CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Financial Statements
(With Independent Auditor's Report Thereon)

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

Schedule of Findings

June 30, 2013 and 2012

Shull
and Co. P.C.
certified public accountants

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

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CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Officials

June 30, 2013

Electric and Water Utility Board of Trustees
Authority: Indianola City Ordinance No. 642

		Term Expires December 31	Amount Of Bond
Chris Boone		2013	300,000
Eric Vander Linden	July 2011 Chairperson	2014	300,000
Bob Lester	June 2012 Chairperson	2015	300,000
Pat Reding	January 2013 Chairperson	2017	300,000
Grant Johnson		2018	300,000

Indianola Municipal Utilities Management

Todd Kielkopf	General Manager	300,000
Bob Miller	Electric Superintendent	300,000
Lou Elbert	Water Superintendent	300,000
Mike Metcalf	Director of Technical Services	300,000
Chris Longer	Program Coordinator	300,000

City Officials and Management

Christopher DesPlanques	Director of Finance	300,000
RoxAnne Hunerdosse	Director of Human Resources	300,000
Diana Bowlin	City Clerk	300,000
Douglas Shull	City Treasurer	300,000

All other city employees are bonded under the Cincinnati Insurance Employee Loss Coverage, "Faithful Performance Blanket Position Bond," # BD0359727 in the amount of $300,000.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Board of Trustees Report

March 1, 2014

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

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

Indianola Municipal Utilities' financial statements have been audited by Shull & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2013 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Indianola Municipal Utilities' financial statements for the fiscal year ended June 30, 2013 are fairly presented. The independent auditor's report is presented as the first component of the financial section of this report.

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

Profile of the Utility Board of Trustees

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

Electric and water utility territories are fixed in that any new territory expansions must be negotiated and purchased from incumbent service providers. The telecommunications utility has no fixed territory and leases fiber optic lines to customers and has a licensing arrangement with a private telecom service provider.

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

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

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

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

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

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

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

Cash temporarily idle during the year was invested in bank deposits or money market funds, repurchase agreements, and the Iowa Public Agency Investment Trust. These temporary cash deposits were maintained in stable value investments with a June 30, 2013 rate of return of .25%.

The utility invests reserve funds (those not intended to be expended within 365 days) in a portfolio with the assistance of an investment advisement firm. The investment portfolio includes mortgage-backed securities, obligations of the U.S. Treasury or its agencies, and cash held in a public entity money market fund. At fiscal year end, the effective duration of the portfolio was 3.24 years with a current yield of 2.13%. Reported returns may include changes in fair value during the year but do not necessarily represent continuing returns; nor is it always possible to realize changes in fair value, especially in the case of temporary changes for securities the city intents to hold until maturity.

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

Risk management. Indianola Municipal Utilities participates in the Iowa Communities Assurance Pool (ICAP), a local government risk-sharing pool with over 600 members throughout the state of Iowa. The utility makes annual contributions to ICAP recorded as disbursements from its operating funds for automobile, property, casualty, and liability coverage. The utility maintains reserve funds to meet deductibles as they occur. The utility also participates as a member of the Iowa Municipal Workers' Compensation Association (IMWCA) and pays premiums to the association on an annual basis from its operating funds. The utility purchases boiler and machinery insurance from a private carrier. In addition, the utility has an ongoing safety program to monitor its facilities and employees to maintain a safe environment for employees and the public. Additional information on Indianola Municipal Utilities' risk management activity can be found in notes to the financial statements.

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

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

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

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

Closing

State law and city ordinance require municipal utility boards to provide the city council an annual report with complete financial statements. State law also requires the city to publish within nine months of the close of each fiscal year a complete set of financial statements, including that of municipal utilities as a component unit. State law requires that financial statements must be audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to these requirements, we hereby issue this report for Indianola Municipal Utilities for the fiscal year ending June 30, 2013.

Todd Kielkopf
General Manager

Christopher DesPlanques
Director of Finance & Administrative Services

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES

Operational Review

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

The following summary provides a brief review of the various departmental activities and accomplishments in FY 2013.

