

BOARD OF WATERWORKS AND
ELECTRIC LIGHT AND POWER PLANT TRUSTEES - ATLANTIC, IOWA
D/B/A ATLANTIC MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
COMMENTS AND RECOMMENDATIONS

YEARS ENDED DECEMBER 31, 2004 AND 2003

ATLANTIC MUNICIPAL UTILITIES

CONTENTS

	<u>Page</u>	
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2
MANAGEMENT'S DISCUSSION AND ANALYSIS		4
	<u>Electric Department</u>	<u>Water Department</u>
FINANCIAL STATEMENTS:		
Statements of net assets	5	10
Statements of income	6	11
Statements of changes in net assets	7	12
Statements of cash flows	8	13
Notes to financial statements	15	15
REQUIRED SUPPLEMENTARY INFORMATION:		
Budgetary Comparison Schedule	30	30
OTHER SUPPLEMENTARY INFORMATION:		
Schedule supporting statements of net assets:		
Revenue bonds/notes	31	31
Schedules supporting statements of income:		
Operating revenue	32	32
Operating expenses	33	35
Comparative information:		
Comparative statements of income	37	39
Comparative summaries of service distributed and billed	38	40
Net income available for debt service	41	41
COMMENTS AND RECOMMENDATIONS:		
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	42	42
Schedule of Findings	44	44

ATLANTIC MUNICIPAL UTILITIES
Officials
December 31, 2004

Trustees

Term Expires

Sharon L. Winchell, Chairperson

April, 2005

Frank W. Greiner, Vice-Chairperson

April, 2009

Bernard L. Elming

April, 2005

Lawrence E. Turner

April, 2007

Keith C. Stork

April, 2009

Management Personnel

General Manager

Allen J. Bonderman

Comptroller

Steve J. Tjepkes

Electric Operations Engineer

Jerry M. Haahr

Director of Water Operations

Jon H. Martens

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

ROGER A. BELL
MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited the accompanying statements of net assets of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of December 31, 2004 and 2003, and the related statements of income, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Municipal Utilities (Electric Department and Water Department) as of December 31, 2004 and 2003, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2001 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The other supplementary information (shown on pages 31 through 41) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Atlantic Municipal Utilities

The management's discussion and analysis and the budgetary comparison schedule on pages 4 through 4e and 30 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated February 15, 2005 on our consideration of Atlantic Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Gronwald, Bell, Kuhn + Co. P.C.
Atlantic, Iowa
February 15, 2005

AMU

Atlantic Municipal Utilities

Management's Discussion and Analysis Audited Financial Statements Years Ended December 31, 2004 and 2003

This section of the Utility's annual Financial Statements presents an analysis of the Utility's financial performance during the calendar year ended December 31, 2004. This information is presented in conjunction with the audited basic financial statements, which follow this section. The Utility is organized into two operating departments, electric and water. This discussion and analysis not only points out the highlights of each department, but also reports and discusses highlights in combined form.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2004

The Utility's combined net assets increased by \$461,358, or 2.22%, from \$20.83 million to \$21.29 million. The Electric Department's net assets increased by \$441,075, or 2.55%, from \$17.30 million to \$17.74 million. The Water Department's net assets increased by \$20,283, or 0.58%, from \$3.53 million to \$3.54 million.

Combined operating revenues increased by \$832,309, or 12.76%. Electric Department operating revenues increased by \$821,800, or 14.91%, from \$5.51 million to \$6.33 million. Water Department operating revenues increased by \$10,455, or 1.04%, from \$1.01 million to \$1.02 million.

Long-term debt (see Table 1) of the two departments was reduced by \$713,086, with the Electric Department debt being reduced by \$555,000, and the Water Department debt reduced by \$158,086.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements of the Utility report information utilizing generally accepted accounting practices for electric and water utilities. In general, these practices follow the Federal Energy Regulatory Commission's (FERC) prescribed Uniform System of Accounts for the Electric Dept. Practices for the Water Dept. follow suggested guidelines from the National Association of Regulatory Commissioners (NARUC). There are four major reports for each Department.

The *Statements of Net Assets* include all of each Department's assets and liabilities, and provides information about the nature and amounts of investments in resources assets and the obligations to Utility creditors. It also provides the basis for making a variety of financial assessments about the Utility's financial position. Supporting schedules of the Department's debt are included in the "Other Supplementary Information" section of the report.

The *Statements of Income* provide information about each Department's revenues and expenses. This report measures the success of the Department's operations. It can be used to determine whether or not the Department has successfully

recovered all its costs through its rates, fees and other forms of revenues. It also provides a measure of the Department's, and Utility's, profitability and creditworthiness. Details of the Department's revenues and expenses are included in the "Other Supplementary Information" section of the report.

The *Statements of Changes in Net Assets* provide information about the equity, or net assets, of the Department, taking into account any transfer of equity to the City of Atlantic.

The *Statements of Cash Flows* provide information about each Department's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes from operations, investments, and financing activities. It indicates where the Department's cash came from, how it was used, and the change in cash balances from the previous fiscal year.

Additional information regarding AMU's financial and operating status are contained in the *Required Supplemental Information*, and *Other Supplementary Information*. These sections of the report provide information including comparisons of budgeted versus actual expenditures, details regarding long-term debt outstanding, and a number of supporting schedules.

The *Comments and Recommendations* section of the report describes AMU's compliance with various state statutes, and accounting principles.

FINANCIAL ANALYSIS OF THE UTILITY

A summary of the Utility's combined Net Assets is presented in *Table 1, Condensed Statement of Net Assets* below. The summary combines the net assets of both the electric and water departments, and also indicates each Department's assets separately.

