

**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, 2012**

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

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**OFFICIALS
OSAGE MUNICIPAL UTILITIES**

December 31, 2012

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	Royce Tack	December 2015
Trustee	Kevin Palsic	December 2012
Trustee	Jen Frien**	December 2014
Trustee	Harlan Bremer	December 2015
Trustee	Tom Kenny	December 2016
General Manager	Dennis Fannin	Indefinite
Board Secretary	Mike Banta	Indefinite
Cashier	Jane Michels	Indefinite
Treasurer	Beverly Schuler	January 2012
** Trustee	Frank Arciniega (replaced by Jen Frien in October 2012)	



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

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, Iowa as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of Osage Municipal Utilities, as of December 31, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4 through 15 and 34 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Osage Municipal Utilities' basic financial statements. The combining and individual nonmajor fund financial statements, the schedule of operating revenues and the schedule of operating expenses (supplementary information) are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Osage Municipal Utilities' financial statements as of and for the year ended December 31, 2011 were audited by other auditors. The report on the financial statements for the year ended December 31, 2011 was dated July 12, 2012 and expressed unqualified opinions on each major fund and the aggregate remaining fund information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2013 on our consideration of Osage Municipal Utilities' internal control over financial reporting and on 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* in considering Osage Municipal Utilities' internal control over financial reporting.

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

July 18, 2013

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, 2012. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- ◆ The Utilities' operating revenues decreased 5% or approximately \$482,000 from 2011 to 2012.
- ◆ Operating expenses decreased 7%, or approximately \$613,000, from 2011 to 2012.
- ◆ The Utilities' net position increased 5% or approximately \$864,000 during 2012.

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.

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 position, shown below, shows how assets and liabilities have changed over the past two years. In 2012, capital assets decreased by approximately 5% and represent 59% of total assets. Total assets

increased by approximately \$350,000 and liabilities decreased by \$514,000 resulting in the increase in net position of approximately \$864,000 during the year.

Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2012	2011
Current and other assets	\$ 9,723	\$ 8,608
Capital assets (net of accumulated depreciation)	14,211	14,976
Total assets	23,934	23,584
Long-term debt outstanding	5,441	6,119
Other liabilities	1,321	1,157
Total liabilities	6,762	7,276
Net position		
Invested in capital assets (net of related debt)	8,771	8,857
Restricted – bond covenant	850	857
Unrestricted	7,551	6,594
Total net position	\$ 17,172	\$ 16,308

INDIVIDUAL MAJOR FUND ANALYSIS

As Osage Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$17.2 million, an increase of more than \$860,000 over last year's total of \$16.3 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 decreased \$345,000 or 6.0% from the prior year due primarily to the combined impact of less energy usage by consumers and a decrease in base rates following a rate decrease in wholesale power costs.

Total operating expenses for 2012 were lower by approximately \$329,000, or 6.5% less than in 2011. Most of the decrease can be attributed to less power consumed by Osage consumers and a decrease in the wholesale cost of power. The combined effect of these two factors resulted in 2012 operating income of \$726,000. This was a 2.1% decrease compared to the 2011 operating income of \$741,000. The combination of all factors resulted in the Electric Utility achieving an increase in Net Position of more than \$539,000 in 2012, compared to an increase of \$599,000 in 2011.

The cash balance for 2012 increased by approximately \$805,000, or 33% over the cash balance in 2011, mainly due to less investment in capital infrastructure when compared to 2011.

Gas Utility Results of Operations

The volume of natural gas consumed by Osage residents and businesses decreased in 2012 by approximately 41,000 Mcf, causing gas operating revenues to drop over \$333,000, or 15%, due to plummeting natural gas prices,

energy efficiency measures, and a decrease in heating degree days. Fortunately, total operating expenses decreased by a corresponding \$356,000, or more than 16% lower than the 2011 level.

The Gas Utility’s cost of natural gas purchased dropped more than \$267,000 compared to 2011. In addition the Payment in Lieu of Taxes was shifted to the Electric Utility. With no operating transfers made from the Gas Utility in 2012, these factors combined to effectively increase net position by over \$27,000.

Of the total volumes of gas delivered to customers during 2012, 31.9% can be attributed to the Gas Utility’s ten largest customers.

The cash balance for 2012 increased by more than \$176,000, or 20% over the cash balance in 2011, as a result of income generated from operations.

Capital assets in 2012 represent about 27% of total assets. Depreciation exceeded capital expenditures resulting in a reduction of the Gas Utility’s capital asset book value of 2% in 2012.

Cable Utility Results of Operations

The Cable Utility ended the year with a gain in net position of over \$77,000. The popularity of high speed internet and the variety of uses associated with it, continue to enable the Cable Utility to grow. The number of high speed internet customers grew by 7% while the number of cable television customers remained stable. These factors combined to improve the Cable Utility’s net position by 10%.

A \$93,000 increase in cash balance for 2012 represented a 13% increase over the 2011 cash balance.

Cable assets are owned by the Electric Utility. The Cable Utility leases the use of these assets through an operating joint lease agreement as outlined in Note 9.

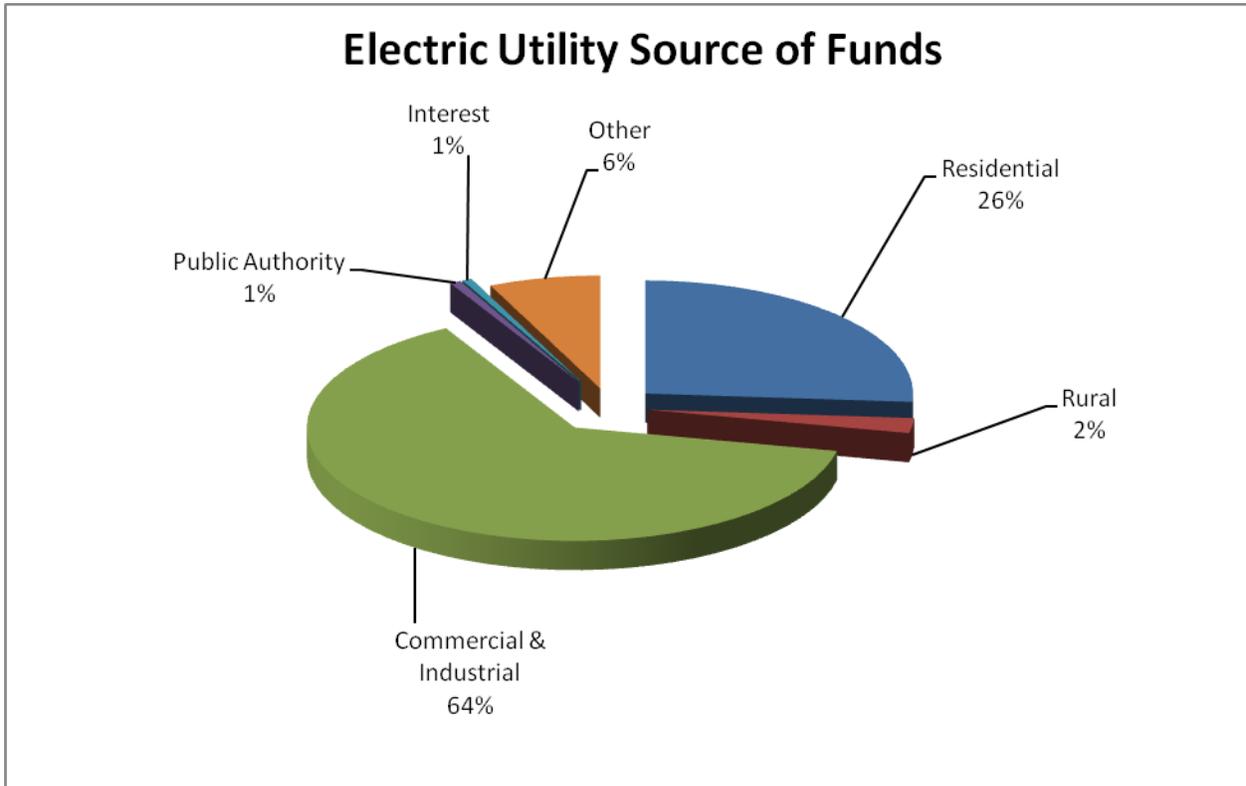
Our presence as a provider of communications services enables all Osage consumers of communications services to continue to benefit from the competitive nature of the Osage marketplace.

Combined Results of Operations

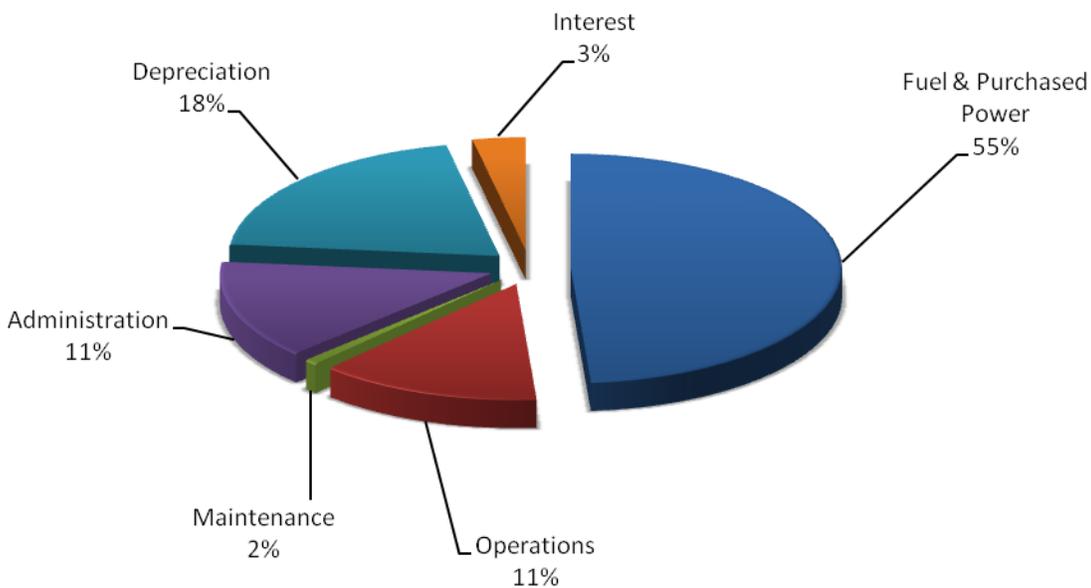
The following analysis focuses on the change in net position for the combined divisions of Osage Municipal Utilities. The pie charts following the chart below show the source of revenues and expenses by fund for Osage Municipal Utilities.