- **Electric Utility.** The electric utility provides reliable service by purchasing wholesale energy for the community as a whole, receiving it over the transmission system, generating electricity within Indianola as needed, and distributing it safely to customers. Significant progress toward implementing operational strategies include:

    - Approval of 69kV tariff and 30.9 credit agreements between MEC & MEAN and MEAN & IMU
    - Issued Certificate of Substantial Completion for East Side Conversion Project
    - Progress on Hwy 65/69 Conversion Project
    - Set new electric peak at 34.068 MW
    - Began wreck-out of the East Side Conversion Project
    - W IA Trail Conversion Project cost estimate project put on hold
    - Approved supplemental capacity agreement between MEAN & IMU
    - Design finalized & project was bid to relocate both the Patterson 69kV line and IMU distribution system as part of the IDOT W Hwy 92 project; developed reimbursement agreements with MEC and IDOT
    - Let contracts to relocate both the Patterson 69kV line and IMU distribution system as part of the IDOT W Hwy 92 project; completed reimbursement agreements with MEC and IDOT
    - Prepared options to replace streetlights on The Square

- **Water Utility.** The water utility provides reliable water service by pumping it from wells, treating it, keeping enough in storage to meet daily needs, and distributing it to customers. Significant progress towards implementing operational strategies include:

    - Repaired record number of water main breaks
    - 2013 Ann Parkway Water Main Replacement Project
    - Repairs to Well #12 pump
    - Completed construction on the 2012 street & water main replacement project
    - Reviewed proactive plant maintenance options developed with V&K
    - Finalized the A.T&T. cellular tower lease contract
    - Prepared engineering materials replace the aerator at the Water Treatment Plant

- **Communications Utility.** The communications utility provides the infrastructure that transmits affordable, competitive, and technologically advanced telecommunications service for both retail and other public uses. Telephone and Internet services are offered to commercial customers through a contractual private/public partnership. Significant progress towards implementing operational strategies include:

    - Series of overnight conversions to splice over from the old fiber network to the new system backbone fiber
    - IMU Network Services expansion featured on Broadband Nation Internet radio program and several on-line media sources
    - Finished construction and splicing distribution system, MST blocks, cabinet installation (5 of 6), and began providing residential customers with triple-play services (TV, Internet & phone)
    - East Side Conversion Area project extensions reached substantial completion
    - Developed maps and rough budgets for fill-in areas
    - Constructed the W. Hwy 92 fiber route extension
    - Amended the Facility Use Agreement with the Electric Utility & set new rate

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

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

  Public Works:

    - Worked with legal counsel to enforce ROW ordinances and IMU pole attachment resolutions for poles where IMU has and will remove electric facilities
    - Began removing IMU poles; waiting on City of Indianola enforcement where IMU facilities have been wrecked out

Economic Development & Community Betterment:

- Held meetings with Simpson College and the IDA regarding a potential partnership to support Indianola entrepreneurs; developed related planning and presentation materials
- Memorandum of Understanding approved with the IDA & Simpson College to transition to an Economic Gardening approach to local utility development efforts
- Planning meetings held regarding potential on-campus and outreach programs
- GM Todd Kielkopf re-appointed to WCEDC board and co-chairing committee focusing on business retention & entrepreneurial support
- Worked with Simpson College & the IDA to develop a temporary location for an on-campus incubator location (Heckert Hall)
- IDA reached agreement for a Project Manager (Meidh/Chris Draper) and Volunteer Coordinator (Deb Downey)
- Business department students enrolled in a Capstone Class began working on 5 technology startups
- The EMERGE@Simpson College program was formally named where both Capstone and, in the future, independent study students receive credit for working on projects
- The Simpson College chapter of enactus, WCEDC, and Deb Downey marketed classes to Warren Co. residents that are geared towards helping new small businesses
- Meetings held on a potential long-term location (Masonic Temple building) with interest expressed by Warren Co. by their joining in the MOU; worked on funding sources
- Media attention by several regional and on-line sources for the collaborative effort
- Classes held to help new small business owners
- Meetings held with the new President of Simpson College regarding their upcoming strategic planning and where EMERGE@Simpson College stands as a priority programs

Technical Services & Programs:

- Held the annual Customer Appreciation Luncheon in the IMU line shop
- Designed Network Services Partners logo and distributed marketing materials with MCG
- Worked with MCG to begin IMU Partners Program co-location & marketing under a MOU until a 28E Agreement is finalized
- Submitted a FEMA application to develop a community/utility awareness mobile app
- Finished drafting and approved the 28E Agreement to form the IMU Partners Agency
- Recognized as Iowa's first Connected Community; received media attention
- Co-hosted the first Beautification Blowout with the Indianola Sustainability Committee
- Attended & presented information at the Iowa Broadband Summit where Indianola was recognized for connectivity efforts

Governance and Professional Services:

- Reviewed & adopted revised Communications Utility Rules, Regulations and Rates
- Adopted revised MCG license & retail rates
- Approved electric rate increase at recommended levels
- Adopted Strategic Plan and reviewed associated Capital Improvement Plan components
- Approved annual budget and prepared presentations on macro-level topics
- Developed debt schedule for the 2012 water main project and accelerated the debt schedule for the loan between the Electric & Water utilities

Shull
and Co. P.C.
certified public accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

Report on the Financial Statements

We have audited the accompanying statement of net position of the Indianola Municipal Utilities, a component unit of the City of Indianola, Iowa, as of June 30, 2013 and 2012 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, which collectively comprise the Utilities' financial statements 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 error or fraud.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards of 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 Utilities' 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 Utilities' 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.