(In thousands of dollars)	Electric Dept.				Water Dept.				Combined			
			Dollar	Percent			Dollar	Percent			Dollar	Percent
	2004	2003	Change	Change	2004	2003	Change	Change	2004	2003	Change	Change
Current and Other Assets	7,306.0	7,396.0	(90.0)	-1.22%	1,511.2	1,580.1	(68.9)	-4.36%	8,817.2	8,976.1	(158.9)	-1.77%
Capital Assets	14,066.1	14,233.3	(167.2)	-1.17%	4,289.0	4,320.4	(31.4)	-0.73%	18,355.1	18,553.7	(198.6)	-1.07%
Total Assets	21,372.1	21,629.3	(257.2)	-1.19%	5,800.2	5,900.5	(100.3)	-1.70%	27,172.3	27,529.8	(357.5)	-1.30%
Long-Term Debt	2,480.0	3,035.0	(555.0)	-18.29%	1,858.8	2,016.9	(158.1)	-7.84%	4,338.8	5,051.9	(713.1)	-14.12%
Other Liabilities	1,150.2	1,293.5	(143.3)	-11.08%	394.3	356.9	37.5	10.50%	1,544.6	1,650.4	(105.8)	-6.41%
Total Liabilities	3,630.2	4,328.5	(698.3)	-16.13%	2,253.1	2,373.7	(120.6)	-5.08%	5,883.3	6,702.3	(818.9)	-12.22%
Total Net Assets	17,741.9	17,300.7	441.1	2.55%	3,547.1	3,526.8	20.3	0.58%	21,288.9	20,827.5	461.4	2.22%
Total Liabilities & Net Assets	21,372.1	21,629.3	(257.2)	-1.19%	5,800.2	5,900.5	(100.3)	-1.70%	27,172.3	27,529.8	(357.5)	-1.30%

Electric Department

A total of \$832,499 was invested in new capital assets, but after accounting for depreciation, there was a reduction of \$167,200 in Capital Assets. Capital additions included additions at Council Bluffs Unit No. 3, completion of the 69,000 volt loop around Atlantic and related switching, replacement of protective relaying at all AMU substations, and routine additions to distribution facilities. The most noteworthy additions to distribution assets were installation of looped electric service to the new Walmart store in east Atlantic, and installation of a number of distribution switches to improve the integrity of service during storm events. All capital asset additions were funded from cash on hand.

Special Purpose Funds, Current and Other Assets decreased by \$90,024. Total Assets decreased from \$21.63 million to \$21.37 million, or -1.19%.

One noteworthy item related to assets is that the Board of Trustees, during 2004, designated approximately \$1.9 million in what had been general operating reserves as reserve funds for specific purposes, including emergencies, facilities retirements, and planned replacements. The audit report reflects 2003 numbers as if those designations had taken place earlier, for purposes of comparison.

Total long-term debt of the Electric Department was reduced from \$3,035,000 to \$2,480,000, a total of \$555,000. Current and Other Liabilities decreased from \$1,293,526 to \$1,150,227, a change of \$143,299, or -11.08%.

All cash requirements of the Electric Department were provided from cash flows, and no new debt was issued during the reporting period.

Operating Revenue for the Electric Department increased by \$821,800, or 14.91%. Energy sales to retail customers were slightly lower (-0.38%), due primarily to weather patterns, but revenues from those sales were higher, due to an approximate 4.5% increase in rates which took effect at the beginning of the year. Wholesale sales to other utilities increased dramatically, increasing from \$755,983 to \$1,307,186. This increase was due to the fact that surplus energy sold to MidAmerican Energy from AMU's CB3 facility is now priced at or near market prices.

Operating Expenses for the Electric Department also increased, from \$5,121,084 the prior year, to \$5,595,250 in 2004. Among the reasons for the increased expenses were: increased labor costs, cost of a maintenance agreement for the Solar combustion turbine, higher fuel costs and increases in purchased power costs, due to a lengthy planned outage and several short, unplanned outages at Council Bluffs Unit No. 3.

Net Income increased from \$354,897 to \$665,677, an increase of \$310,780, or 87.57%. Again, a majority of this increase in net income resulted from increased revenues from sales of surplus energy at market-based rates.

Net Assets of the electric utility increased by \$441,075 to \$17.742 million. Transfers to the City of Atlantic totaled \$224,600, an increase of \$16,300.

Water Department

A total of \$193,574 was invested in new capital assets, but after accounting for depreciation, there was a reduction of \$31,434 in Capital Assets. Included in capital additions were 3,300 feet of new eight inch mains installed in east Atlantic; installation of Pressure Reduction Valves between the "high" and "low" water systems; and new looped connections near the Atlantic High School. All of these improvements resulted from modeling of AMU's water system by Stanley Consultants in 2003, and were targeted to improve fire flows in northeastern Atlantic. All capital asset additions were funded from cash on hand.

Special Purpose Funds, Current and Other Assets and Deferred Costs decreased by \$68,898, to \$1,511,219. Total Assets decreased from \$5.9 million to \$5.8 million, or -1.70%.

Total long-term debt of the Water Department was reduced from \$2,016,862 to \$1,858,776, a total of \$158,086. Current and Other Liabilities increased from \$356,871 to \$394,342, a change of \$37,471, or 10.50%.

All cash requirements of the Water Department were provided from cash flows, and no new debt was issued during the reporting period.

Operating Revenue for the Water Department increased slightly (1.0%) from 2003, with sales totaling \$1,020,043 in 2004, as compared to \$1,009,588 in 2003. Sales of water declined by approximately 1.3 million gallons, due to weather and the loss of two significant customers (both local golf courses ceased use of AMU's water for irrigation). A 5.8% increase in rates put into effect at the beginning of the year helped avoid a decline in revenues from sales.

Operating Expenses for the Water Department increased by 3.32%, from \$845,669 in 2003 to \$873,775. Increases in operating expenses were attributable to increased costs of labor, a change in the allocation of Administrative and General Expenses, and higher costs of chemicals used in treatment.