Changes in Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2012	2011
Operating revenues	\$ 9,228	\$ 9,711
Operating expenses	(8,164)	(8,778)
Operating income	1,064	933
Net non-operating revenues (expenses)	(144)	(166)

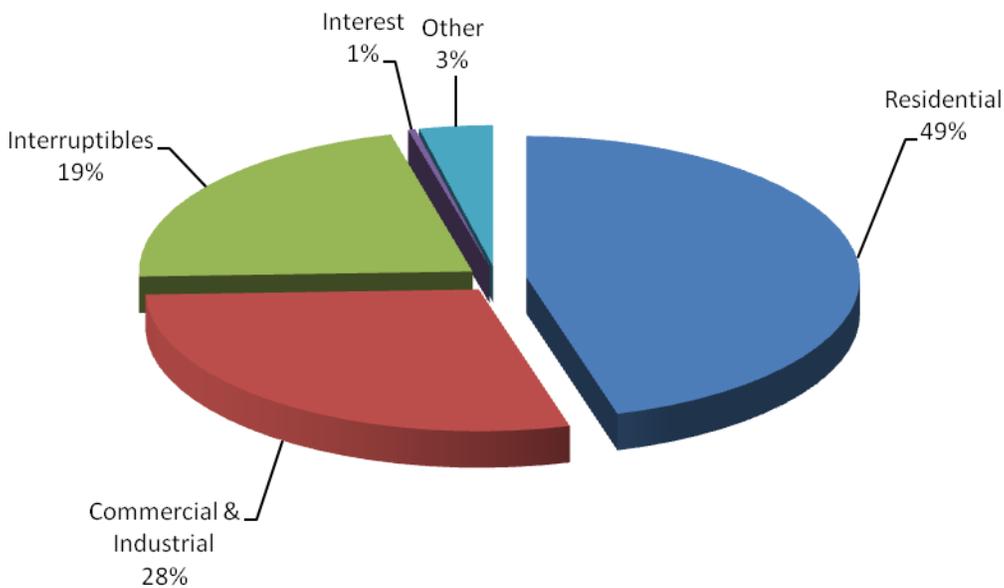
Other financing sources (uses)	(56)	(3)
Change in net position	864	764
Net position beginning of year	16,308	15,544
Net position end of year	<u>\$ 17,172</u>	<u>\$ 16,308</u>



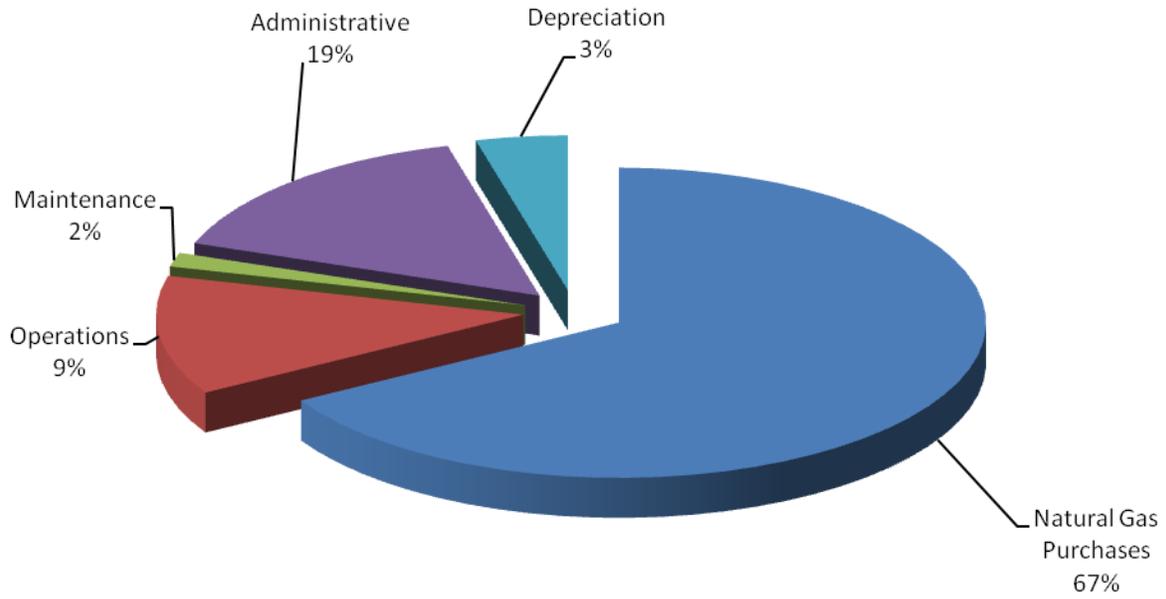
Electric Utility Use of Funds



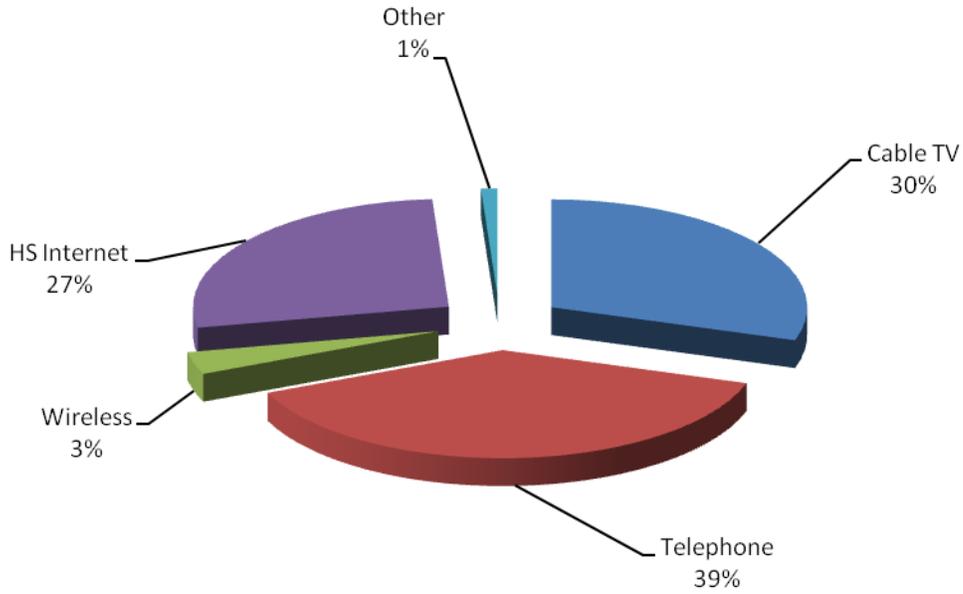
Gas Utility Source of Funds



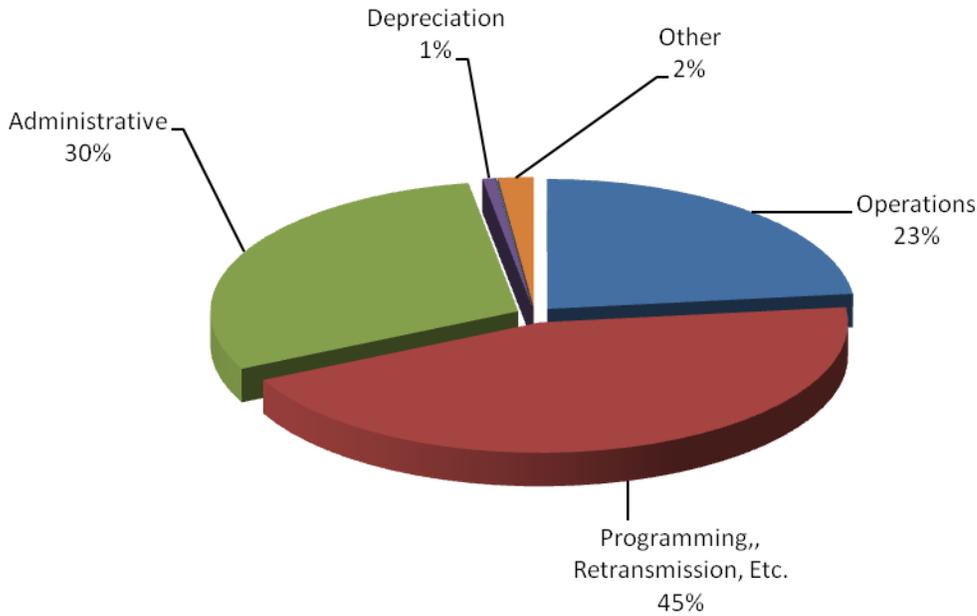
Gas Utility Use of Funds



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, 2012, Osage Municipal Utilities had approximately \$14.2 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 \$765,000 or 5% compared to last year.

Capital Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2012	2011
Land and improvements	\$ 105	\$ 105
Buildings and improvements	1,118	1,725

Equipment and vehicles	12,953	13,016
Iowa Stored Energy Project	35	130
Total	\$ 14,211	\$ 14,976

The changes to capital assets can be attributed to street light additions, purchase of a trencher, VOIP equipment additions and depreciation.

Osage Municipal Utilities had depreciation expense of \$1,067,629 in 2012 and total accumulated depreciation of \$15,949,408 at December 31, 2012.

LONG TERM DEBT/LIABILITIES

At December 31, 2012, Osage Municipal Utilities had \$5,441,000 in revenue bonds outstanding compared to \$6,119,000 at December 31, 2011, as shown below.

