18,830)	<u>67,927</u>	<u>86,353</u>
	<u>\$ 56,246,699</u>	<u>57,300,740</u>

See accompanying notes to financial statements.

LIABILITIES	2011	2010
Current liabilities		
Accounts payable	\$ 1,561,879	2,369,258
Wages and benefits payable	161,323	160,342
Sales tax payable	2,708	25,500
Deferred rental fees	9,475	10,177
General obligation bonds payable within one year	90,000	85,000
Total current liabilities	1,825,385	2,650,277
Current liabilities payable from restricted assets		
Accrued interest payable	56,584	28,366
Electric revenue capital loan notes payable within one year	830,000	155,000
Water revenue refunding capital loan notes payable within one year	240,000	235,000
Current liabilities payable from restricted assets	1,126,584	418,366
Electric revenue capital loan notes payable after one year (net of unamortized premium of \$10,650 (2010 - discount \$20,108))	8,220,650	9,794,892
General obligation bonds payable after one year (net of unamortized discount of \$29,190 (2010 - \$6,770))	615,810	703,230
Water revenue refunding capital loan notes payable after one year (net of unamortized premium of \$5,339 (2010 - \$4,723))	1,355,339	1,594,723
Total long term liabilities	10,191,799	12,092,845
 Total liabilities	 \$ 13,143,768	 15,161,488
NET ASSETS		
Invested in capital assets, net of related debt	\$ 30,866,515	27,178,108
Restricted for debt service	530,479	1,114,393
Restricted for electric utility improvements	207,691	207,691
Restricted for water utility improvements	75,000	75,000
Unrestricted		
Designated for payment of insurance coverage deductibles	15,640	26,607
Designated for economic development revolving loan fund	171,242	153,722
Undesignated	11,236,364	13,383,731
Total unrestricted	11,423,246	13,564,060
 Total net assets	 \$ 43,102,931	 42,139,252

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues		
Sales of electricity	\$ 10,026,640	8,973,880
Sales of water	2,020,234	1,963,686
Fiber communications rental fees	174,207	161,763
Capacity contract fees	357,531	336,050
Other	184,247	96,608
Total operating revenues	<u>12,762,859</u>	<u>11,531,987</u>
 Operating expenses		
Electric utility		
Purchased energy	5,971,282	4,920,676
Plant operation and maintenance	482,505	369,247
Distribution operation and maintenance	1,127,711	1,044,844
Depreciation and amortization	1,202,486	1,142,976
Water utility		
Plant operation and maintenance	577,273	488,660
Distribution operation and maintenance	116,235	176,395
Depreciation and amortization	532,297	516,496
Fiber communications utility		
Operation and maintenance	3,673	13,208
Depreciation and amortization	18,390	50,111
Administrative and general	1,355,624	1,344,811
Transfer to city for Clerk's operations	297,300	277,700
Transfer to city in lieu of property taxes	475,300	456,200
Total operating expenses	<u>12,160,076</u>	<u>10,801,324</u>
 Income from operations	 <u>602,783</u>	 <u>730,663</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Assets - Continued
Years Ended June 30, 2011 and 2010

Nonoperating revenues (expenses)		
Investment income	334,098	202,512
Connection fees	48,616	41,758
Gain on sale of capital assets	-	1,000
Other	327,553	253,994
Interest expense	(464,716)	(165,050)
	<u>245,551</u>	<u>334,214</u>
 Net income	 848,334	 1,064,877
 Capital contributions from customers and developers	 114,873	 145,872
Capital contributions from water main connection fees	472	<u>2,993</u>
 Change in net assets	 963,679	 1,213,742
Net assets, beginning of year	<u>42,139,252</u>	<u>40,925,510</u>
 Net assets, end of year	 <u>\$ 43,102,931</u>	 <u>42,139,252</u>