Net Income for the year decreased from \$107,110 in 2003, to \$84,173 in 2004. The decrease was due primarily to reductions in sales, as well as higher expenses and lower income from investments.

Net Assets of the water utility increased by \$20,283 to \$3.55 million (Note: Includes Contributions In Aid Of Construction, and amortizations of said contributions). Transfers to the City of Atlantic totaled \$75,398, a decrease of \$6,284.

A summary of the Utility's combined Operating Revenues, Expenses, Net Income and Net Assets is presented in *Table 2 Condensed Statements of Income and Changes in Net Assets*, below. The summary combines the operating data of both the electric and water departments, and also summarizes each Department's operations separately.

(In thousands of dollars)	Electric Dept.				Water Dept.				Combined			
	2004	2003	Dollar Change	Percent Change	2004	2003	Dollar Change	Percent Change	2004	2003	Dollar Change	Percent Change
	Operating Revenues	6,333.0	5,511.2	821.8	14.91%	1,020.0	1009.6	10.4	1.04%	7,353.0	6,520.8	832.2
Other Income (Deductions)	(72.1)	(35.2)	(36.9)	104.77%	(62.1)	(56.8)	(5.3)	9.3%	(134.2)	(92.0)	(42.2)	45.87%
Total Operating Income	6,260.9	5,476.0	784.9	14.33%	957.9	952.8	5.2	0.54%	7,218.9	6,428.8	790.1	12.29%
Depreciation	1,007.8	1,004.7	3.1	0.31%	225.0	223.7	1.3	0.59%	1,232.8	1,228.4	4.4	0.36%
Other Operating Expenses	4,587.5	4,116.4	471.1	11.44%	648.8	622.0	26.8	4.31%	5,236.3	4,738.4	497.9	10.51%
Total Operating Expense	5,595.3	5,121.1	474.2	9.26%	873.8	845.7	28.1	3.32%	6,469.1	5,966.8	502.3	8.42%
Net Income	665.7	354.9	310.7	87.57%	84.2	107.1	(22.9)	-21.41%	749.8	462.0	287.8	62.29%
Net Assets												
Beginning Balance	17,300.8	17,154.2			3,526.8	3,493.7			20,827.6	20,647.9	179.7	0.87%
Net Income	665.7	354.9	310.7	87.55%	84.2	107.1	(22.9)	-21.41%	749.8	462.0	287.8	62.29%
Less: Distribution to the City	224.6	208.3	16.3	7.83%	75.4	81.7	(6.3)	-7.69%	300.0	290.0	10.0	3.45%
Plus: *Adjustments Ending Balance					11.5	7.7	3.8	49.4%	11.5	7.7	3.8	45.90%
	17,741.9	17,300.8	441.0	2.55%	3,547.1	3,526.8	20.3	0.58%	21,288.9	20,827.6	461.3	2.21%

*NOTE: "Adjustments" to Water Dept. Net Assets includes Contributions in Aid of Construction, and current amortizations of same.

OUTLOOK FOR THE FUTURE

AMU management utilizes a financial forecasting tool developed by Maxima Consulting as part of a rate study performed in 2003. This tool is utilized to project revenues, expenses, and cash flow for a ten year period, utilizing historical data and known future capital needs. It provides information utilized to determine the cash requirements of each utility department, so that the Board can be apprised of the need for any adjustment in rates and charges, and can then respond proactively.

Projected Revenues from operations for both the electric and water departments appear to be adequate to meet budgeted and forecast expenditures for 2005, so no increase in rates is planned for the coming year.

The Electric Department will be facing new challenges, related to rising costs within the electric utility industry. Changes in how transmission systems are planned, constructed, and operated are resulting in dramatically increasing costs for transmission service. On or about April 1, 2005, a so-called market trial will be initiated by the Midwest Independent System Operator (MISO). Although AMU will not be directly affected by this new market-based rate system for transmission, if MidAmerican Energy Company should opt to join MISO at any time in future, AMU will be forced to participate as well, and would face major increases in transmission costs. AMU continues to participate in groups which are attempting to protect municipal utilities' rights, and to minimize the effects of the new system.

Costs for power supply are back on the rise, after a number of years of steady or declining costs. Costs for both coal and rail transportation are increasing, and expected to continue to increase in the next several years. Additionally, a number of capital improvements are needed at the Council Bluffs Unit No. 3, due to age of the facilities, as well as changes in environmental requirements. Operating expenses at CB3 are also projected to increase, due not only to inflation, but also costs related to pollution control expenses and the disposal of slag.

Western Area Power Administration has experienced extreme drought conditions – some of the worst in the history of the federal hydropower system – and is planning to increase rates during 2005. This increase might total as much as 17 percent, and is the second double-digit rate increase in as many years.

Fuel costs for local generation have increased, and there is presently no indication that costs will return to pre-2004 levels.

On the positive side, AMU's power supply mix is a low-cost set of resources. Federal hydropower remains attractively priced, despite increases in rates. CB3 is an extremely efficient plant, and capital costs at the time of its construction, and MidAmerican's effective management of fuel costs, make it one of the cheapest power supply sources in the region. Local generation, required primarily to meet reliability requirements established by the MidContinent Area Power Pool (MAPP), are used very seldom, yet provide a hedge against volatile pricing of energy and/or transmission.

Forecasts of demand and energy requirements for the AMU service area indicate that our existing pool of resources should be adequate for the next several years, unless some significant new industrial loads are established within the service area. Despite rising costs, the outlook for rate stability is good, and AMU should be well positioned to remain a low-cost provider of energy to its customer-owners.