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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 financial position of the Indianola Municipal Utilities as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

The other information, Management's Discussion and Analysis and budgetary comparison information on pages 13 through 19 and 37 through 40 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards we have also issued our report dated September 27, 2013 on our consideration of the Indianola Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Indianola Municipal Utilities' internal control over financial reporting and compliance.

Shull & Co., P.C.

September 27, 2013

Management Discussion and Analysis (MD&A)

Indianola Municipal Utilities offers readers of its financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in this report.

2013 Financial Highlights

- Indianola Municipal Utilities has ending cash and investment balances totaling $9,901,232 to meet the utility's ongoing obligations to citizens, creditors, for capital reinvestment in utility operations, and for emergency repairs.
- The utility annually uses prior years' positive cash flow and balances to reinvest in capital assets, as detailed in the "Long term financial planning" section of this MD&A.
- As reported on the Statement of Cash Flows, total cash and investment balances increased by $481,687.
- Net cash provided by operating activities was $4,017,262, which increased by $944,225 from the prior year.
- At the end of the current fiscal year, unrestricted and undesignated net position totaled $11,240,328, which increased by $11,538 over the prior year.
- The utility's total liabilities decreased $1,478,895 during the current fiscal year. Current liabilities decreased by $57,680, primarily from decreased accounts payable.

Using this Annual Report

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

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

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

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

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

Reporting the Utility's Financial Activities

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

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

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

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

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

Analysis of Financial Activities

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

Statement of Net Position	Year ended June 30, 2013	Year ended June 30, 2012
Assets		
Current	$ 13,303,155	13,295,449
Restricted	1,888,313	1,935,564
Other	225,000	300,000
Capital	44,123,046	43,747,651
Total Assets	59,539,514	59,278,664
Liabilities		
Current	3,367,860	3,342,177
Long Term	9,762,451	11,202,827
Total Liabilities	13,130,311	14,545,004
Net Position		
Invested Capital Assets	34,206,195	32,418,824
Restricted	527,240	593,652
Designated	499,642	492,394
Unrestricted & Undesignated	11,176,126	11,228,790
Total Net Position	$ 46,409,203	44,733,660

As shown above, total utility net position remained relatively stable, increasing 3.89% or $1,739,741. Invested Capital Assets increased by $1,787,371 as construction projects progressed. The utility also repaid $1,405,376 of indebtedness in FY 2013.

Net Income	Year ended June 30, 2013	2012
Operating revenues		
Sales of electricity	$ 11,541,231	10,775,267
Electrical capacity contract fees	378,840	325,630
Electrical transmission revenue	314,670	-
Sales of water	2,275,942	2,360,367
Fiber communications rental fees	234,494	165,463
Other	261,255	218,770
Total operating revenue	15,006,432	13,845,497
Operating expenses		
Electric utility	10,043,853	9,282,349
Water utility	1,351,320	1,293,145
Fiber communications utility	41,052	33,693
Administrative and general	1,354,216	1,336,412
Transfer to city for Clerk's operations	320,900	311,600
Transfer to city in lieu of property taxes	561,900	512,600
Total operating expenses	13,673,241	12,769,799
Income from operations	1,333,191	1,075,698
Nonoperating revenue (expenses)		
Revenue	493,902	924,134
Expenses	(380,018)	(486,305)
Net Income	$ 1,447,075	1,513,527

Income from operations increased by $257,493. This was due to a combination of rate increases for both the Electric & Water utilities and higher sales volume.

Budgetary Highlights

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

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

Capital Asset and Debt Administration

The utility issued no additional debt during the fiscal year.

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

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

	Outstanding Debt at Year ended June 30,	
	2013	**2012**
Electric utility		
Revenue bonds	$ 9,000,000	10,010,000
Water utility		
Revenue bonds	1,085,000	1,350,000
General Obligation bonds (issued by city)	1,091,700	1,217,236
Communications utility	-	-
Total	$ 11,176,700	12,577,236
Internal loan from Electric utility to Water utility	$ 2,338,000	2,925,046

Economic Factors and Next Year's Budgets and Rates

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

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

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

- Phase II of the long-term electric underground conversion project. Additional debt of $5 million can be structured within current electric rates. It is anticipated this would be issued within 3-5 years.

- Water main replacements estimated at $500,000 using available cash in excess of the utility's reserve policy.

- Construction of additional fiber optic trunk lines within the next 5 years (amount dependent upon opportunities to obtain adequate financial returns on investment).