Outstanding Debt of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2012	2011
Revenue bonds	\$ 5,441	\$ 6,119
Total	\$ 5,441	\$ 6,119

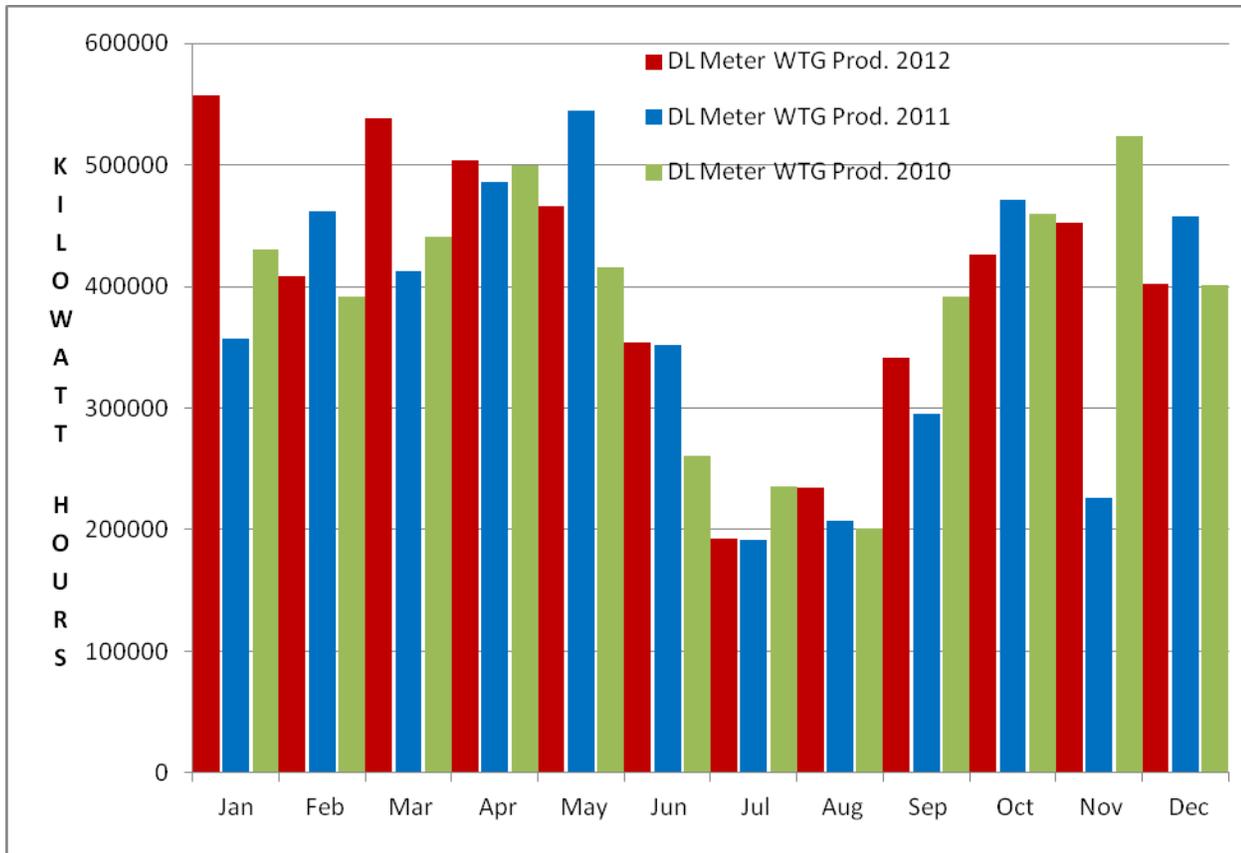
ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The Electric Utility

Osage’s 1.5 MW wind turbine yielded its best production statistics in 2012 after three years of operation. Last year the wind turbine:

- produced 4,879,303 kWh, exceeding the previous year’s production by more than 9%,
- provided 8.9% of Osage’s total electric needs, enough energy to power more than 580 homes, and
- achieved slightly more than a 37% capacity factor, exceeding engineer’s estimate of 32%.

Refer to the accompanying graph for a three-year comparison of monthly energy produced by Osage’s wind turbine.



Thanks to the efforts of two highly trained employees, OMU seldom has to rely on outside contractors to perform maintenance work. The result has enabled us to minimize the cost of wind turbine operations. In fact, total wind turbine expenses have declined by 30% over the last two years.

In keeping with Osage’s long history of promoting energy efficiency, OMU kicked off a street lighting project last year to replace High Pressure Sodium (HPS) street lights with new energy efficient Light Emitting Diode (LED) street lights. The 72 LED street light retrofits are expected to save 50,335 kWh annually and 804,440 kWh over the almost 16-year life of the LED bulbs. The overwhelmingly positive response from the public helps prove that LED lighting quality is superior to the yellowish glare of high pressure sodium lights. The long life, low maintenance costs and reduced light pollution are other positives of LED lighting. This initial project was partially funded through an Energy Efficiency Community Block Grant through the State of Iowa. As LED street light pricing continues to drop, OMU will eventually convert all existing HPS street lights to LED lighting.

Dairyland Power, our longstanding power provider, is among the lowest cost wholesale providers of electricity in the Midwest. Besides serving Osage, Dairyland provides wholesale electric service to 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.

Last year, for the first time, 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 to explore power supply alternatives. Through this larger joint action process, UMMPA members were able to enter into a 20-year fixed rate contract for the purchase of clean, renewable wind energy for our customers at very favorable pricing. We learned from this first experience with large joint action that, by aggregating our needs, we can create the

critical mass necessary to increase economies of scale and make sizable projects possible. With power supply costs representing almost 60% of our operating costs, we feel bound to perform the due diligence commensurate with making these kinds of multi-million dollar and multi-year decisions. For this reason, Osage will continue efforts through joint action to seek an optimal overall strategic power supply plan. Our customers expect that we remain constantly vigilant for strategies to lower their cost of energy. Accordingly, we must periodically monitor our current power supplier's wholesale cost compared to the marketplace and also evaluate the cost associated with increased exposure to potential carbon regulation or legislation.

The Gas Utility

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

In recent years, Osage has investigated the benefits associated with participating in a natural gas prepayment transaction. Such transactions have become an important component of the gas supply portfolios of many public gas distribution systems in the United States over the last several years. Last year, Osage joined with four other much larger municipal entities to participate in the Central Plains Energy Project (CPEP) No. 3 to jointly secure future, reliable natural gas supply at pricing levels that would otherwise not be attainable. CPEP was able to secure for its participants a 30-year supply of up to 20 percent of annual natural gas needs at a significant guaranteed discount to market prices. The ability to finance the cost of acquiring long-term gas supplies through the issuance of tax-exempt bonds was crucial to the success of the transaction. By participating, Osage will save its customers more than \$900,000 over the 30-year term of the gas supply agreement. Natural gas deliveries received through this joint prepay arrangement have proven to be our lowest cost gas volumes.

There is good news to report regarding the transportation component of our total natural gas costs: Northern Natural Gas, the interstate natural gas pipeline that delivers all of Osage's natural gas volumes, has assured us that they have no plans to file a base rate case in 2014. Although the trend at Northern in recent years is towards declining revenues, adjusted net income, and return, all results remain significantly above previous settlement levels. The last rate case settlement was in 2004-2005. We are pleased that the cost of utilizing Northern's pipeline looks to remain stable for yet another year.

Last year, the City of Osage, in conjunction with city and county economic development groups, hosted a groundbreaking ceremony for Valent BioSciences Corporation, a company that specializes in the research, development and commercialization of low-risk, environmentally compatible technologies and products for the agricultural, public health, forestry and household insecticide markets. Valent selected Osage as the site for a new state-of-the-art manufacturing facility that will house fermentation tanks, processing equipment, an office, warehouse and laboratories. The new facility is currently under construction and expected to be fully operational by spring of 2014.

To accommodate Valent's projected need for natural gas, OMU has contracted with Northern Natural Gas to upgrade the town border station to allow for greater volumes of gas. Likewise, OMU has contracted for the construction of almost 2 miles of dedicated pipeline that will connect the new town border station to Valent's \$146 million manufacturing facility. The natural gas in-service date is expected to be September 2013. We are pleased to add this transport component to our existing natural gas distribution business and very optimistic that the associated biotech jobs and capital investment by Valent will foster further growth in the North Central Iowa region.

Cable and Telecommunications

Implementation of DOCSIS 3 in 2011 has revolutionized the Hybrid Fiber Coaxial (HFC) system's ability to exceed all customers' current bandwidth needs while establishing the path for future growth. Current speed tests are capable of 160MB downstream to the customer using only 25% of capacity. With minimal capital investment, OMU's HFC system has the potential to support services for up to 10 more years. Continued investment for maintenance and increased HFC plant capabilities make economic sense until that point where the cost-benefit ratio favors a total fiber solution.

Fiber-To-The-Home (FTTH) is the sleek and sexy young sibling of HFC. Its benefits related to repair and maintenance expense reductions of 20% do not yet justify the cost to replace OMU's fully-capable HFC system. FTTH does have a place in delivering services to new areas of development that are not readily accessible from existing HFC plant. With careful planning, this initial FTTH initiative can also be the foundation of the eventual conversion to an all fiber last-mile delivery system. Fiber is less expensive than coax to deploy and maintain, but increased capital headend costs require a significant customer base to justify its implementation. Fortunately, vendors are now offering scaled systems for smaller implementations. In this case, a FTTH implementation makes economic sense rather than a large investment in extending existing HFC plant. This gradual pay-as-you-go method of converting to FTTH is a more sustainable approach to achieve desired results.

With OMU's custom in-house provisioning system in place for rapid cable modem and electronic media termination adapter configurations and tracking, phone conversions from analog to digital will be in full swing this summer. Several improvements to the digital equipment operating codec have resolved call quality concerns and improved reliability. Plans are to complete phone conversions within 18 months with 10% of OMU's phone customers already converted.

Investigations into next generation cable TV platforms reveal significant improvements in IPTV delivery. OMU's historical lease-instead-of-buy approach has helped avoid large cash outlays for legacy cable TV and phone switching equipment. Rather than build our own estimated one million dollar cable TV headend and half a million dollar phone switch, several potential collaboration opportunities are developing for either shared ownership or service lease agreements. As OMU's progress from analog to digital services continues and with improvements in transport, whole house networks, set-top-box capabilities and over-the-top services, IPTV and VoIP have become the new standards.

Vast improvements in broadband wireless technology, namely MIMO, multiple-input and multiple-output, have allowed significant increases in bandwidth throughput for the latest wireless broadband systems. Enterprise point-to-multipoint systems have increased their speeds by up to 95%. Possible group buying opportunities through

collaborative efforts of our state municipal utility association could reduce costs to replace OMU's existing aging systems this year.

OMU's two main communication auxiliary services, business network services and server co-location, continue their growth by providing valuable services to local and regional customers. Applying OMU's employee expertise adds a level of local professional support for our customers few towns the size of Osage are capable of sustaining. Offering these services at reasonable prices allows state-of-the-art networks for local businesses' continued economic growth. This municipal approach pays dividends by attracting more business and industry who potentially become customers of all Utility services.

Energy Efficiency

OMU continues to capitalize on energy efficiency programs as a means to reduce energy usage for our customers. Shifting responsibility for energy reduction from the Utility to businesses and individuals provides a mechanism for education that eventually changes behavior. By involving our customers in the energy efficiency process, they gain a better understanding of why these programs matter and how the customer can benefit.