Over the past couple of years, AMU has lost three significant electric customers: a tire re-treading business, a grocery store, and the SkyJack manufacturing company. On the other hand, several significant new customers are being served, or about to be served, including a new nursing home facility, Plastics Professional Rotational Molding (a plastics manufacturer located in the former SkyJack building), and a new Super Walmart store. These losses and gains result in approximately the same overall electrical usage. Any improvement in the economy will likely result in increases in usage patterns of the overall customer base, as well as new business starts.

AMU has also had a great deal of success in promoting the use of high efficiency electric heat pumps, as well as electric space and water heating. Rebates of just under \$18,000 during 2004 brought the total number of heat pumps installed to 126, a total of 333 tons, since the program's inception in 2001. The program has also resulted in the installation of 94 electric water heaters, and some 68 installations of electric space heating, totaling over 1,000 kilowatts of load. Annual revenues resulting from the program are currently estimated to be about \$39,000.

Generally, the financial position of the electric utility is excellent. Income is and will remain adequate to meet the cash requirements of the utility, and reserves exist to provide for emergency and other non-anticipated needs.

AMU's water utility also faces a number of challenges, but is well positioned in terms of supply and operational costs.

Water utilities continue to be impacted by a myriad of federal and state regulations resulting from the federal Clean Water Act and Safe Drinking Water Act. New regulations are monitored closely, and assessed to determine the impact on AMU and its customers.

As mentioned earlier, in 2003 AMU hired Stanley Consultants to perform a computerized modeling of our water system. This model is primarily used to determine approximate pressures and flow capabilities around the distribution system. This information is used to determine which water lines should be replaced, in order to improve service throughout the community. But the model is useful for much more than that. It can project an approximate "age" of water at any point in the system, and that information is needed to determine the residual levels of treatment chemicals (such as chlorine) and disinfectant by-products.

Water supply is probably the most important aspect of providing drinking water to the public. AMU intends to have a study performed during 2005, which will assess the aquifers in our well field area, and assess the adequacy of our source water supply. This information will help us identify any need for exploration for new water sources, as well as quantify the overall capabilities of the aquifer and well systems.

Distribution system infrastructure is also very important, as the utility attempts to provide adequate fire protection in the community. The utility intends to systematically replace deteriorating small mains, a few blocks each year, using cash flow as opposed to issuing debt for these routine replacements.

Sales of water during 2004 seem to have returned to a normal level, and are expected to remain fairly flat in the next several years. Higher than normal sales had occurred during the prior several years, primarily due to extended drought conditions, but also influenced by water sold to two local golf courses for irrigation purposes. Both courses have installed other sources for irrigation water, and rainfall during 2004 was closer to normal.

Financial needs for the water utility are projected using the same financial model mentioned earlier in this narrative. No rate increase is planned for calendar year 2005.

Increased operating costs for almost every aspect of providing drinking water and related services will cause upward pressure on rates. AMU expects that regular minor increases in rates for water will likely be needed over the next several years, however, rates for water in Atlantic will remain low in comparison to similar utilities in Iowa.

Generally, the financial position of the water utility is very good, as compared to other comparable water systems in Iowa. Adequate reserves exist to provide for emergencies and other unanticipated events. Management and the Board are committed to maintaining rates which are adequate to meet the cash requirements of the utility.

Contacting Financial Management

This financial report is designed to provide AMU's ratepayers and creditors with a general overview of Atlantic Municipal Utilities' finances and operations. If you have questions about this report, contact AMU's Comptroller at AMU, P.O. Box 517; 15 West Third Street; Atlantic, Iowa 50022; or e-mail s.tjepkes@a-m-u.net; or call 712-243-1395.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Net Assets
December 31,

ASSETS

	<u>2004</u>	<u>2003</u>
Utility Plant :		
Depreciable capital assets	\$ 13,175,164	\$ 13,378,845
Non-depreciable capital assets	<u>890,955</u>	<u>854,474</u>
Total utility plant	14,066,119	14,233,319
Special Purpose Funds:		
Revenue bond funds	962,871	963,105
Board designated funds	<u>2,507,304</u>	<u>2,640,039</u>
Total special purpose funds	3,470,175	3,603,144
Current Assets:		
Cash	569,491	517,131
Operating and capital reserves	1,953,359	1,956,888
Receivables, less allowance for doubtful accounts (\$24,000 in 2004, \$30,000 in 2003)	348,072	364,195
Inventory	413,377	374,428
Prepaid expenses	<u>36,841</u>	<u>37,158</u>
Total current assets	3,321,140	3,249,800
Other Assets:		
Notes receivable	495,855	515,855
Deferred costs	<u>18,792</u>	<u>27,187</u>
Total other assets	<u>514,647</u>	<u>543,042</u>
	<u>\$ 21,372,081</u>	<u>\$ 21,629,305</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Long-Term Debt, less current maturities	\$ 2,480,000	\$ 3,035,000
Current Liabilities:		
Current maturities of long-term debt	555,000	535,000
Accounts payable	202,276	371,641
Accrued employee compensation	117,000	106,000
Accrued property taxes	125,000	121,000
Other accrued taxes	7,614	12,143
Accrued interest	30,556	35,906
Accrued payroll taxes and withholdings	8,866	8,030
Total current liabilities	<u>1,046,312</u>	<u>1,189,720</u>
Other Liabilities:		
Consumer deposits	20,915	21,806
Reserve for employees' retirement	83,000	82,000
Total other liabilities	<u>103,915</u>	<u>103,806</u>
Total liabilities	3,630,227	4,328,526
Net Assets:		
Restricted	962,871	963,105
Invested in plant net of debt	11,031,119	10,663,319
Unrestricted	5,747,864	5,674,355
Total net assets	<u>17,741,854</u>	<u>17,300,779</u>
	<u>\$ 21,372,081</u>	<u>\$ 21,629,305</u>

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Income
Year ended December 31,