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Cash received from customers	\$12,304,881	11,056,880
Cash paid to suppliers	(10,404,911)	(6,387,455)
Cash paid to employees	(1,913,032)	(1,825,776)
Other nonoperating fees and revenues received	<u>376,169</u>	<u>296,752</u>
Net cash provided by operating activities	<u>363,107</u>	<u>3,140,401</u>
 Cash flows from capital and related financing activities		
Purchases and construction of electric utility plant and equipment	(2,998,711)	(2,847,120)
Purchases and construction of water utility plant and equipment	(413,052)	(316,721)
Electric revenue capital loan notes issued	-	9,022,000
Bond issue costs paid	-	(64,203)
General obligation bond principal paid	(85,000)	(85,000)
General obligation bond interest paid	(30,900)	(33,600)
Electric revenue capital loan notes principal paid	(930,000)	(155,000)
Electric revenue capital loan notes interest paid	(305,299)	(40,610)
Water revenue refunding capital loan notes principal paid	(235,000)	(225,000)
Water revenue refunding capital loan notes interest paid	<u>(66,345)</u>	<u>(73,884)</u>
Net cash provided (used) by capital and related financing activities	<u>(5,064,307)</u>	<u>5,180,862</u>
 Cash flows from investing activities		
Investment income received	<u>306,441</u>	<u>220,613</u>
Net cash provided by investing activities	<u>306,441</u>	<u>220,613</u>
 Net increase (decrease) in cash and investments	(4,394,759)	8,541,876
 Cash and investments, beginning of year	<u>13,938,815</u>	<u>5,396,939</u>
 Cash and investments, end of year	<u>\$ 9,544,056</u>	<u>13,938,815</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows - Continued
Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of income from operations to net cash provided		
by operating activities		
Income from operations	\$ 602,783	730,663
Adjustments		
Other nonoperating fees and revenues	376,169	296,752
Depreciation and amortization	1,753,173	1,709,583
(Increase) decrease in accounts receivable - customers	(397,654)	(414,105)
(Increase) decrease in inventories	(1,141,472)	(355,268)
Increase (decrease) in accounts, wages and benefits, and sales tax payable	(829,190)	1,187,188
Decrease in deferred rental fees	(702)	(14,412)
Net cash provided by operating activities	\$ 363,107	3,140,401
 Noncash capital and related financing and investing activities		
Developer contributions of electric utility plant and equipment	\$ 93,173	141,247
Developer contributions of water utility plant and equipment	21,700	4,625

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
 INDIANOLA MUNICIPAL UTILITIES
 Notes to Financial Statements
 June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements present the financial position, changes in financial position and cash flows of the Indianola Municipal Utilities of the City of Indianola, Iowa. The Utilities are governed by a five member board appointed by the City Council and is considered a component unit of the City of Indianola, Iowa. These financial statements are not intended to present the financial position of the City of Indianola, Iowa, and the changes in its financial position and cash flows of its proprietary fund types.

Accounting method - The accounting records of the Utilities are maintained on a cash basis. The accompanying financial statements have been prepared, after giving effect to all material adjustments including amounts due from utility customers and due to suppliers of goods and services, to reflect the account balances and results of operations on the accrual basis.

The Utilities report their financial activity in accordance with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Inventories - Inventories, which consist of fuel oil and supplies, are stated at the lower of cost (first-in, first-out basis) or net realizable value.

Depreciation - Depreciation expense is computed using the straight-line method and estimated useful lives as follows:

Electric utility	
Power plant building	50 years
Generating units	25 years
Transmission and distribution systems	40 years
Vehicles	10 years
Computer equipment	5 years
Water utility	
Buildings and plant	40 years
Wells and towers	30-50 years
Mains and hydrants	50 years
Meters	20 years
Machinery and equipment	15 years
Vehicles	10 years
Fiber communications utility	
Distribution and connection systems	10 years

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Investments and Interest Income - Cash balances available from each of the funds of the City of Indianola, Iowa are pooled for investment and cash management purposes. Investments purchased by the pool are stated at cost or amortized cost. Interest earned on pooled investments is allocated monthly on the basis of the funds' ending cash and investment balances. Because the cash of Indianola Municipal Utilities is deposited with or withdrawn from the cash and investment pool without restriction the allocated share of the pool has been treated as a cash equivalent in the accompanying statement of cash flows.