Load management is another important program focusing on peak load reduction through voluntary customer involvement. With an impressive 62% participation rate, OMU has the ability to interrupt customers' central air conditioner compressors for 15 minute periods to reduce summer electric peaks. This approach is considerably less expensive than purchasing additional generation to carry the town load and also increases the total capacity available to sell back to the market.

OMU's initiative to replace High Pressure Sodium street lights with LED cobra heads, that began July 2012, has been a great success. Not only are street light energy costs down, customer response is very positive. The Iowa Association of Municipal Utilities' joint purchase program has been extended until the end of 2013 and LED street light prices are on a downward trend. This provides another buying opportunity to continue OMU's street light replacement program to other areas of town.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

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

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

STATEMENTS OF NET POSITION

AS OF DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,243,204	\$ 2,437,678
Accounts receivable (net of allowance for uncollectibles)	527,419	599,096
Unbilled usage	310,863	352,472
Certificate of deposit	31,390	5,829
Inventory	456,464	434,655
Prepaid expenses	24,006	22,734
Other assets:		
Bond discount (net of accumulated amortization)	195,662	234,919
Revolving loan receivable	-	-
Certificate of deposit - restricted	849,614	856,997
Capital assets:		
Capital assets (net of accumulated depreciation)	13,451,639	14,201,461
Total assets	\$ 19,090,261	\$ 19,145,841
 Liabilities:		
Current liabilities:		
Accounts payable	\$ 355,867	\$ 319,662
Accounts payable - City of Osage	90,892	87,301
Customer meter deposits	30,880	18,311
Customer budget billing	24,102	5,454
Accrued expenses	60,202	51,726
Accrued interest payable	10,887	11,959
Deferred revenue	-	-
Revenue bonds payable	683,466	678,466
Noncurrent liabilities:		
Revenue bonds (net of current portion)	4,757,194	5,440,660
Bond premium (net of accumulated amortization)	33,585	43,170
Accrued wind expenses	28,500	19,000
OPEB liabilities	29,652	24,630
Total liabilities	6,105,227	6,700,339
Net position:		
Invested in capital assets (net of related debt)	8,010,979	8,082,335
Restricted - bond covenant	849,614	856,997
Unrestricted	4,124,441	3,506,170
Total Net Position	\$ 12,985,034	\$ 12,445,502

See notes to the financial statements.

FUNDS							
GAS		Cable		NON-MAJOR FUNDS		TOTAL	
2012	2011	2012	2011	2012	2011	2012	2011
\$ 1,057,928	\$ 881,714	\$ 830,301	\$ 737,227	\$ 1,073,064	\$ 851,388	\$ 6,204,497	\$ 4,908,007
178,534	225,558	102,224	96,359	98,822	114,566	906,999	1,035,579
219,200	213,240	-	-	-	-	530,063	565,712
-	-	-	-	-	-	31,390	5,829
7,767	7,767	22,419	15,553	16,660	7,777	503,310	465,752
186,203	183,706	1,991	3,584	1,302	1,215	213,502	211,239
-	-	-	-	-	-	195,662	234,919
288,000	324,000	-	-	-	-	288,000	324,000
-	-	-	-	-	-	849,614	856,997
723,029	739,340	-	-	36,781	35,178	14,211,449	14,975,979
<u>\$ 2,660,661</u>	<u>\$ 2,575,325</u>	<u>\$ 956,935</u>	<u>\$ 852,723</u>	<u>\$ 1,226,629</u>	<u>\$ 1,010,124</u>	<u>\$ 23,934,486</u>	<u>\$ 23,584,013</u>
\$ 244,054	\$ 210,497	\$ 10,896	\$ 6,339	\$ 6,194	\$ 4,003	\$ 617,011	\$ 540,501
-	-	-	-	-	-	90,892	87,301
39,927	34,492	17,931	13,115	2,756	3,086	91,494	69,004
102,097	95,074	-	-	-	-	126,199	100,528
19,688	19,744	8,695	6,354	24,052	24,191	112,637	102,015
-	-	-	-	-	-	10,887	11,959
-	-	95,663	86,963	32,358	34,629	128,021	121,592
-	-	-	-	-	-	683,466	678,466
-	-	-	-	-	-	4,757,194	5,440,660
-	-	-	-	-	-	33,585	43,170
-	-	-	-	-	-	28,500	19,000
35,256	23,028	6,544	-	10,560	13,974	82,012	61,632
441,022	382,835	139,729	112,771	75,920	79,883	6,761,898	7,275,828
723,029	739,340	-	-	36,781	35,178	8,770,789	8,856,853
-	-	-	-	-	-	849,614	856,997
1,496,610	1,453,150	817,206	739,952	1,113,928	895,063	7,552,185	6,594,335
<u>\$ 2,219,639</u>	<u>\$ 2,192,490</u>	<u>\$ 817,206</u>	<u>\$ 739,952</u>	<u>\$ 1,150,709</u>	<u>\$ 930,241</u>	<u>\$ 17,172,588</u>	<u>\$ 16,308,185</u>

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

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

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2012	2011
Operating revenues:		
Charges for service	\$ 5,429,230	\$ 5,773,807
Operating expenses:		
Business type activities	4,703,082	5,032,420
Operating income (loss)	726,148	741,387
Non-operating revenues (expenses):		
Interest income	32,179	39,837
Interest expense	(155,140)	(178,421)
Other income	36,351	31,186
Donations	(73,726)	(70,500)
Total non-operating revenues (expenses)	(160,336)	(177,898)
Other financing sources (uses):		
Operating transfers in	-	39,327
Operating transfers (out)	-	-
State Awards	26,767	-
Gain (loss) on sale of capital assets	(53,047)	(3,843)
Total other financing sources (uses)	(26,280)	35,484
Change in net position	539,532	598,973
Net position - beginning of year	12,445,502	11,846,529
Net position - end of year	\$ 12,985,034	\$ 12,445,502

See notes to the financial statements.

FUNDS							
GAS		Cable		NON-MAJOR FUNDS		TOTAL	
2012	2011	2012	2011	2012	2011	2012	2011
\$ 1,864,658	\$ 2,198,270	\$1,114,623	\$ 1,032,002	\$ 819,922	\$ 706,750	\$ 9,228,433	\$ 9,710,829
1,843,325	2,199,924	1,022,080	946,633	595,975	598,610	8,164,462	8,777,587
21,333	(1,654)	92,543	85,369	223,947	108,140	1,063,971	933,242
6,937	10,025	3,755	5,922	4,603	7,161	47,474	62,945
(111)	(125)	(445)	(293)	(240)	(147)	(155,936)	(178,986)
43,385	41,345	2,031	7,342	4,486	7,464	86,253	87,337
(15,449)	(12,522)	(15,168)	(17,150)	(17,168)	(37,350)	(121,511)	(137,522)
34,762	38,723	(9,827)	(4,179)	(8,319)	(22,872)	(143,720)	(166,226)
-	-	-	-	163,758	-	163,758	39,327
-	-	(5,462)	(12,555)	(158,296)	(26,772)	(163,758)	(39,327)
-	-	-	-	-	-	26,767	-
(28,946)	966	-	-	(622)	-	(82,615)	(2,877)
(28,946)	966	(5,462)	(12,555)	4,840	(26,772)	(55,848)	(2,877)
27,149	38,035	77,254	68,635	220,468	58,496	864,403	764,139
2,192,490	2,154,455	739,952	671,317	930,241	871,745	16,308,185	15,544,046
\$ 2,219,639	\$ 2,192,490	\$ 817,206	\$ 739,952	\$ 1,150,709	\$ 930,241	\$ 17,172,588	\$ 16,308,185

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

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2012	2011
Cash flows from operating activities:		
Cash receipts from customers	\$ 5,352,757	\$ 5,581,413
Cash received from other funds	143,523	143,523
Cash payments to suppliers	(2,804,186)	(3,391,853)
Cash payments to employees	(626,894)	(587,119)
Cash payments to other funds	-	-
Cash payments for contributions	(156,082)	(52,908)
Net cash provided (used) by operating activities	1,909,118	1,693,056
Cash flows from noncapital financing activities:		
Transfers in	-	39,327
Transfers out	-	-
Miscellaneous non-operating revenue	33,701	31,186
Donations	(71,076)	(70,500)
Net cash provided (used) by noncapital financing activities	(37,375)	13
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(232,977)	(1,000,134)
Proceeds from state awards	26,767	-
Proceeds from sale of assets	(53,047)	(3,843)
Proceeds from revenue bonds	-	-
Repayment of revenue bonds	(678,466)	(667,466)
Acquisition of unamortized discount	12,645	2,781
Cash received for revolving loan	-	-
Cash paid for interest	(155,140)	(174,135)
Net cash (used) by capital and related financing activities	(1,080,218)	(1,842,797)
Cash flows from investing activities:		
Purchases of investments	(18,178)	(16,937)
Investment income	32,179	39,837
Net cash provided by investing activities	14,001	22,900
Net increase (decrease) in cash and cash equivalents	805,526	(126,828)
Cash and cash equivalents-beginning of year	2,437,678	2,564,506
Cash and cash equivalents-end of year	\$ 3,243,204	\$ 2,437,678
Reconciliation of operating income to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ 726,148	\$ 741,387
Adjustments to reconcile operating income to Net cash provided by operating activities:		
Depreciation and amortization	999,826	992,314
Change in accounts receivable	71,677	(59,839)
Change in meter deposits and unbilled usage	72,826	10,968
Change in prepaid expenses	(1,272)	750
Change in inventory	(21,809)	3,927
Change in accounts payable and other liabilities	61,722	3,549
Net cash provided (used) by noncapital financing activities	\$ 1,909,118	\$ 1,693,056

See notes to the financial statements.