	<u>2004</u>	<u>2003</u>
Operating Revenue:		
Retail electricity sales	\$ 4,701,428	\$ 4,465,428
Services provided to the City	250,530	205,476
Sales to other utilities	<u>1,307,186</u>	<u>755,983</u>
Total sale of electricity	6,259,144	5,426,887
Other operating revenue	<u>73,861</u>	<u>84,264</u>
Total operating revenue	6,333,005	5,511,151
Operating Expenses:		
Electric production	1,668,271	1,665,978
Purchased power	921,913	500,934
Transmission	383,133	427,153
Distribution	541,040	531,157
Administrative and accounting	1,073,110	991,116
Provision for depreciation	<u>1,007,783</u>	<u>1,004,746</u>
Total operating expenses	<u>5,595,250</u>	<u>5,121,084</u>
Income from Operations	737,755	390,067
Other Income and (Deductions):		
Income from investments	101,827	127,650
Interest on revenue bonds	(127,575)	(148,775)
Loss on disposal of equipment	(37,171)	(3,287)
Other interest expense	(764)	(960)
Amortization of bond issue costs	<u>(8,395)</u>	<u>(9,798)</u>
Other income (deductions), net	<u>(72,078)</u>	<u>(35,170)</u>
Net Income	<u>\$ 665,677</u>	<u>\$ 354,897</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Changes in Net Assets
Year ended December 31,

	<u>2004</u>	<u>2003</u>
<u>NET ASSETS</u>		
Balance, Beginning	\$ 17,300,779	\$ 17,154,200
Net Income	665,677	354,897
Distribution to the City	<u>(224,602)</u>	<u>(208,318)</u>
Balance, Ending	<u>\$ 17,741,854</u>	<u>\$ 17,300,779</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Cash Flows
Year ended December 31,

	2004	2003
Cash flows from operating activities:		
Cash received from consumers	\$ 6,014,545	\$ 5,067,831
Cash paid to suppliers	(3,781,440)	(2,993,489)
Cash paid to employees	(937,932)	(904,099)
Other operating revenue	72,148	82,260
Net cash provided by operating activities	1,367,321	1,252,503
Cash flows from noncapital financing activities:		
Loan from Water Department	--	(149,155)
Consumer deposits, net	(891)	665
Interest paid	(764)	(760)
Net cash used in noncapital financing activities	(1,655)	(149,250)
Cash flows from capital and related financing activities:		
Principal payments	(535,000)	(515,000)
Interest paid on revenue bonds	(132,925)	(153,925)
Capital expenditures	(868,980)	(634,525)
Proceeds (costs) from disposal of equipment	(34,726)	1,201
Net cash used in capital and related financing activities	(1,571,631)	(1,302,249)
Cash flows from investing activities:		
Special purpose fund investments		
Acquisitions	(2,663,568)	(2,699,522)
Proceeds	2,806,033	651,403
Operating and capital reserves		
Acquisitions	(2,154,393)	(2,110,662)
Proceeds	2,157,922	4,734,981
Income from investments	101,827	127,650
Decrease in notes receivable	20,000	20,000
Net cash provided by investing activities	267,821	723,850
Net increase in cash	61,856	524,854
Cash at beginning of year	1,004,850	479,996
Cash at end of year	\$ 1,066,706	\$ 1,004,850

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2004</u>	<u>2003</u>
Reconciliation of cash to the balance sheets:		
Cash in current assets	\$ 569,491	\$ 517,131
Cash in special purpose funds	<u>497,215</u>	<u>487,719</u>
Total cash	<u>\$ 1,066,706</u>	<u>\$ 1,004,850</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 737,755	\$ 390,067
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	1,007,783	1,004,746
Materials returned to stock	25,952	464
Uncollectible accounts	11,905	18,549
Reserve for employees' retirement	1,000	1,000
Distribution to City	(224,602)	(208,318)
Change in assets and liabilities		
Receivables	4,218	(155,584)
Inventory	(38,949)	37,718
Prepaid expenses	317	763
Accounts payable	(169,365)	164,939
Accrued employee compensation	11,000	12,000
Accrued property taxes	4,000	(19,000)
Other accrued taxes	(4,529)	3,578
Accrued payroll taxes and withholdings	836	1,581
Total adjustments	<u>629,566</u>	<u>862,436</u>
Net cash provided by operating activities	<u>\$ 1,367,321</u>	<u>\$ 1,252,503</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Net Assets
December 31,

ASSETS

	<u>2004</u>	<u>2003</u>
Utility Plant:		
Depreciable capital assets	\$ 4,163,154	\$ 4,194,588
Non-depreciable capital assets	<u>125,818</u>	<u>125,818</u>
Total utility plant	4,288,972	4,320,406
Special Purpose Funds:		
Revenue bond funds	750,000	750,000
Board designated funds	199,559	204,500
Memorial fund	<u>3,618</u>	<u>3,600</u>
Total special purpose funds	953,177	958,100
Current Assets:		
Cash	259,296	296,413
Operating and capital reserves	64,460	113,217
Receivables, less allowance for doubtful accounts (\$6,000 in 2004 and in 2003)	137,357	129,105
Materials and supplies inventory	71,664	55,491
Prepaid expenses	<u>7,642</u>	<u>6,046</u>
Total current assets	540,419	600,272
Deferred Costs	<u>17,623</u>	<u>21,745</u>
	<u>\$ 5,800,191</u>	<u>\$ 5,900,523</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Long-Term Debt, less current maturities and deferred refunding costs	\$ 1,858,776	\$ 2,016,862
Current Liabilities:		
Current maturities of long-term debt	158,086	147,896
Accounts payable:		
Trade	25,751	12,909
City sewer	123,756	111,097
Accrued employee compensation	40,500	38,000
Other accrued taxes	2,488	3,425
Accrued interest	5,956	6,506
Accrued payroll taxes and withholdings	2,670	2,538
Total current liabilities	<u>359,207</u>	<u>322,371</u>
Other Liabilities:		
Consumer deposits	11,135	11,500
Reserve for employees' retirement	24,000	23,000
Total other liabilities	<u>35,135</u>	<u>34,500</u>
Total liabilities	2,253,118	2,373,733
Net Assets:		
Contributions in aid of construction	668,972	670,181
Restricted	753,618	753,600
Invested in plant, net of debt	2,272,110	2,155,648
Unrestricted	(147,627)	(52,639)
Total net assets	<u>3,547,073</u>	<u>3,526,790</u>
	<u>\$ 5,800,191</u>	<u>\$ 5,900,523</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Income
Year ended December 31,