2. UTILITY PLANT AND EQUIPMENT

The following is a summary of utility plant and equipment in service as of June 30, 2011 and 2010:

	2011	2010
Electric utility		
Land	\$ 359,207	359,207
Service territory	446,000	446,000
Generating units	15,161,374	15,166,273
Transmission and distribution systems	28,085,817	25,155,242
Power plant building	2,147,323	2,117,908
Computer equipment	393,149	393,149
Equipment	751,238	737,888
Vehicles	1,085,409	961,966
	\$ 48,429,517	45,337,633
 Water utility		
Land	\$ 416,270	416,270
Service territory	328,412	328,412
Buildings and plant	7,595,528	7,595,528
Wells and towers	4,350,504	4,047,005
Mains, hydrants and meters	9,847,199	9,722,290
Machinery and equipment	598,512	591,697
Vehicles	176,153	176,153
	\$ 23,312,578	22,877,355
 Fiber communications utility		
Distribution and connection systems	\$ 849,711	849,711

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2011 and 2010

3. REVENUE BONDS AND NOTES PAYABLE

In February 2006 the Utility issued \$1,525,000 Electric Revenue Capital Loan Notes. The proceeds from the notes were used for improvements and extensions to the Municipal Electric Utility. Principal payments in increasing amounts are due annually beginning in May 2007. Interest on the notes at rates of 3.30% to 4.00% (a weighted average rate of 3.74%) per annum is due semi-annually beginning November 1, 2006. The balance of the notes was paid in full during the year ended June 30, 2011.

In June 2010 the Utility issued \$9,040,000 Electric Revenue Capital Loan Notes. The proceeds from the notes were used for improvements and extensions to the Municipal Electric Utility. Principal payments in increasing amounts are due annually beginning in May 2012. Interest on the notes at rates of 2.00% to 4.00% (a weighted average rate of 3.76%) per annum is due semi-annually beginning November 1, 2010. Final maturity of the notes is May 1, 2025.

The Electric Revenue Capital Loan Note resolutions require the establishment of revenue bond operation and maintenance, sinking, reserve fund and improvement funds and require the accumulation of funds in the accounts and restrict the use of such funds as follows:

Operation and maintenance- Amount that results from the monthly accumulation of current expenses plus one-twelfth of expenses paid on an annual basis. Use of funds is for paying current operating expenses.

Sinking – Amount that results from the monthly accumulation of one-sixth of the next semi-annual interest payment, plus one-twelfth of the next annual principal payment. Use of funds is restricted to paying current principal and interest on bonds.

Reserve – Amount that results from 25% of the amount required to be deposited in the sinking account. However, after a reserve amount equal to the maximum amount of principal and interest coming due in any succeeding year, no further deposits are required. Use of funds is restricted to funding any deficit in the sinking account.

Improvement – Amount that results from the monthly accumulation of \$3,500 until \$200,000 has been accumulated. Use of funds is restricted to funding any deficit in the sinking and reserve accounts or paying the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, payments of rentals on any part of the system, and for capital improvements to the system.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2011 and 2010

3. REVENUE BONDS AND NOTES PAYABLE - Continued

Revenue capital loan note debt service requirements are as follows as of June 30, 2011:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 830,000	307,725	1,137,725
2013	850,000	291,125	1,141,125
2014	870,000	274,125	1,144,125
2015	365,000	248,025	613,025
2016	380,000	237,075	617,075
2017-2021	2,940,000	917,875	3,857,875
2022-2025	2,805,000	286,200	3,091,200
	<u>\$9,040,000</u>	<u>2,562,150</u>	<u>11,602,150</u>

In August 2004 the City issued \$2,485,000 of Water Revenue Refunding Capital Loan Notes, with interest rates ranging from 2.55% to 4.20%, for a crossover refunding of a portion of the revenue bonds issued December 1996. The Utilities entered in to an escrow agreement whereby the proceeds were converted into U.S. Treasury securities. These securities were placed in an escrow account for the express purpose of paying the \$2,385,000 principal on the refunded revenue bonds when they became callable on December 1, 2006 and the interest from August 15, 2004 to and including December 1, 2006 on the refunding capital loan notes. On December 1, 2006 the remaining principal and interest on the outstanding December 1996 revenue bonds were paid.

The Water Revenue Refunding Capital Loan Notes require the establishment of revenue note operation and maintenance, sinking, reserve, and improvement funds and require the accumulation of funds in the accounts and restrict the use of such funds as follows:

Operation and maintenance - Amount that results from the monthly accumulation of current expenses plus one-twelfth of expenses paid on an annual basis. Use of funds is for paying current operating expenses.