FUNDS							
GAS		Cable		NON-MAJOR FUNDS		TOTAL	
2012	2011	2012	2011	2012	2011	2012	2011
\$ 1,916,894	\$ 2,174,042	\$ 1,122,274	\$ 1,028,815	\$ 813,449	\$ 658,988	\$ 9,205,374	\$ 9,443,258
-	-	-	-	-	-	143,523	143,523
(1,401,373)	(1,754,820)	(727,647)	(684,093)	(310,193)	(310,903)	(5,243,399)	(6,141,669)
(312,799)	(325,070)	(203,898)	(182,545)	(204,147)	(204,453)	(1,347,738)	(1,299,187)
-	-	(82,366)	(78,465)	(61,157)	(65,058)	(143,523)	(143,523)
(11,000)	(103,444)	-	-	-	(2,479)	(167,082)	(158,831)
<u>191,722</u>	<u>(9,292)</u>	<u>108,363</u>	<u>83,712</u>	<u>237,952</u>	<u>76,095</u>	<u>2,447,155</u>	<u>1,843,571</u>
-	-	-	-	163,758	-	163,758	39,327
-	-	(5,462)	(12,555)	(158,296)	(26,772)	(163,758)	(39,327)
43,385	41,345	2,031	7,342	4,486	7,464	83,603	87,337
(15,449)	(12,522)	(15,168)	(17,150)	(17,168)	(37,350)	(118,861)	(137,522)
<u>27,936</u>	<u>28,823</u>	<u>(18,599)</u>	<u>(22,363)</u>	<u>(7,220)</u>	<u>(56,658)</u>	<u>(35,258)</u>	<u>(50,185)</u>
(57,324)	(76,781)	-	-	(13,419)	-	(303,720)	(1,076,915)
-	-	-	-	-	-	26,767	-
(28,946)	966	-	-	-	-	(81,993)	(2,877)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(678,466)	(667,466)
-	-	-	-	-	-	12,645	2,781
36,000	36,000	-	-	-	-	36,000	36,000
(111)	(125)	(445)	(293)	(240)	(147)	(155,936)	(174,700)
<u>(50,381)</u>	<u>(39,940)</u>	<u>(445)</u>	<u>(293)</u>	<u>(13,659)</u>	<u>(147)</u>	<u>(1,144,703)</u>	<u>(1,883,177)</u>
-	-	-	-	-	-	(18,178)	(16,937)
6,937	10,025	3,755	5,922	4,603	7,161	47,474	62,945
<u>6,937</u>	<u>10,025</u>	<u>3,755</u>	<u>5,922</u>	<u>4,603</u>	<u>7,161</u>	<u>29,296</u>	<u>46,008</u>
176,214	(10,384)	93,074	66,978	221,676	26,451	1,296,490	(43,783)
881,714	892,098	737,227	670,249	851,388	824,937	4,908,007	4,951,790
<u>\$ 1,057,928</u>	<u>\$ 881,714</u>	<u>\$ 830,301</u>	<u>\$ 737,227</u>	<u>\$ 1,073,064</u>	<u>\$ 851,388</u>	<u>\$ 6,204,497</u>	<u>\$ 4,908,007</u>
\$ 21,333	\$ (1,654)	\$ 92,543	\$ 85,369	\$ 223,947	\$ 108,140	\$ 1,063,971	\$ 933,242
73,635	70,827	-	-	11,194	24,646	1,084,655	1,087,787
47,024	(25,490)	(5,865)	(8,309)	15,744	(43,473)	128,580	(137,111)
6,498	1,262	13,516	899	(2,701)	(670)	90,139	12,459
(2,497)	8,986	1,593	1,364	(87)	43	(2,263)	11,143
-	2,723	(6,866)	1,399	(8,883)	699	(37,558)	8,748
45,729	(65,946)	13,442	2,990	(1,262)	(13,290)	119,631	(72,697)
<u>\$ 191,722</u>	<u>\$ (9,292)</u>	<u>\$ 108,363</u>	<u>\$ 83,712</u>	<u>\$ 237,952</u>	<u>\$ 76,095</u>	<u>\$ 2,447,155</u>	<u>\$ 1,843,571</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Jointly Governed Organizations

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

Osage Municipal Utilities also participates in a jointly governed organization that is in the process of being dissolved. The General Manager will continue to serve on the board of the Iowa Stored Energy Park Agency until the entity operations are completed and all assets have been distributed to its members.

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
A COMPONENT UNIT OF THE CITY OF OSAGE**

NOTES TO THE FINANCIAL STATEMENTS

Osage Municipal Utilities has three 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.

The Cable fund is used to account for the delivery of cable and high speed internet 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 accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred, regardless of the timing of cash flows.

The proprietary funds of Osage Municipal Utilities apply all applicable GASB pronouncements.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary. During the year ended December 31, 2012, 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 over \$2,500 (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

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

NOTES TO THE FINANCIAL STATEMENTS

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. Inventories are recorded as expenses when consumed rather than when purchased.

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 is estimated that the carrying values approximate 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, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily

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

NOTES TO THE FINANCIAL STATEMENTS

convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

L. Restricted Assets

Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers. The Utilities' policy is to utilize restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

M. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

The Electric and Gas funds of Osage Municipal Utilities use the direct write off method to charge off uncollectible accounts receivable which approximates the results that would have been experienced using the allowance method to account for bad debts. 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, 2012 and 2011 amounted to less than \$1,000. The charges originate substantially from the Light and Power fund. The Electric and Gas funds had 27 customer balances that were older than 90 days. These customer accounts had outstanding balances of \$3,869. Utilities are shut off for all users when 32 days past due except for utilities purchased under Iowa's Winder Utility Shutoff Moratorium. Therefore, uncollectible accounts are insignificant.

The Cable, Rural Wireless, Internet and Telephone funds (telecom funds) 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. As of December 31, 2012 and 2011 the allowance for doubtful accounts was \$-0-. There were no customer accounts for the telecom funds that were older than 90 days as of December 31, 2012. Accumulated penalties included in the accounts receivable balance at December 31, 2012 and 2011 amounted to less than \$1,000.

Carrier Access Billings, accounted for in the Telephone Fund, did carry a balance of \$29,175 that was older than 90 days and consisted of balances from eighteen telephone companies as of December 31, 2012.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS

Osage Municipal Utilities' deposits at December 31, 2012 and 2011 (which include certificates of deposit totaling \$881,004 and \$862,826 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 \$320,295 and \$264,566 as of December 31, 2012 and 2011, 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, 2012 and 2011.

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

NOTES TO THE FINANCIAL STATEMENTS

Light and Power Fund:

	Bal.1/1/12	Issued	Repaid	Bal.12/31/12
Business type activities:				
Revenue bonds—issued November 2008	\$ 1,325,126	-	\$ 120,466	\$ 1,204,660
Revenue bonds—issued February 2010	424,000	-	18,000	406,000
Revenue bonds—issued February 2010	1,100,000	-	100,000	1,000,000
Revenue bonds—issued December 2010	3,270,000	-	440,000	2,830,000
	<u>\$ 6,119,126</u>	-	<u>\$ 678,466</u>	<u>\$ 5,440,660</u>

Light and Power Fund:

	Bal.1/1/11	Issued	Repaid	Bal.12/31/11
Business type activities:				
Revenue bonds—issued September 2001	\$ 370,000	-	\$ 370,000	\$ -
Revenue bonds—issued November 2008	1,445,592	-	120,466	1,325,126
Revenue bonds—issued February 2010	441,000	-	17,000	424,000
Revenue bonds—issued February 2010	1,200,000	-	100,000	1,100,000
Revenue bonds—issued December 2010	3,330,000	-	60,000	3,270,000
	<u>\$ 6,786,592</u>	-	<u>\$ 667,466</u>	<u>\$ 6,119,126</u>

Annual debt service requirements to maturity for the revenue bonds are as follows:

Year Ending December 31,	Light and Power Series 2008 Interest 1.27%		Light and Power Series 2010 Interest 2-4%		SRF Revenue Bonds Feb 2010 Interest 3%		2010 Refunding Dec 2010 Interest 2-3.25%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 120,466	\$15,299	\$ 100,000	\$ 31,900	\$ 18,000	\$ 12,180	\$ 445,000	\$ 71,263	\$ 683,466	\$130,642
2014	120,466	13,769	100,000	29,900	19,000	11,640	455,000	62,363	694,466	117,672
2015	120,466	12,239	100,000	27,600	19,000	11,070	465,000	53,263	704,466	104,172
2016	120,466	10,710	100,000	25,000	20,000	10,500	480,000	42,800	720,466	89,010
2017	120,466	9,179	100,000	22,000	21,000	9,900	485,000	30,800	726,466	71,879
2018- 2022	602,330	22,949	500,000	58,000	114,000	39,750	500,000	16,250	1,716,330	136,949
2023- 2027	-	-	-	-	135,000	21,450	-	-	135,000	21,450
2028- 2029	-	-	-	-	60,000	2,700	-	-	60,000	2,700
	<u>\$1,204,660</u>	<u>\$84,145</u>	<u>\$1,000,000</u>	<u>\$194,400</u>	<u>\$406,000</u>	<u>\$119,190</u>	<u>\$2,830,000</u>	<u>\$276,739</u>	<u>\$5,440,660</u>	<u>\$674,474</u>

Bond discount amortization was \$17,026 and \$21,507, respectively for the years ended December 31, 2012 and 2011.

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

- A. The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to the sinking fund for the purpose of making the note

**OSAGE MUNICIPAL UTILITIES
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NOTES TO THE FINANCIAL STATEMENTS

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 \$688,499 at December 31, 2012 and 2011.
- D. Sufficient monthly transfers shall be made to an improvement fund to be used solely for the purpose of paying principal or interest on the bonds should insufficient money be available in the sinking and reserve funds; and to the extent not required for the foregoing purposes to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, or capital improvements to the system. The required minimum balance in the reserve is \$100,000 and has been achieved as of December 31, 2012 and 2011.

NOTE 4 – INTEREST COSTS

During the years ended December 31, 2012 and 2011, the interest incurred and expensed is as follows:

	December 31, 2012	December 21, 2011
Light and Power	\$ 155,140	\$ 178,421
Gas	\$ 111	\$ 125
Cable	\$ 445	\$ 293
Non-Major Funds	\$ 240	\$ 147

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 9117, Des Moines, Iowa 50306-9117.

Plan members were required to contribute 5.78% through December 2012 (5.38% through June 30, 2012 and 4.5% through June 30, 2011) of their salary and Osage Municipal Utilities was required to contribute 8.67% through December 2012 (8.07% through June 30, 2012 and 6.95% through June 30, 2011) of covered payroll. Contribution requirements are established by State statute. Osage Municipal Utilities' contributions to IPERS for the years ended December 31, 2012, 2011 and 2010 were \$99,359, \$87,420, and \$74,475 respectively, equal to the required contributions for each year.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – RISK MANAGEMENT

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

NOTE 7 – COMPENSATED ABSENCES

Osage Municipal Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the proprietary fund financial statements. Osage Municipal Utilities' approximate liability for earned vacation payments payable to employees at December 31, 2012 and 2011 is as follows:

December 31, 2012	Light and Power	Gas	Cable	Non-major	Total
Vacation	<u>\$ 42,411</u>	<u>\$ 10,420</u>	<u>\$ 3,534</u>	<u>\$ 9,973</u>	<u>\$ 66,338</u>
December 31, 2011	Light and Power	Gas	Cable	Non-major	Total
Vacation	<u>\$ 36,974</u>	<u>\$ 13,248</u>	<u>\$ 4,289</u>	<u>\$ 8,578</u>	<u>\$ 63,089</u>

NOTE 8 – INTERFUND TRANSFERS

Interfund transfers were made during the years ended December 31, 2012 and 2011. The transfers are as detailed below.