	2004	2003
Operating Revenue:		
Sale of water:		
Residential	\$ 586,463	\$ 584,629
Commercial	343,110	331,463
Services provided to the City	<u>79,252</u>	<u>77,723</u>
Total sale of water	1,008,825	993,815
Other operating revenue	<u>11,218</u>	<u>15,773</u>
Total operating revenue	1,020,043	1,009,588
Operating Expenses:		
Source of supply	35,542	34,603
Pumping	41,972	39,793
Water treatment	85,660	79,387
Distribution	190,636	194,742
Administrative and accounting	294,957	273,448
Provision for depreciation	<u>225,008</u>	<u>223,696</u>
Total operating expenses	<u>873,775</u>	<u>845,669</u>
Income from Operations	146,268	163,919
Other Income and (Deductions):		
Income from investments	22,277	34,440
Interest on revenue bonds	(79,629)	(86,349)
Other interest expense	(621)	(406)
Amortization of bond issue costs	<u>(4,122)</u>	<u>(4,494)</u>
Other income (deductions), net	<u>(62,095)</u>	<u>(56,809)</u>
Net Income	<u>\$ 84,173</u>	<u>\$ 107,110</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Changes in Net Assets
Year ended December 31,

	<u>2004</u>	<u>2003</u>
<u>NET ASSETS</u>		
Balance, Beginning	\$ 3,526,790	\$ 3,493,673
Net Income	84,173	107,110
Contributions in Aid of Construction	11,508	7,689
Distribution to the City	<u>(75,398)</u>	<u>(81,682)</u>
Balance, Ending	<u>\$ 3,547,073</u>	<u>\$ 3,526,790</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Cash Flows
Year ended December 31,

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 918,817	\$ 896,852
Cash paid to suppliers	(281,500)	(283,566)
Cash paid to employees	(350,113)	(338,153)
Other operating revenue	<u>10,849</u>	<u>14,825</u>
Net cash provided by operating activities	298,053	289,958
Cash flows from noncapital financing activities:		
Consumer deposits, net	(365)	115
Interest paid	<u>(621)</u>	<u>(406)</u>
Net cash used in noncapital financing activities	(986)	(291)
Cash flows from capital and related financing activities:		
Principal payments	(150,000)	(150,000)
Interest paid on revenue bonds	(78,075)	(84,600)
Capital expenditures	(193,574)	(74,261)
Contributions in aid of construction	<u>11,508</u>	<u>7,689</u>
Net cash used in capital and related financing activities	(410,141)	(301,172)
Cash flows from investing activities:		
Loan to Electric Department	--	149,155
Special purpose fund investments:		
Acquisitions	(926,350)	(379,438)
Proceeds	931,884	188,992
Temporary investments:		
Acquisitions	(199,836)	(247,399)
Proceeds	248,593	286,973
Income from investments	<u>22,277</u>	<u>34,440</u>
Net cash provided by investing activities	<u>76,568</u>	<u>32,723</u>
Net increase (decrease) in cash	(36,506)	21,218
Cash at beginning of year	<u>359,307</u>	<u>338,089</u>
Cash at end of year	<u>\$ 322,801</u>	<u>\$ 359,307</u>
Reconciliation of cash to the balance sheets:		
Cash in current assets	\$ 259,296	\$ 296,413
Cash in special purpose funds	<u>63,505</u>	<u>62,894</u>
Total cash	<u>\$ 322,801</u>	<u>\$ 359,307</u>

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Cash Flows - Continued
Year ended December 31,

	2004	2003
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 146,268	\$ 163,919
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	225,008	223,696
Uncollectible accounts	2,873	2,904
Reserve for employees' retirement	1,000	2,000
Distribution to City	(75,398)	(81,682)
Change in assets and liabilities		
Receivables	(11,125)	(20,188)
Materials and supplies inventory	(16,173)	(1,232)
Prepaid expenses	(1,596)	(31)
Accounts payable:		
Trade	12,842	(2,741)
City sewer	12,659	(1,527)
Accrued employee compensation	2,500	3,400
Accrued payroll taxes and withholdings	132	402
Other accrued taxes	(937)	1,038
Total adjustments	151,785	126,039
Net cash provided by operating activities	\$ 298,053	\$ 289,958

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Board of Waterworks and Electric Light and Power Plant Trustees - Atlantic, Iowa operates under the name, Atlantic Municipal Utilities (Utilities or Utility). It is made up of two enterprise funds (departments) and is a component unit of the City of Atlantic, Iowa (City). It was instituted to provide water and electric service to residents of the City and the surrounding area. The Utilities are operated as a separate entity under the direction of a Board of Trustees. The members of the Board are appointed by the Mayor and approved by the City Council.

The financial positions and operations of the two departments are accounted for and reported separately in these financial statements. The Utilities report in accordance with Governmental Accounting Standards and Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

2. Measurement Focus and Basis of Accounting

The Utilities maintain their financial records on the accrual basis, which is the basis for the financial statements. The accrual basis of accounting recognizes revenues when earned rather than received. Expenses are recognized when incurred.