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

The utility has hedged these risks by purchasing 11.5% of its wholesale supply from alternative energy sources. New alternative supplies that would be required could be at a much higher price. Regulations could also cause higher average prices for conventional energy. The landfill gas project is structured such that higher daily prices benefit the utility.

Budgets and Rates. Indianola Municipal Utilities maintained existing electrical rates in FY 2013 and additional annual rate increases are planned for the foreseeable future to maintain bond coverage for new debt being issued to fund capital projects and to pay for projected wholesale energy costs. Water rates remained stable. The communications utility entered into a new agreement with its private partner to begin receiving that offset debt carrying costs.

Requests for Information

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

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Net Position
June 30, 2013 and 2012

ASSETS	2013	2012
Current assets		
Cash and investments	$ 8,012,920	7,483,982
Accounts receivable - customers	2,529,792	2,758,208
Other accounts receivable	35,640	19,625
Accrued interest receivable	26,678	29,050
Inventories	2,623,125	2,929,584
Promissory note receivable within one year	75,000	75,000
Total current assets	13,303,155	13,295,449
Restricted assets - cash and investments		
Electric revenue note and interest sinking fund	224,800	298,024
Electric revenue note debt service reserve fund	1,084,000	1,084,000
Electric revenue note improvement fund	207,691	207,691
Water revenue bond and interest sinking fund	161,822	135,849
Water revenue bond debt service reserve fund	135,000	135,000
Water revenue bond water improvement fund	75,000	75,000
	1,888,313	1,935,564
Promissory note receivable after one year	225,000	300,000
Electric utility plant and equipment, net of accumulated depreciation of $24,187,333 (2012 - $22,919,265)	29,459,735	28,831,023
Water utility plant and equipment, net of accumulated depreciation of $10,074,855 (2012 - $9,505,443)	14,536,506	14,772,125
Fiber communications utility plant and equipment, net of accumulated depreciation of $772,905 (2012 - $755,207)	126,805	144,503
	44,123,046	43,747,651
	$ 59,539,514	59,278,664

See accompanying notes to financial statements.

LIABILITIES	2013	2012
Current liabilities		
Accounts payable	$ 1,648,194	1,677,118
Wages and benefits payable	192,427	185,886
Sales tax payable	2,106	616
Deferred rental fees	8,071	8,773
Accrued interest payable	1,589	1,872
General obligation bonds payable within one year	154,400	126,000
Total current liabilities	2,006,787	2,000,265
Current liabilities payable from restricted assets		
Accrued interest payable	51,073	66,912
Electric revenue capital loan notes and bonds payable within one year	1,040,000	1,010,000
Water revenue refunding capital loan notes and bonds payable within one year	270,000	265,000
Current liabilities payable from restricted assets	1,361,073	1,341,912
Electric revenue capital loan notes and bonds payable after one year (net of unamortized premium of $70,438 (2012 - $52,592))	8,030,438	9,052,592
General obligation bonds payable after one year (net of unamortized discount of $20,698 (2012 - $24,944))	916,602	1,066,756
Water revenue refunding capital loan notes and bonds payable after one year (net of unamortized premium of $411 (2012 - discount $1,521))	815,411	1,083,479
Total long term liabilities	9,762,451	11,202,827
Total liabilities	$ 13,130,311	14,545,004
NET POSITION		
Invested in capital assets, net of related debt	$ 34,206,195	32,418,824
Restricted for debt service	244,549	310,961
Restricted for electric utility improvements	207,691	207,691
Restricted for water utility improvements	75,000	75,000
Unrestricted		
Designated for payment of insurance coverage deductibles	22,851	17,592
Designated for economic development revolving loan fund	476,791	474,802
Undesignated	11,176,126	11,228,790
Total unrestricted	11,675,768	11,721,184
Total net position	$ 46,409,203	44,733,660

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues		
Sales of electricity	$ 11,541,231	10,775,267
Sales of water	2,275,942	2,360,367
Fiber communications rental fees	234,494	165,463
Capacity contract fees	378,840	325,630
Transmission revenue	314,670	-
Other	261,255	218,770
Total operating revenues	15,006,432	13,845,497
Operating expenses		
Electric utility		
Purchased energy	7,152,377	6,644,002
Plant operation and maintenance	481,600	334,181
Distribution operation and maintenance	1,091,407	1,007,711
Transmission operation and maintenance	29,701	88,326
Depreciation and amortization	1,288,768	1,208,129
Water utility		
Plant operation and maintenance	554,312	672,328
Distribution operation and maintenance	227,596	93,167
Depreciation and amortization	569,412	527,650
Fiber communications utility		
Operation and maintenance	23,354	15,650
Depreciation and amortization	17,698	18,043
Administrative and general	1,354,216	1,336,412
Transfer to city for Clerk's operations	320,900	311,600
Transfer to city in lieu of property taxes	561,900	512,600
Total operating expenses	13,673,241	12,769,799
Income from operations	1,333,191	1,075,698