Transfers for the year ended December 31, 2012:

Transferred from:	Transferred to:	Amount
Internet	Wireless	<u>\$ 158,296</u>
Cable	Wireless	<u>\$ 5,462</u>
	Total	<u>\$ 163,758</u>

Transfers for the year ended December 31, 2011:

Transferred from:	Transferred to:	Amount
Telephone	Electric	<u>\$ 26,772</u>
Cable	Electric	<u>\$ 12,555</u>
	Total	<u>\$ 39,327</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – JOINT LEASE AGREEMENT

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

Year Ending:	Payment
2013	\$ 142,408
2014	142,408
2015	142,408
2016	142,408
2017	142,408
2018-2022	712,040
2023-2027	712,040
2028-2032	712,040
2033-2035	427,224
Total	\$ 3,275,384

NOTE 10 – CAPITAL ASSETS

The following schedules disclose the major fixed asset additions for the years ended December 31, 2012 and 2011.

Light and Power Fund - 2012

	Balance 12/31/11	Increases	Decreases	Balance 12/31/12
Capital Assets				
Capital Assets not being depreciated:				
Land	\$ 41,029	-	-	\$ 41,029
Iowa Stored Energy Park Agency	90,000	-	65,930	24,070
Construction in progress	-	5,368	-	5,368
Capital Assets being depreciated:				
Buildings and improvements	1,200,844	-	-	1,200,844
Generating equipment and lines	14,993,910	169,681	173,092	14,990,499
HFC distribution center	5,787,162	9,060	-	5,796,222
Equipment and vehicles	1,521,056	49,387	4,092	1,566,351
Broadband room and digital cable	344,663	56,592	-	401,255
Wind Energy	3,617,660	11,036	-	3,628,696
Total capital assets	27,596,324	301,124	243,114	27,654,334
Less: Accumulated depreciation	13,394,863	982,799	174,967	14,202,695
Book value	\$ 14,201,461			\$ 13,451,639

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

NOTES TO THE FINANCIAL STATEMENTS

Light and Power Fund – 2011

Capital Assets	Balance 12/31/10	Increases	Decreases	Balance 12/31/11
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	2,784	15,947	1,200,844
Generating equipment and lines	14,453,812	576,492	36,394	14,993,910
HFC distribution center	5,767,279	19,883	-	5,787,162
Equipment and vehicles	1,474,894	257,361	211,199	1,521,056
Broadband room and digital cable	196,262	148,401	-	344,663
Wind Energy	3,590,026	27,634	-	3,617,660
Total capital assets	26,827,309	1,032,555	263,540	27,596,324
Less: Accumulated depreciation	12,655,175	975,087	235,399	13,394,863
Book value	<u>\$ 14,172,134</u>			<u>\$ 14,201,461</u>

Gas Fund - 2012

Capital Assets	Balance 12/31/11	Increases	Decreases	Balance 12/31/12
Capital Assets not being depreciated:				
Land	\$ 7,734	-	-	\$ 7,734
Iowa Stored Energy Park Agency	40,000	-	29,300	10,700
Construction in progress	-	15,467	-	15,467
Capital Assets being depreciated:				
Buildings and improvements	580,915			580,915
Peak shaving plant	254,476	-	-	254,476
Gas plant, lines and meters	878,163	38,211	-	916,374
Equipment and vehicles	470,570	34,013	3,091	501,492
Total capital assets	2,231,858	87,691	32,391	2,287,158
Less: Accumulated depreciation	1,492,518	73,636	2,025	1,564,129
Book value	<u>\$ 739,340</u>			<u>\$ 723,029</u>

Gas Fund - 2011

Capital Assets	Balance 12/31/10	Increases	Decreases	Balance 12/31/11
Capital Assets not being depreciated:				
Land	\$ 7,734	-	-	\$ 7,734
Iowa Stored Energy Park Agency	40,000	-	-	40,000

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

NOTES TO THE FINANCIAL STATEMENTS

Capital Assets being depreciated:				
Buildings and improvements	588,741	-	7,826	580,915
Peak shaving plant	237,888	17,196	608	254,476
Gas plant, lines and meters	886,838	17,373	26,048	878,163
Equipment and vehicles	522,208	42,212	93,850	470,570
	<hr/>			
Total capital assets	2,283,409	76,781	128,332	2,231,858
Less: Accumulated depreciation	1,550,023	70,827	128,332	1,492,518
	<hr/>			
Book value	<u>\$ 733,386</u>			<u>\$ 739,340</u>

Internet and Wireless Funds (combined) – 2012

Capital Assets	Balance 12/31/11	Increases	Decreases	Balance 12/31/12
Capital Assets being depreciated:				
Equipment	\$ 231,720	13,420	66,251	\$ 178,889
Organizational costs	40,476	-	-	40,476
	<hr/>			
Total capital assets	272,196	13,420	66,251	219,365
Less: Accumulated depreciation	237,018	11,194	65,628	182,584
	<hr/>			
Book value	<u>\$ 35,178</u>			<u>\$ 36,781</u>

Internet and Wireless Funds (combined) - 2011

Capital Assets	Balance 12/31/10	Increases	Decreases	Balance 12/31/11
Capital Assets being depreciated:				
Equipment	\$ 255,975	-	24,255	\$ 231,720
Organizational costs	40,476	-	-	40,476
	<hr/>			
Total capital assets	296,451	-	24,255	272,196
Less: Accumulated depreciation	236,627	24,646	24,255	237,018
	<hr/>			
Book value	<u>\$ 59,824</u>			<u>\$ 35,178</u>

NOTE 11 – RESTRICTED NET POSITION

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, 2012 and 2011:

December 31, 2012				
	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	\$ 688,499	\$ 68,498	\$ 100,000	\$ 856,997
Deposits	-	827,019	-	827,019
Withdrawals	-	834,402	-	834,402
Balance, end of year	<u>\$ 688,499</u>	<u>\$ 61,115</u>	<u>\$ 100,000</u>	<u>\$ 849,614</u>

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, beginning of year	\$ 678,659	\$ 57,710	\$ 100,000	\$ 836,369
Deposits	9,840	852,954	-	862,794
Withdrawals	-	842,166	-	842,166
Balance, end of year	<u>\$ 688,499</u>	<u>\$ 68,498</u>	<u>\$ 100,000</u>	<u>\$ 856,997</u>

NOTE 12 – REVOLVING LOAN FUND RECEIVABLE

Osage Municipal Utilities received a grant to be used for economic development programs. The initial loan was to the City of Osage for \$360,000 and as they repay their portion the Utilities will develop new programs to loan the money back out. As of December 31, 2012 and 2011 the balance of the receivable was \$288,000 and \$324,000 leaving balances of \$72,000 and \$36,000 respectfully to be loaned out.

NOTE 13 - 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 \$75,000 and \$125,000 for the years ended December 31, 2012 and 2011 respectively. The annual contributions are anticipated to be \$100,000 per year for the next 10 years. The contributions may only come from surpluses generated by Osage Municipal Utilities and are expected to attract economic activity to the region.

NOTE 14 – 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 1 retired member 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 cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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

NOTES TO THE FINANCIAL STATEMENTS

As of December 31, 2012 and 2011 Osage Municipal Utilities' had an OPEB prepaid balance of \$0 and \$1,762 and an OPEB Liability balance of \$82,012 and \$61,632 respectfully. The following table shows the components of the Osage Municipal Utilities' annual OPEB cost for the years ended December 31, 2012 and 2011, the amount actually contributed to the plan and changes in Osage Municipal Utilities' net OPEB obligations:

	December 31, 2012				
	Light and Power	Gas	Cable	Nonmajor Funds	Total
Annual required contribution	\$10,944	\$ 10,864	\$ 6,914	\$ 1,436	\$ 30,158
Interest on net OPEB obligation	550	540	160	252	1,507
Adjustment to annual required contribution	(550)	(540)	(160)	(252)	(1,507)
Annual OPEB cost	10,944	10,864	6,914	1,436	30,158
Contributions made	5,922	(1,364)	370	3,088	8,016
Increase in net OPEB obligation	5,022	12,228	6,544	(3,414)	22,142
Net OPEB obligation beginning of year	24,630	23,028	-	12,212	59,870
Net OPEB obligation end of year	\$ 29,652	\$ 35,256	\$ 6,544	\$ 10,560	\$ 82,012

	December 31, 2011				
	Light and Power	Gas	Cable	Nonmajor Funds	Total
Annual required contribution	\$ 10,944	\$ 10,864	\$ 3,214	\$ 5,136	\$ 30,158
Interest on net OPEB obligation	548	544	160	257	1,509
Adjustment to annual required contribution	(544)	(540)	(160)	(256)	(1,500)
Annual OPEB cost	10,948	10,868	3,214	5,137	30,167
Contributions made	5,926	(1,360)	4,000	(541)	8,025
Increase in net OPEB obligation	5,022	12,228	(786)	5,678	22,142
Net OPEB obligation beginning of year	19,608	10,800	786	6,534	37,728
Net OPEB obligation end of year	\$ 24,630	\$ 23,028	\$ -	\$ 12,212	\$ 59,870

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2011. 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, 2012.

For the years ended December 31, 2012 and 2011, the Utilities contributed \$8,016 and \$8,025 to the medical plan respectively. Plan members eligible for benefits contributed \$0 of the OPEB liability. One Osage Municipal Utilities retiree is currently in the retirement benefit plan.

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

NOTES TO THE FINANCIAL STATEMENTS

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, 2010	\$ 25,468	25.9%	\$ 37,728
December 31, 2011	\$ 30,167	26.6%	\$ 59,870
December 31, 2012	\$ 30,158	26.6%	\$ 82,012

Funded Status and Funding Progress. As of January 1, 2011, the most recent actuarial valuation date for the period January 1, 2010 through December 31, 2012, the actuarial accrued liability was \$204,023, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$204,023. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,084,093 and the ratio of the UAAL to covered payroll was 18.8%. As of December 31, 2012 and 2011, 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 the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the January 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on Osage Municipal Utilities' funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP-2000 Combined Mortality Table projected to 2010 using scale AA. Annual retirement probability 100% at age 60 and termination probabilities were developed based on national averages.