Sinking - Amount that results from the monthly accumulation of one-sixth of the next semi-annual interest payment, plus one-twelfth of the next annual principal payment. Use of funds is restricted to paying current principal and interest on bonds.

Reserve - Amount that results from 25% of the amount required to be deposited in the sinking account. However, after a reserve amount equal to the maximum amount of principal and interest coming due in any succeeding year, no further deposits are required. Use of funds is restricted to funding any deficit in the sinking account.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2011 and 2010

3. REVENUE BONDS AND NOTES PAYABLE - Continued

Improvement - Amount that results from an initial deposit of \$50,000, then the monthly accumulation of \$2,000 until \$75,000 has been accumulated. Use of funds is restricted to funding any deficit in the sinking and reserve accounts or paying the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, payments of rentals on any part of the system, and for capital improvements to the system.

The revenue capital loan notes mature in annual installments of \$215,000 to \$290,000 through December 2016 and bear interest at rates of 2.55% to 4.20% payable semiannually. Debt service requirements were as follows as of June 30, 2011:

Year ending June 30,	Principal	Interest	Total
2012	\$ 240,000	58,030	300,617
2013	250,000	49,023	298,884
2014	260,000	39,330	301,345
2015	270,000	28,992	298,030
2016	280,000	17,920	299,023
2017	290,000	6,090	1,192,332
	<u>\$1,590,000</u>	<u>199,385</u>	<u>1,789,385</u>

4. GENERAL OBLIGATION BONDS PAYABLE

In October 2003 the City of Indianola issued \$2,410,000 General Obligation Bonds, a portion of which was transferred to the Municipal Water Utility to finance a portion of the costs of constructing water system improvements. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest as payments come due, it is the intention of the Trustees and the City Council that the payments of \$1,275,000 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds are reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in amounts of \$10,000 to \$115,000 from June 1, 2004 through June 1, 2018. Interest on the notes at rates of 2.25% to 3.9% (a weighted average rate of 3.4%) per annum is due semiannually beginning June 1, 2004.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2011 and 2010

4. GENERAL OBLIGATION BONDS PAYABLE - Continued

In January 2011 the City issued \$3,915,000 of General Obligation Refunding Bonds for a crossover refunding of a portion of the General Obligation Bonds dated October 2003. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest as payments come due, it is the intention of the City Council that the payments of \$735,000 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds are reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in the amounts of \$100,000 to \$115,000 from June 1, 2012 through June 1, 2017. Interest on the notes at rates of 1.0% to 2.0% per annum is due semiannually beginning December 1, 2011.

The Municipal Water Utility portion of general obligation bond debt service requirements are as follows as of June 30, 2011:

Year ending June 30,	Principal	Interest	Total
2012	\$ 90,000	28,122	118,122
2013	115,000	11,425	126,425
2014	110,000	10,275	120,275
2015	110,000	8,900	118,900
2016	110,000	6,700	116,700
2017-2018	200,000	7,000	207,000
	<u>\$ 735,000</u>	<u>72,422</u>	<u>807,422</u>

5. COMPENSATED ABSENCES

Indianola Municipal Utilities employees accumulate vacation hours, compensating time off and sick leave for subsequent use. Unused vacation hours and compensating time off are payable upon termination, retirement or death. These amounts are included in wages and benefits payable as of June 30, 2011 and 2010. Accrued sick leave benefits as of June 30, 2011 of approximately \$300,930 (2010 - \$268,814) are payable only when used and have not been accrued.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2011 and 2010

6. PENSION AND RETIREMENT BENEFITS

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and Indianola Municipal Utilities is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. Indianola Municipal Utilities contribution to IPERS for the year ended June 30, 2011 was \$92,636 (2010 - \$81,357), equal to the required contribution for the year.

7. RISK MANAGEMENT

The City of Indianola is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler and machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basic rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2011 and 2010

7. RISK MANAGEMENT - Continued

The Indianola Municipal Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utilities' annual contributions to the Pool for the year ended June 30, 2011 were \$109,989 (2010 - \$114,853).