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Revenues, Expenses and Changes in Net Position - Continued
Years Ended June 30, 2013 and 2012

	2013	2012
Nonoperating revenues (expenses)		
Investment income	197,320	244,942
Connection fees	46,051	96,005
Gain (loss) on sale of capital assets	(14,346)	10,550
USDA Rural Economic Development Grant	-	300,000
Other	264,877	272,637
Bond issuance costs	-	(63,038)
Interest expense	(380,018)	(423,267)
	113,884	437,829
Net income	1,447,075	1,513,527
Capital contributions from customers and developers	220,510	184,054
Capital contributions from water main connection fees	7,958	1,075
Change in net position	1,675,543	1,698,656
Net position, beginning of year	44,733,660	43,035,004
Net position, end of year	$ 46,409,203	44,733,660

See accompanying notes to financial statements.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Cash received from customers	$ 15,093,159	13,309,674
Cash paid to suppliers	(9,367,202)	(8,666,381)
Cash paid to employees	(2,019,623)	(1,949,898)
Other nonoperating fees and revenues received	310,928	368,642
Net cash provided by operating activities	4,017,262	3,062,037
Cash flows from noncapital financing activities		
USDA Rural Economic Development Grant	-	300,000
Net cash provided by noncapital financing activities	-	300,000
Cash flows from capital and related financing activities		
Purchases and construction of electric utility plant and equipment	(1,853,830)	(3,271,365)
Purchases and construction of water utility plant and equipment	(221,233)	(847,740)
Purchases and construction of fiber communications utility plant and equipment	-	(50,000)
Proceeds from sale of capital assets	29,954	10,550
Water main connection fees received	7,958	1,075
Electric revenue bonds issued	-	1,809,374
Water revenue refunding bonds issued	-	1,347,300
General obligation bonds issued	-	572,700
Bond issue costs paid	-	(63,038)
General obligation bond principal paid	(126,000)	(90,000)
General obligation bond interest paid	(20,225)	(28,100)
Electric revenue capital loan notes and bonds principal paid	(1,010,000)	(830,000)
Electric revenue capital loan notes and bonds interest paid	(340,363)	(307,725)
Water revenue refunding capital loan notes and bonds principal paid	(265,000)	(1,590,000)
Water revenue refunding capital loan notes and bonds interest paid	(11,528)	(42,588)
Net cash used by capital and related financing activities	(3,810,267)	(3,379,557)
Cash flows from investing activities		
Promissory note receivable issued	-	(375,000)
Promissory note principal received	75,000	-
Investment income received	199,692	268,010
Net cash provided (used) by investing activities	274,692	(106,990)
Net increase (decrease) in cash and investments	481,687	(124,510)
Cash and investments, beginning of year	9,419,546	9,544,056
Cash and investments, end of year	$ 9,901,233	9,419,546

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Statement of Cash Flows - Continued
Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	$ 1,397,393	1,075,698
Adjustments		
Other nonoperating fees and revenues	310,928	368,642
Depreciation	1,875,878	1,753,822
(Increase) decrease in accounts receivable - customers	212,401	(464,330)
(Increase) decrease in inventories	306,459	191,197
Increase (decrease) in accounts, wages and benefits, and sales tax payable	(85,095)	137,710
Decrease in deferred rental fees	(702)	(702)
Net cash provided by operating activities	$ 4,017,262	3,062,037
Noncash capital and related financing and investing activities		
Developer contributions of electric utility plant and equipment	$ 107,950	66,804
Developer contributions of water utility plant and equipment	112,560	117,250

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

2. UTILITY PLANT AND EQUIPMENT

The following is a summary of utility plant and equipment in service as of June 30, 2013 and 2012:

	2013	2012
Electric utility		
Land	$ 359,207	359,207
Service territory	446,000	446,000
Generating units	15,161,374	15,161,374
Transmission and distribution systems	33,019,679	31,241,808
Power plant building	2,120,678	2,147,323
Computer equipment	403,968	403,968
Equipment	751,238	751,238
Vehicles	1,384,924	1,239,370
	$ 53,647,068	51,750,288
Water utility		
Land	$ 416,270	416,270
Service territory	328,412	328,412
Buildings and plant	7,595,528	7,595,528
Wells and towers	4,654,755	4,590,517
Mains, hydrants and meters	10,816,694	10,572,176
Machinery and equipment	298,512	598,512
Vehicles	201,190	176,153
	$ 24,311,361	24,277,568
Fiber communications utility		
Distribution and connection systems	$ 899,711	899,711

3. PROMISSORY NOTE

The Utility has a promissory note in connection with the Utility's revolving loan fund. Principal, with no interest thereon, is payable annually from October 2012. Principal not paid when due shall accrue interest at the rate of 8% per annum.