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.

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 the Utilities are charges to customers for sales and services. Operating expenses for the Utilities include the cost of sales and services, administrative expense and depreciation on capital assets.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

4. Utility Plant and Depreciation

The straight-line method is used for computing depreciation with lives on machinery and equipment ranging from five to thirty-five years and lives on buildings of fifty years. Cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Utility plant accounts are charged with the cost of improvements and replacements of the plant.

Water contributions in aid of construction represents the actual cost of property contributed to the water Utility and nonrefundable payments received from consumers which are used to partially offset the cost of the construction of additional plant. The cost of depreciation on plant acquired through this process is included in depreciation expense. The balance in water contributions in aid of construction is amortized over a period equal to the estimated useful life of the related contributed asset.

5. Accounts Receivable and Revenue Recognition

Billings for electric and water revenues are rendered monthly on a cyclical basis. The Utilities do not record unbilled revenues representing estimated consumption for the period between the last billing date and the end of the fiscal year.

6. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies and a weighted average basis for fuel.

7. Investments

Investments are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are stated at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the reported sales price and current exchange rates at year end. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in other income when earned.

8. Deferred Costs

Costs related to the issuance of debt and special projects are recorded as deferred costs when incurred. Such costs are amortized over the term of the outstanding debt or the estimated useful life in the case of special projects.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

9. Purpose of Special Funds

The Utilities have set aside certain of its assets for specific purposes. The board designated funds represent money designated by the Board of Trustees to be used in the payment of certain potential costs as identified in Note C. The memorial fund is used to accumulate the unused portion of funds restricted by donors for a specific purpose. The electric and water revenue bond funds, as discussed in Note C, are the result of requirements established in bond issue documents. Use of restricted or unrestricted resources for individual projects is determined by the Utility Board of Trustees based on the facts regarding each specific situation.

10. Compensated Absences

Utility employees earn vacation hours at varying rates depending on years of service. Vacation time accumulates to a maximum of 200 hours. Any excess over 200 hours is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation.

11. Property Taxes

According to Iowa law, the Electric Utility is required to pay property taxes on transmission lines and related Utility property outside the Atlantic city limits. The property taxes are recorded as of the date they become a liability.

12. Cash Equivalents

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

13. Debt Costs During Periods of Construction

During construction, costs of related debt are accumulated and capitalized. Interest earned on invested debt proceeds is offset against the accumulated debt costs and the net amount is included in capitalized construction costs.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

14. Net Assets

Net assets of the Utilities are classified in five components. *Contributions in aid of construction* consist of the unamortized cost of contributions from outside parties for construction purposes. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Utilities, including amounts deposited with trustees as required by revenue bond indentures, discussed in Notes G and H. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

NOTE B - TRANSACTIONS WITH CITY OF ATLANTIC, IOWA

The Utilities provide electric and water services to the City in exchange for a partial payment. However, any payment received must be contributed back to the City at the time of receipt. Any excess of the cost and normal charge for services provided over amounts received from the City is charged to a franchise requirement expense account, which is included in administrative expenses on the financial statements.

The Utilities act as the billing and collection agent for the City in the collection of sewer fees from the residents of Atlantic. This service is provided for a minimal charge to the City.

Following is a summary of activity between the Utilities and City during the year and amounts due to or receivable from the City at year end:

<u>Electric Department</u>	<u>2004</u>	<u>2003</u>
Fees for Services Provided to City	\$ 250,530	\$ 205,476
Payment From and Part of Distribution to City	<u>224,602</u>	<u>208,318</u>
Franchise Requirement	<u>\$ 25,928</u>	<u>\$ (2,842)</u>
Note Receivable from City (Note F)	<u>\$ --</u>	<u>\$ 20,000</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE B - TRANSACTIONS WITH CITY OF ATLANTIC, IOWA - Continued

<u>Water Department</u>	<u>2004</u>	<u>2003</u>
Fees for Services Provided to City	\$ 79,252	\$ 77,723
Payment From and Distribution to City	<u>75,398</u>	<u>81,682</u>
Franchise Requirement	<u>\$ 3,854</u>	<u>\$(3,959)</u>
Sewer Fees Collected for City	<u>\$ 567,765</u>	<u>\$ 545,333</u>
Charge to City for Sewer Billing Service	<u>\$ 2,706</u>	<u>\$ 2,743</u>
Account Payable to City	<u>\$ 123,756</u>	<u>\$ 111,097</u>

NOTE C - SPECIAL PURPOSE FUNDS

Restricted and board designated net assets are available for the following purposes:

<u>Electric Department</u>	<u>2004</u>	<u>2003</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 662,871	\$ 663,105
Capital improvements	<u>300,000</u>	<u>300,000</u>
Total restricted	<u>\$ 962,871</u>	<u>\$ 963,105</u>
Board Designated for:		
Unforeseen disasters	\$ 350,000	\$ 350,000
Production plant repairs and capital expenditures	1,000,000	1,000,000
Atlantic power plant retirement	500,000	500,000
Equipment replacement	150,000	150,000
Employee retirement	150,572	151,071
Property tax payment	--	83,104
Funding of bond requirements	<u>356,732</u>	<u>405,864</u>
Total board designated	<u>\$ 2,507,304</u>	<u>\$ 2,640,039</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE C - SPECIAL PURPOSE FUNDS - Continued

Water Department

	<u>2004</u>	<u>2003</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 250,000	\$ 250,000
Capital improvements	<u>500,000</u>	<u>500,000</u>
Bond funds	750,000	750,000
Restricted by donor for well field improvements	<u>3,618</u>	<u>3,600</u>
Total restricted	<u>\$ 753,618</u>	<u>\$ 753,600</u>
Board Designated for:		
System improvements	\$ 135,000	\$ 135,000
Employee retirement	40,000	40,000
Funding of bond requirements	<u>24,559</u>	<u>29,500</u>
Total board designated	<u>\$ 199,559</u>	<u>\$ 204,500</u>

During the year ended December 31, 2004 and 2003, no restricted funds were expended.