Projected claim costs of the medical plan for retirees are \$833 per month for the Traditional Plan and \$582 for the HSA Plan. 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.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 – PRIOR PERIOD CORRECTION

The Cable Fund was not reported as a major fund for the year ended December 31, 2011, however accounting principles require that the fund be reported as major. The current year comparative statements have separated the Cable Fund from the non-major funds on the financial statements and the appropriate changes to the footnotes have been made. This correction changed the reported fund net position as follows in the financial statements.

As previously reported:

Electric		\$ 12,445,502
Gas		2,192,490
Cable		-
Non-major		1,670,193
	Total	\$ 16,308,185

As corrected:

Electric		\$ 12,445,502
Gas		2,192,490
Cable		739,952
Non-major		930,241
		\$ 16,308,185

NOTE 16 – SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through July 18, 2013, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

DECEMBER 31, 2012

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
Receipts:			
Charges for service	\$ 9,228,433	\$ 8,993,761	\$ 234,672
Interest earnings	47,474	55,022	(7,548)
Miscellaneous	113,020	235,695	(122,675)
	<u>9,388,927</u>	<u>9,284,478</u>	<u>104,449</u>
Disbursements:			
Program:			
Business type activities	8,524,524	9,264,476	739,952
	<u>8,524,524</u>	<u>9,264,476</u>	<u>739,952</u>
Net income	864,403	20,002	<u>\$ 844,401</u>
Balance beginning of year	<u>16,308,185</u>	<u>16,686,186</u>	
Balance end of year	<u>\$ 17,172,588</u>	<u>\$ 16,706,188</u>	

See accompanying independent auditor's report.

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

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

DECEMBER 31, 2012

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine 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 all Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

For the year ended December 31, 2012, 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, 2012

Year Ended December 31,	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
2009	January 1, 2009	-0-	\$182	\$182	0.00%	\$1,144	15.9%
2010	January 1, 2009	-0-	182	182	0.00%	1,164	15.6%
2011	January 1, 2011	-0-	204	204	0.00%	1,084	18.8%
2012	January 1, 2011	-0-	204	204	0.00%	1,198	17.0%

See Note 14 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost and Net OPEB Obligation, funded status and funding progress.

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

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

AS OF DECEMBER 31:

	INTERNET	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ -	\$ 152,550
Accounts receivable (net of allowance for uncollectibles)	-	13,231
Unbilled usage	-	-
Inventory	-	-
Prepaid expenses	-	-
Capital assets:		
Capital assets (net of accumulated depreciation)	-	626
Total assets	\$ -	\$ 166,407
Liabilities:		
Current liabilities:		
Accounts payable	\$ -	\$ 8
Customer meter deposits	-	-
Accrued expenses	-	-
Accrued interest payable	-	-
Deferred revenue	-	-
Revenue bonds payable	-	-
Noncurrent liabilities:		
Revenue bonds (net of current portion)	-	-
OPEB liability	-	5,462
Total liabilities	-	5,470
Net position		
Invested in capital assets (net of related debt)	-	626
Unrestricted	-	160,311
Total Net Position	\$ -	\$ 160,937

See notes to the financial statements.

TELEPHONY		RURAL WIRELESS		TOTAL	
2012	2011	2012	2011	2012	2011
\$ 777,532	\$ 597,539	\$ 295,532	\$ 101,299	\$ 1,073,064	\$ 851,388
93,459	95,933	5,363	5,402	98,822	114,566
-	-	-	-	-	-
16,660	7,777	-	-	16,660	7,777
1,302	1,215	-	-	1,302	1,215
-	-	36,781	34,552	36,781	35,178
<u>\$ 888,953</u>	<u>\$ 702,464</u>	<u>\$ 337,676</u>	<u>\$ 141,253</u>	<u>\$ 1,226,629</u>	<u>\$ 1,010,124</u>
\$ 6,194	\$ 3,995	\$ -	\$ -	6,194	4,003
2,756	2,186	-	900	2,756	3,086
24,052	24,191	-	-	24,052	24,191
-	-	-	-	-	-
26,995	29,227	5,363	5,402	32,358	34,629
-	-	-	-	-	-
-	-	-	-	-	-
10,560	8,512	-	-	10,560	-
<u>70,557</u>	<u>68,111</u>	<u>5,363</u>	<u>6,302</u>	<u>75,920</u>	<u>79,883</u>
-	-	36,781	34,552	36,781	35,178
818,396	634,353	295,532	100,399	1,113,928	895,063
<u>\$ 818,396</u>	<u>\$ 634,353</u>	<u>\$ 332,313</u>	<u>\$ 134,951</u>	<u>\$ 1,150,709</u>	<u>\$ 930,241</u>

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

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

YEARS ENDED DECEMBER 31:

	INTERNET	
	2012	2011
Operating revenues:		
Charges for service	\$ 895	\$ 20,135
Operating expenses:		
Business type activities	3,100	14,513
Operating Income (loss)	(2,205)	5,622
Non-operating revenues (expenses):		
Interest income	186	1,335
Interest expense	-	-
Other income		327
Donations	-	(1,675)
Total non-operating revenues (expenses)	186	(13)
Other financing sources (uses):		
Operating transfers in	-	-
Operating transfers (out)	(158,296)	-
Federal awards	-	-
Gain (loss) on sale of capital assets	(622)	-
Total other financing sources (uses)	(158,918)	-
Change in net position	(160,937)	5,609
Net position - beginning of year	160,937	155,328
Net position - end of year	\$ -	\$ 160,937

See notes to the financial statements

TELEPHONY		RURAL WIRELESS		TOTAL	
2012	2011	2012	2011	2012	2011
\$ 753,501	\$ 624,830	\$ 65,526	\$ 61,785	\$ 819,922	\$ 706,750
561,954	540,402	30,921	43,695	595,975	598,610
191,547	84,428	34,605	18,090	223,947	108,140
3,261	5,174	1,156	652	4,603	7,161
(83)	(81)	(157)	(66)	(240)	(147)
4,486	7,137	-	-	4,486	7,464
(15,168)	(34,500)	(2,000)	(1,175)	(17,168)	(37,350)
(7,504)	(22,270)	(1,001)	(589)	(8,319)	(22,872)
-	-	163,758	-	163,758	-
-	(26,772)	-	-	(158,296)	(26,772)
-	-	-	-	-	-
-	-	-	-	(622)	-
-	(26,772)	163,758	-	4,840	(26,772)
184,043	35,386	197,362	17,501	220,468	58,496
634,353	598,967	134,951	117,450	930,241	871,745
\$ 818,396	\$ 634,353	\$ 332,313	\$ 134,951	\$ 1,150,709	\$ 930,241

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

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

YEARS ENDED DECEMBER 31:

	INTERNET	
	2012	2011
Cash flows from operating activities:		
Cash receipts from customers	14,126	7,764
Cash payments to suppliers	(7,851)	(10,833)
Cash payments to employees	-	(329)
Cash payments to other funds	(715)	(3,585)
Cash payments for contributions	-	(2,479)
Net cash provided (used) by operating activities	5,560	(9,462)
Cash flows from non-capital financing activities:		
Transfers in	-	-
Transfers out	(158,296)	-
Miscellaneous non-operating revenue	-	327
Donations	-	(1,675)
Net cash provided (used) by noncapital financing activities	(158,296)	(1,348)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	-	-
Cash paid for interest	-	-
Net cash (used) by capital and related financing activities	-	-
Cash flows from investing activities:		
Investment income	186	1,335
Net cash provided by investing activities	186	1,335
Net increase (decrease) in cash and cash equivalents	(152,550)	(9,475)
Cash and cash equivalents-beginning of year	152,550	162,025
Cash and cash equivalents-end of year	\$ -	\$ 152,550
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ (2,205)	\$ 5,622
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	4	25
Change in accounts receivable	13,231	(12,371)
Change in meter deposits, unbilled usage and deferred revenue	-	-
Change in prepaid expenses	-	-
Change in inventory	-	-
Change in accounts payable and other liabilities	(5,470)	(2,738)
	\$ 5,560	\$ (9,462)

See notes to financial statements.

TELEPHONY		RURAL WIRELESS		TOTAL	
2012	2011	2012	2011	2012	2011
\$ 734,697	\$ 590,374	\$ 64,626	\$ 60,850	\$ 813,449	\$ 658,988
(291,264)	(290,198)	(11,078)	(9,872)	(310,193)	(310,903)
(200,534)	(198,705)	(3,613)	(5,419)	(204,147)	(204,453)
(55,402)	(57,292)	(5,040)	(4,181)	(61,157)	(65,058)
-	-	-	-	-	(2,479)
<u>187,497</u>	<u>44,179</u>	<u>44,895</u>	<u>41,378</u>	<u>237,952</u>	<u>76,095</u>
-	-	163,758	-	163,758	-
-	(26,772)	-	-	(158,296)	(26,772)
4,486	7,137	-	-	4,486	7,464
<u>(15,168)</u>	<u>(34,500)</u>	<u>(2,000)</u>	<u>(1,175)</u>	<u>(17,168)</u>	<u>(37,350)</u>
<u>(10,682)</u>	<u>(54,135)</u>	<u>161,758</u>	<u>(1,175)</u>	<u>(7,220)</u>	<u>(56,658)</u>
-	-	(13,419)	-	(13,419)	-
<u>(83)</u>	<u>(81)</u>	<u>(157)</u>	<u>(66)</u>	<u>(240)</u>	<u>(147)</u>
<u>(83)</u>	<u>(81)</u>	<u>(13,576)</u>	<u>(66)</u>	<u>(13,659)</u>	<u>(147)</u>
<u>3,261</u>	<u>5,174</u>	<u>1,156</u>	<u>652</u>	<u>4,603</u>	<u>7,161</u>
<u>3,261</u>	<u>5,174</u>	<u>1,156</u>	<u>652</u>	<u>4,603</u>	<u>7,161</u>
179,993	(4,863)	194,233	40,789	221,676	26,451
<u>597,539</u>	<u>602,402</u>	<u>101,299</u>	<u>60,510</u>	<u>851,388</u>	<u>824,937</u>
<u>\$ 777,532</u>	<u>\$ 597,539</u>	<u>\$ 295,532</u>	<u>\$ 101,299</u>	<u>\$ 1,073,064</u>	<u>\$ 851,388</u>
\$ 191,547	\$ 84,428	\$ 34,605	\$ 18,090	\$ 223,947	\$ 108,140
-	-	11,190	24,621	11,194	24,646
2,474	(30,811)	39	(291)	15,744	(43,473)
(1,801)	230	(900)	(900)	(2,701)	(670)
(87)	43	-	-	(87)	43
(8,883)	699	-	-	(8,883)	699
<u>4,247</u>	<u>(10,410)</u>	<u>(39)</u>	<u>(142)</u>	<u>(1,262)</u>	<u>(13,290)</u>
<u>\$ 187,497</u>	<u>\$ 44,179</u>	<u>\$ 44,895</u>	<u>\$ 41,378</u>	<u>\$ 237,952</u>	<u>\$ 76,095</u>

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

**COMBINING SCHEDULE OF OPERATING REVENUE
ENTERPRISE FUNDS**

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2012	2011
Operating revenues:		
Rural	\$ 118,408	\$ 124,279
Residential sales	1,446,376	1,527,920
Commercial and industrial	3,518,111	3,776,709
Public buildings	37,110	41,016
Interruptibles	-	-
Bookkeeping fee - City of Osage	9,750	9,000
Other operating fees	299,475	294,883
	\$ 5,429,230	\$ 5,773,807

See notes to the financial statements.