Promissory notes maturities are as follows as of June 30, 2013:

Year ending June 30,	Principal
2014	$ 75,000
2015	75,000
2016	75,000
2017	75,000
	$ 300,000

4. REVENUE BONDS AND NOTES PAYABLE

The Utility has pledged future electric customer receipts, net of specified operating disbursements, to repay $9,040,000 of Electric Revenue Capital Loan Notes issued in June 2010. Proceeds from the notes provided financing for improvements and extensions to the Municipal Electric Utility. The notes are payable solely from electric customer net receipts and are payable through 2025. Annual principal and interest payments on the notes are expected to require less than 100% of net receipts. The total principal and interest remaining to be paid on the notes is $9,323,300. For the current year, principal and interest paid and total customer net receipts were $1,141,125 and $771,863, respectively.

The Utility has pledged future electric customer receipts, net of specified operating disbursements, to repay $1,800,000 of Electric Revenue Bonds issued in December 2011. Proceeds from the notes provided financing for improvements and extensions to the Municipal Electric Utility, including underground distribution lines and communication systems, plant improvements and related equipment. The notes are payable solely from electric customer net receipts and are payable through 2022. Annual principal and interest payments on the notes are expected to require less than 100% of net receipts. The total principal and interest remaining to be paid on the notes is $1,814,385. For the current year, principal and interest paid and total customer net receipts were $209,238 and $771,863, respectively.

4. REVENUE BONDS AND NOTES PAYABLE - Continued

The resolutions providing for the issuance of the revenue capital loan notes and bonds include the following provisions:

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

b. Sufficient monthly transfers shall be made to a separate electric revenue sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.

c. Additional monthly transfers of 25% of the amount required to be deposited in the water revenue sinking account shall be made to a separate electric revenue debt service reserve account until specific minimum balances have been accumulated in the accounts. Use of funds is restricted to funding any deficit in the sinking account.

d. Additional monthly transfers of $3,500 shall be made to a separate electric improvement account until specific minimum balance of $200,000 has been accumulated in the account. Use of funds is restricted to funding any deficit in the sinking and reserve accounts or paying the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, payments of rentals on any part of the system, and for capital improvements to the system.

e. All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations, to pay for extraordinary repairs or replacements to the electric system, or to pay or redeem any notes or bonds, and then can be used for any lawful purpose.

4. REVENUE BONDS AND NOTES PAYABLE - Continued

Revenue capital loan note and bond debt service requirements are as follows as of June 30, 2013:

Year Ending June 30,	Principal	Interest	Total
2014	$ 1,040,000	307,700	1,347,700
2015	540,000	278,200	818,200
2016	555,000	263,750	818,750
2017	730,000	248,850	978,850
2018	745,000	227,375	972,375
2019-2023	3,930,000	723,610	4,653,610
2024-2025	1,460,000	88,200	1,548,200
	$ 9,000,000	2,137,685	11,137,685

In December 2011 the Utility issued $1,350,000 of Water Revenue Refunding Bonds, with interest rates ranging from .5% to 1.3%, for a current refunding of a portion of refunding capital loan notes issued August 2004.

The Utility refunded the capital loan notes to reduce its total debt service payments by approximately $91,800 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately $88,400.

The Utility has pledged future water customer receipts, net of specified operating disbursements, to repay $1,350,000 of Water Revenue Refunding Bonds issued in December 2011. Proceeds from the notes provided financing for the current refunding of a portion of the refunding capital loan notes issued August 2004. The notes are payable solely from water customer net receipts and are payable through 2017. Annual principal and interest payments on the notes are expected to require less than 50% of net receipts. The total principal and interest remaining to be paid on the notes is $1,109,527. For the current year, principal and interest paid and total customer net receipts were $276,527 and $606,132, respectively.

4. REVENUE BONDS AND NOTES PAYABLE - Continued

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

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

b. Sufficient monthly transfers shall be made to a separate water revenue sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.

c. Additional monthly transfers of 25% of the amount required to be deposited in the water revenue sinking account shall be made to a separate water revenue debt service reserve account until specific minimum balances have been accumulated in the accounts. Use of funds is restricted to funding any deficit in the sinking account.

d. All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations, to pay for extraordinary repairs or replacements to the water system, or to pay or redeem any bonds, and then can be used for any lawful purpose.