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utilities do not report a liability for losses in excess of reinsurance or excess risk - sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2011, no liability has been recorded in the Utilities financial statements. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one year period following withdrawal.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Financial Statements - Continued
June 30, 2011 and 2010

7. RISK MANAGEMENT - Continued

Indianola Municipal Utilities is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. Indianola Municipal Utilities has executed a Worker's Compensation Coverage Agreement with the Association which extends through June 30, 2011 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2011, Indianola Municipal Utilities paid workers' compensation insurance premiums of \$30,028 (2010 - \$30,568) to the Association.

8. COMMITMENTS

The Indianola Municipal Utilities have entered into contracts for electric underground conversion totaling approximately \$4,020,732. The remaining commitment on these contracts at June 30, 2011 is \$1,277,977.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Budgetary Comparison Schedule of Receipts, Disbursements
And Changes in Balances – Budget and Actual (Cash Basis)
Year Ended June 30, 2011

	Actual	Budget Amounts		Final to Actual Variance
		Original	Final	
Receipts				
Use of money and property	\$ 371,804	461,100	461,100	(89,296)
Intergovernmental	97,373	-	-	97,373
Charges for service	12,783,476	12,385,200	12,385,200	398,276
Special assessments	472	472	472	-
Miscellaneous	114,113	25,300	25,300	88,813
Total receipts	<u>13,367,238</u>	<u>12,872,072</u>	<u>12,872,072</u>	<u>495,166</u>
Disbursements				
Business type activities	<u>16,864,998</u>	<u>14,729,200</u>	<u>19,007,300</u>	<u>2,142,302</u>
Excess of receipts over (under) disbursements	(3,497,760)	(1,857,128)	(6,135,228)	2,637,468
Other financing sources (uses)				
Operating transfers in (out)	<u>(897,000)</u>	<u>2,386,000</u>	<u>2,386,000</u>	<u>(3,283,000)</u>
Total other financing sources (uses)	<u>(897,000)</u>	<u>2,386,000</u>	<u>2,386,000</u>	<u>(3,283,000)</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(4,394,760)	528,872	(3,749,228)	(645,532)
Balances, beginning of year	<u>13,938,815</u>	<u>13,938,815</u>	<u>13,938,815</u>	<u>-</u>
Balances, end of year	<u>\$ 9,544,055</u>	<u>14,467,687</u>	<u>10,189,587</u>	<u>(645,532)</u>

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Required Supplementary Information –
Budgetary Reporting
Year Ended June 30, 2011

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

In accordance with the code of Iowa, the Board of Trustees with the approval of the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, for the City of Indianola as a whole, 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 and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$4,278,100. The budget amendment is reflected in the final budgeted amounts.



Shull
and Co. P.C.
certified public accountants

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

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited the financial statements of Indianola Municipal Utilities of the City of Indianola, Iowa, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 31, 2012. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Indianola Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Indianola Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Indianola 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies in internal control over financial reporting.

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

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A significant deficiency is a deficiency, or combination of control deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

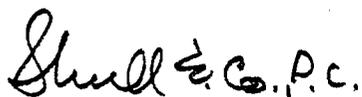
As part of obtaining reasonable assurance about whether the Indianola Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a 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*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Indianola 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 Utility's responses, we did not audit the Indianola 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 customers of the Indianola Municipal Utilities and other parties to whom the Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Indianola 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.



January 31, 2012

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings

Year ended June 30, 2011

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

- (A) An unqualified opinion was issued on the financial statements.
- (B) The audit did not disclose any significant deficiencies or material weaknesses in internal control over financial reporting.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (F) The Indianola Municipal Utilities did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

None

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 did not exceed amounts budgeted.
- IV-B-11 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-11 Travel Expense - No expenditures of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- IV-D-11 Business Transactions – No business transactions between the Indianola Municipal Utilities officials or employees were noted.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings - Continued

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

IV-E-11 Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-F-11 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.

IV-G-11 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.

IV-H-11 Revenue Bonds and Notes -The requirements of the water revenue bonds and notes resolutions were met during the year ended June 30, 2011. However, the requirements of the electric revenue bonds and notes resolutions were not met during the year ended June 30, 2011. The electric reserve fund was overfunded by \$152,500 and the electric sinking fund was underfunded by \$76,272.

Recommendation - The City should transfer the appropriate amounts according to the requirements of the electric revenue bonds and notes resolutions.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.

IV-I-11 Telecommunications Services -No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.