FUNDS							
GAS		Cable		NON-MAJOR FUNDS		TOTAL	
2012	2011	2012	2011	2012	2011	2012	2011
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 118,408	\$ 124,279
873,454	1,123,699	1,114,623	1,032,002	814,567	702,864	4,249,020	4,386,485
551,884	622,896	-	-	-	-	4,069,995	4,399,605
-	-	-	-	-	-	37,110	41,016
414,166	428,462	-	-	-	-	414,166	428,462
8,250	9,000	-	-	-	-	18,000	18,000
16,904	14,213	-	-	5,355	3,886	321,734	312,982
<u>\$ 1,864,658</u>	<u>\$ 2,198,270</u>	<u>\$ 1,114,623</u>	<u>\$ 1,032,002</u>	<u>\$ 819,922</u>	<u>\$ 706,750</u>	<u>\$ 9,228,433</u>	<u>\$ 9,710,829</u>

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

COMBINING SCHEDULES OF OPERATING EXPENSES

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2012	2011
Operating expenses:		
Plant expenses:		
Supervision and labor	\$ 99,080	\$ 99,284
Payroll taxes	20,047	19,257
Fuel	35,728	34,305
Insurance	23,847	27,122
Supplies	3,981	8,800
Power purchased	2,375,879	2,837,229
Maintenance and materials	8,557	8,357
Miscellaneous	4,954	4,979
Total plant expenses	2,572,073	3,039,333
Wind expenses:		
Supervision and labor	29,781	26,188
Insurance	10,665	6,517
Supplies	9,130	3,304
Maintenance	14,199	38,828
School and travel	6,841	-
Property lease	4,966	4,817
Total plant expenses	75,582	79,654
Distribution expenses:		
Supervision and labor	199,018	199,004
Payroll taxes	35,850	36,706
Insurance	38,958	43,374
Truck expense	19,085	24,536
Supplies	88,886	78,079
Maintenance, repairs and labor	12,549	5,991
Natural gas purchases	-	-
Internet, cable and phone	-	-
Utilities	496	-
Miscellaneous	10,732	14,032
Total distribution expenses	\$ 405,574	\$ 401,722

See notes to the financial statements.

FUNDS							
GAS		Cable		NON-MAJOR FUNDS		TOTAL	
2012	2011	2012	2011	2012	2011	2012	2011
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 99,080	\$ 99,284
-	-	-	-	-	-	20,047	19,257
-	-	-	-	-	-	35,728	34,305
-	-	-	-	-	-	23,847	27,122
-	-	-	-	-	-	3,981	8,800
-	-	-	-	-	-	2,375,879	2,837,229
-	-	-	-	-	-	8,557	8,357
-	-	-	-	-	-	4,954	4,979
-	-	-	-	-	-	2,572,073	3,039,333
-	-	-	-	-	-	29,781	26,188
-	-	-	-	-	-	10,665	6,517
-	-	-	-	-	-	9,130	3,304
-	-	-	-	-	-	14,199	38,828
-	-	-	-	-	-	6,841	-
-	-	-	-	-	-	4,966	4,817
-	-	-	-	-	-	75,582	79,654
135,749	123,122	100,332	85,524	106,419	105,838	541,518	513,488
22,928	19,225	15,796	13,588	16,925	15,585	91,499	85,104
29,050	23,786	27,310	27,338	24,876	23,909	120,194	118,407
9,868	7,846	4,728	4,128	3,185	2,936	36,866	39,446
16,732	20,589	43,234	64,346	(1,694)	18,392	147,158	181,406
26,637	24,942	21,829	34,393	328	2,489	61,343	67,815
1,213,760	1,480,965	-	-	-	-	1,213,760	1,480,965
-	-	572,670	483,054	149,433	131,602	722,103	614,656
204	194	13,480	13,396	13,480	13,396	27,660	26,986
11,578	14,057	3,079	3,133	11,230	6,771	36,619	37,993
\$ 1,466,506	\$ 1,714,726	\$ 802,458	\$ 728,900	\$ 324,182	\$ 320,918	\$ 2,998,720	\$ 3,166,266

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

**COMBINING SCHEDULES OF OPERATING EXPENSES
ENTERPRISE FUNDS**

YEARS ENDED DECEMBER 31:

	ENTERPRISE	
	LIGHT AND POWER	
	2012	2011
Office and administration expenses:		
Office salaries	\$ 211,853	\$ 184,087
Payroll taxes	29,609	22,324
Use tax	4,559	17,173
Property taxes	2,544	2,377
Trustee fees	1,655	1,625
Professional fees	3,565	9,475
Insurance	144,946	144,123
Global warming assessment	5,957	5,807
Office supplies and postage	16,864	14,702
Janitorial services	9,518	9,175
Office equipment expense	2,702	4,195
Dues	12,364	15,320
Contributions in lieu of taxes	156,082	52,908
Energy efficiency	21,463	10,528
Bad debts	6,339	10,637
Joint lease expense	-	-
Miscellaneous	20,008	14,941
Total office and administration expenses	650,028	519,397
Other expenses:		
Depreciation	982,799	970,807
Amortization	17,026	21,507
Total other expenses	999,825	992,314
 Total operating expenses	 \$ 4,703,082	 \$ 5,032,420

See notes to the financial statements.

FUNDS							
GAS		Cable		NON-MAJOR FUNDS		TOTAL	
2012	2011	2012	2011	2012	2011	2012	2011
\$ 126,755	\$ 142,540	\$ 73,597	\$ 85,496	\$ 67,980	\$ 68,999	\$ 480,185	\$ 481,122
25,712	38,102	12,519	-	11,168	12,090	79,008	72,516
1,795	3,271	3,704	3,027	681	634	10,739	24,105
-	-	-	-	8,642	5,345	11,186	7,722
1,655	1,625	1,655	1,625	1,655	1,625	6,620	6,500
9,779	7,391	3,564	7,166	4,179	7,810	21,087	31,842
53,230	60,097	27,143	25,888	27,034	28,867	252,353	258,975
2,430	2,800	-	-	-	-	8,387	8,607
13,346	13,446	5,654	4,648	6,737	6,242	42,601	39,038
9,560	9,175	-	-	-	-	19,078	18,350
2,153	2,351	391	698	391	812	5,637	8,056
9,410	6,843	33	42	3,177	4,166	24,984	26,371
11,000	103,444	-	-	-	2,479	167,082	158,831
19,737	10,954	-	-	-	-	41,200	21,482
819	2,839	-	-	19,615	1,360	26,773	14,836
-	-	82,365	78,465	61,158	65,058	143,523	143,523
15,802	9,493	8,997	10,678	48,182	47,559	92,989	82,671
<u>303,183</u>	<u>414,371</u>	<u>219,622</u>	<u>217,733</u>	<u>260,599</u>	<u>253,046</u>	<u>1,433,432</u>	<u>1,404,547</u>
73,636	70,827	-	-	11,194	24,646	1,067,629	1,066,280
-	-	-	-	-	-	17,026	21,507
<u>73,636</u>	<u>70,827</u>	<u>-</u>	<u>-</u>	<u>11,194</u>	<u>24,646</u>	<u>1,084,655</u>	<u>1,087,787</u>
<u>\$ 1,843,325</u>	<u>\$ 2,199,924</u>	<u>\$ 1,022,080</u>	<u>\$ 946,633</u>	<u>\$ 595,975</u>	<u>\$ 598,610</u>	<u>\$ 8,164,462</u>	<u>\$ 8,777,587</u>



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

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

To the Board of Trustees of the
Osage Municipal Utilities:

We have audited, in accordance with the 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, the financial statements of each major fund and the aggregate remaining fund information of Osage Municipal Utilities, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise OMU's basic financial statements, and have issued our report thereon date July 18, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Osage Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Osage Municipal Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. However, as described in the accompanying schedule of findings, we identified a deficiency in internal control that we consider to be a material weakness.

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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We

consider the deficiency II-A-12 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

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

Osage Municipal Utilities' Response to Finding

Osage Municipal Utilities' response to the finding identified in our audit is described in the accompanying schedule of findings. The response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

July 18, 2013

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

SCHEDULE OF FINDINGS

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.

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

SCHEDULE OF FINDINGS

Part II: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Material Weaknesses:

II-A-12: Condition: The financial statements for the year ended December 31, 2011 did not report all the major funds in separate columns in the financial statements as required.

Criteria – A system of internal controls, when working properly, should identify all reporting issues such as major fund determination.

Cause – The internal control monitoring system did not identify all major funds.

Effect – The Cable Fund was included with the non-major funds when it should have been in its own column in the 2011 financial statements.

Recommendation – We recommend that you complete a major fund determination annually prior to the issuance of the financial statements.

Response – We will review our procedures used to determine major funds.

Conclusion - _Response accepted.

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

SCHEDULE OF FINDINGS

Part III: Other Findings Related to Statutory Reporting:

- III-A-12 Certified Budget - Disbursements during the year ended December 31, 2012 were within the budgeted limits.

- III-B-12 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-12 Travel Expense – No disbursements of the Utilities’ money for travel expenses of spouses of Utilities’ officials or employees were noted.

- III-D-12 Business Transactions – No business transactions between the Utilities and the Utilities’ officials or employees were noted.

- III-E-12 Bond Coverage – Surety bond coverage of the Utilities’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- III-F-12 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.

- III-G-12 Revenue Bonds – No violations of revenue bond resolution requirements were noted.

- III-H-12 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policy.

- III-I-12 Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.