The revenue bonds mature in annual installments of $265,000 to $275,000 through December 2016 and bear interest at rates of 0.50% to 1.30% payable semiannually. Debt service requirements were as follows as of June 30, 2013:

Year ending June 30,	Principal	Interest	Total
2014	$ 270,000	9,920	300,617
2015	270,000	7,760	301,345
2016	270,000	5,060	298,030
2017	275,000	1,788	1,192,332
	$ 1,085,000	24,528	1,109,528

5. GENERAL OBLIGATION BONDS PAYABLE

In January 2011 the City issued $3,915,000 of General Obligation Refunding Bonds for a crossover refunding of a portion of the General Obligation Bonds dated October 2003. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest, as payments come due, it is the intention of the City Council that the payments of $735,000 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds is reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in the amounts of $100,000 to $115,000 from June 1, 2012 through June 1, 2018. Interest on the notes at rates of 1.0% to 2.0% per annum is due semiannually beginning December 1, 2011.

In May 2012 the City issued $3,875,000 of General Obligation Bonds, a portion of which was used to finance water main improvements. Although the bonds are a general obligation of the City and the City has authority to levy property taxes to pay the bonds and related interest, as payments come due, it is the intention of the City Council that the payments of $572,700 of bond principal and related interest be financed by the operations of the Municipal Water Utility. Accordingly, that portion of the bonds is reported as a liability and the interest payments are reported as an expense of the Utilities in these financial statements. Municipal Water Utility principal payments are due on the notes in the amounts of $11,000 to $52,500 from June 1, 2013 through June 1, 2025. Interest on the notes at rates of .5% to 2.4% per annum is due semiannually beginning December 1, 2012.

The Municipal Water Utility portion of general obligation bond debt service requirements are as follows as of June 30, 2013:

Year ending June 30,	Principal	Interest	Total
2014	$ 154,400	19,075	173,475
2015	155,000	17,500	172,500
2016	155,000	14,900	169,900
2017	145,800	12,300	158,100
2018	146,600	9,800	156,400
2019-2023	245,400	25,400	270,800
2024-2025	89,500	3,000	92,500
	$ 1,091,700	101,975	1,193,675

6. COMPENSATED ABSENCES

Indianola Municipal Utilities employees accumulate vacation hours, compensating time off and sick leave for subsequent use. Unused vacation hours and compensating time off are payable upon termination, retirement or death. These amounts are included in wages and benefits payable as of June 30, 2013 and 2012. Accrued sick leave benefits as of June 30, 2013 of approximately $314,276 (2012 - $291,097) are payable only when used and have not been accrued.

7. PENSION AND RETIREMENT BENEFITS

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

Most regular plan members are required to contribute 5.78% of their annual covered salary and Indianola Municipal Utilities is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. Indianola Municipal Utilities contribution to IPERS for the year ended June 30, 2013 was $124,588 (2012 - $111,531), equal to the required contribution for the year.

8. RISK MANAGEMENT

The City of Indianola is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler and machinery. There have been no reductions in insurance coverage from prior years.

8. RISK MANAGEMENT - Continued

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level by the Board not to exceed 300% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The Indianola Municipal Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utilities' annual contributions to the Pool for the year ended June 30, 2013 were $117,182 (2012 - $112,361).

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to $350,000 per claim. Claims exceeding $350,000 are reinsured in an amount not to exceed $2,650,000 per claim. For members requiring specific coverage from $3,000,000 to $15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to $250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utilities do not report a liability for losses in excess of reinsurance or excess risk - sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2013, no liability has been recorded in the Utilities financial statements. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

8. RISK MANAGEMENT - Continued

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

Indianola Municipal Utilities is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. Indianola Municipal Utilities has executed a Worker's Compensation Coverage Agreement with the Association which extends through June 30, 2013 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2013, Indianola Municipal Utilities paid workers' compensation insurance premiums of $30,752 (2012 - $32,199) to the Association.

9. JOINTLY GOVERNED ORGANIZATIONS

The Indianola Municipal Utilities is a member-owner of the Municipal Energy Agency of Nebraska (MEAN), a joint action agency organized as a body corporate and politic under the laws of the State of Nebraska. MEAN's Power Supply System consists of ownership and contractual rights and interests in various electric generating and transmission resources and supplies. MEAN uses these to provide wholesale power supply, transmission, and ancillary services to its 65 participating municipal utilities. Each MEAN participant has entered into the Electrical Resources Pooling Agreement (ERPA) with MEAN, which provides for various service schedules.

IMU elected in 2009 to become a Total Requirements Participant and as such receives all power and energy from MEAN, and entered into Service Schedule M of the ERPA. As such, IMU has agreed to purchase its power and energy at rates sufficient (together with other MEAN revenues) to enable MEAN to pay all its net costs of MEAN's Power Supply System. Annual costs to be recovered and associated rates are evaluated annually by the MEAN Board of Directors. If imposed, IMU is also subject to a Purchased Energy Adjustment clause based on MEAN's actual cost of energy compared to those budgeted & collected through base rates during its fiscal year of April 2013 - March 2014.

9. JOINTLY GOVERNED ORGANIZATIONS - Continued

IMU's pro-rata share of net at-risk annual costs borne by Schedule M participants is approximately 9.3% in 2013, subject to annual fluctuation based on demand and energy, and are explicitly categorized as IMU annual operating expenditures. Long-term Power Supply Contracts are currently set to expire in 2041, after the final maturity of MEAN's 2008 Series A Bonds in 2039. IMU's obligation to MEAN beyond that date is contingent on its approval of any new debt to be issued by MEAN with a maturity date beyond that date.

The Indianola Municipal Utilities became a participant in the Central Minnesota Municipal Power Agency (CMMPA) Brookings-Twin Cities Transmission Project (CMMPA-Brookings Project) in 2011. CMMPA is a joint action agency formed under the laws of the State of Minnesota. The CMMPA-Brookings Project consists of 15 municipal utilities that agreed to pay pro-rated annual costs, net of transmission tariff revenue collected, related to CMMPA's fractional assigned ownership of transmission facilities commonly referred to as the CAPX2020 Brookings-Twin Cities Development Project. IMU's Election Share is 3.34% of the CMMPA-Brookings Project, which in total is 3.6% of the total CAPX2020 Brookings-Twin Cities Development Project. Any net costs associated with IMU's participation are explicitly categorized as annual operating expenditures.

10. COMMITMENTS

The Indianola Municipal Utilities have entered into contracts for electric underground conversion, fiber installation project, a water main improvement project and other projects totaling approximately $1,303,692. The remaining commitment on these contracts at June 30, 2013 is $431,045.

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Budgetary Comparison Schedule of Receipts, Disbursements
And Changes in Balances – Budget and Actual (Cash Basis)
Year Ended June 30, 2013

		Budget Amounts		Final
	Actual	Original	Final	to Actual Variance
Receipts				
Use of money and property	$ 222,941	464,300	464,300	(241,359)
Intergovernmental	-	300,000	16,800	(16,800)
Charges for service	15,455,844	13,961,300	13,961,300	1,494,544
Special assessments	7,958	300	300	7,658
Miscellaneous	487,884	612,500	612,500	(124,616)
Total receipts	16,174,627	15,338,400	15,055,200	1,119,427
Disbursements				
Business type activities	14,663,000	15,274,100	15,705,800	1,042,800
Excess of receipts over (under) disbursements	1,511,627	64,300	(650,600)	2,162,227
Other financing sources (uses)				
Proceeds of debt	-	-	-	-
Sale of capital assets	-	-	-	-
Operating transfers in (out)	(1,029,942)	(1,009,200)	(1,009,200)	(20,742)
Total other financing sources (uses)	(1,029,942)	(1,009,200)	(1,009,200)	(20,742)
Excess of receipts and other financing sources over (under) disbursements and other financing uses	481,685	(944,900)	(1,659,800)	2,141,485
Balances, beginning of year	9,419,547	9,419,547	9,419,547	-
Balances, end of year	$ 9,901,232	8,474,647	7,759,747	2,141,485

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Notes to Other Information –
Budgetary Reporting
Year Ended June 30, 2013

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, for the City of Indianola as a whole, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by $431,700. The budget amendment is reflected in the final budgeted amounts.

Shull
and Co. P.C.
certified public accountants

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

Board of Trustees
Indianola Municipal Utilities
Indianola, Iowa

We have audited 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, the financial statements of the Indianola Municipal Utilities of the City of Indianola, Iowa, as of and for the Year Ended June 30, 2013, and the related notes to financial statements, and have issued our report thereon dated September 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Indianola Municipal Utilities' internal control over financial reporting to determine the audit procedures 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 the Indianola Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Indianola Municipal Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies in internal control.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Indianola Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis.

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

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Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Indianola Municipal Utilities' Responses to Findings

The Indianola Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. The Indianola Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, we express no opinion on them.

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 result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Sloll & Co., P.C.

September 27, 2013

CITY OF INDIANOLA, IOWA
INDIANOLA MUNICIPAL UTILITIES
Schedule of Findings

Year ended June 30, 2013

Part I: Findings Related to the Financial Statements:

None

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget - Disbursements during the year ended June 30, 2013, did not exceed the amounts budgeted.

II-B-13 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-13 Travel Expense - No expenditures of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.

II-D-13 Business Transactions – No business transactions between the Indianola Municipal Utilities officials or employees were noted.

II-E-13 Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

II-F-13 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.

II-G-13 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.

II-H-13 Revenue Bonds and Notes –The requirements of the electric revenue bonds and notes resolutions were met during the year ended June 30, 2013.

II-I-13 Telecommunications Services –No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.