NOTE D - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2004 were entirely covered by federal depository insurance or 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. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE D - DEPOSITS AND INVESTMENTS - Continued

The Electric Department's investments at December 31 are as follows:

	2004	2003
Invested Funds:		
U.S. Treasury Securities	\$ 2,175,907	\$ 1,466,952
Government Agencies	2,719,822	3,573,494
Other Interest Bearing Accounts	497,215	487,719
Interest Receivable	30,590	31,867
Total Investments	\$ 5,423,534	\$ 5,560,032
Special Purpose Funds:		
Restricted	\$ 962,871	\$ 963,105
Board Designated	2,507,304	2,640,039
Total Special Purpose Funds	3,470,175	3,603,144
Operating and Capital Reserves	1,953,359	1,956,888
Total Investments	\$ 5,423,534	\$ 5,560,032

The Water Department's investments at December 31 are as follows:

	2004	2003
Invested Funds:		
U.S. Treasury Securities	\$ 326,870	\$ 604,866
Government Agencies	624,547	396,183
Other Interest Bearing Accounts	63,505	62,894
Interest Receivable	2,715	7,374
Total Investments	\$ 1,017,637	\$ 1,071,317
Special Purpose Funds:		
Restricted	\$ 753,618	\$ 753,600
Board Designated	199,559	204,500
Total Special Purpose Funds	953,177	958,100
Operating and Capital Reserves	64,460	113,217
Total Investments	\$ 1,017,637	\$ 1,071,317

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE E - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2004 and 2003 were as follows:

	<u>Balance 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2004</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 34,061,020	\$ 832,499	\$ 192,980	\$ 34,700,539
Depreciation	<u>20,682,175</u>	<u>1,007,783</u>	<u>164,583</u>	<u>21,525,375</u>
Depreciable Capital Assets, Net	<u>\$ 13,378,845</u>	<u>\$(175,284)</u>	<u>\$ 28,397</u>	<u>\$ 13,175,164</u>
Construction in Progress	\$ 285,397	\$ 868,980	\$ 832,499	\$ 321,878
Land and Land Rights	<u>569,077</u>	<u>--</u>	<u>--</u>	<u>569,077</u>
Non-Depreciable Capital Assets	<u>\$ 854,474</u>	<u>\$ 868,980</u>	<u>\$ 832,499</u>	<u>\$ 890,955</u>
	<u>Balance 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2003</u>
Plant and Equipment	\$ 33,518,735	\$ 661,460	\$ 119,175	\$ 34,061,020
Depreciation	<u>19,791,652</u>	<u>1,004,746</u>	<u>114,223</u>	<u>20,682,175</u>
Depreciable Capital Assets, Net	<u>\$ 13,727,083</u>	<u>\$(343,286)</u>	<u>\$ 4,952</u>	<u>\$ 13,378,845</u>
Construction in Progress	\$ 312,332	\$ 634,525	\$ 661,460	\$ 285,397
Land and Land Rights	<u>569,077</u>	<u>--</u>	<u>--</u>	<u>569,077</u>
Non-Depreciable Capital Assets	<u>\$ 881,409</u>	<u>\$ 634,525</u>	<u>\$ 661,460</u>	<u>\$ 854,474</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE E - CAPITAL ASSETS - Continued

	<u>Balance 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2004</u>
Water Department				
Plant and Equipment	\$ 7,733,801	\$ 193,574	\$ 25,851	\$ 7,901,524
Depreciation	<u>3,539,213</u>	<u>225,008</u>	<u>25,851</u>	<u>3,738,370</u>
Depreciable Capital Assets, Net	<u>\$ 4,194,588</u>	<u>\$ (31,434)</u>	<u>\$ --</u>	<u>\$ 4,163,154</u>
Construction in Progress	\$ --	\$ 193,574	\$ 193,574	\$ --
Land and Land Rights	<u>125,818</u>	<u>--</u>	<u>--</u>	<u>125,818</u>
Non-Depreciable Capital Assets	<u>\$ 125,818</u>	<u>\$ 193,574</u>	<u>\$ 193,574</u>	<u>\$ 125,818</u>
	<u>Balance 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2003</u>
Plant and Equipment	\$ 7,670,929	\$ 74,261	\$ 11,389	\$ 7,733,801
Depreciation	<u>3,326,906</u>	<u>223,696</u>	<u>11,389</u>	<u>3,539,213</u>
Depreciable Capital Assets, Net	<u>\$ 4,344,023</u>	<u>\$ (149,435)</u>	<u>\$ --</u>	<u>\$ 4,194,588</u>
Construction in Progress	\$ --	\$ 74,261	\$ 74,261	\$ --
Land and Land Rights	<u>125,818</u>	<u>--</u>	<u>--</u>	<u>125,818</u>
Non-Depreciable Capital Assets	<u>\$ 125,818</u>	<u>\$ 74,261</u>	<u>\$ 74,261</u>	<u>\$ 125,818</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE F - ELECTRIC DEPARTMENT NOTES RECEIVABLE

Following is a schedule of Electric Department notes receivable at December 31:

	2004	2003
Note Receivable - City of Atlantic	\$ --	\$ 20,000
Note Receivable - Water Department	495,855	495,855
	\$ 495,855	\$ 515,855

As a part of a City of Atlantic development project, new street lighting was installed in the downtown area. Because the City requested a specific style of lighting, it agreed to pay a part of the cost of the fixtures. The Utilities agreed to provide temporary financing for the City in this project by entering into an agreement whereby the Utilities would loan the City \$200,000, interest free. The note was repaid in ten equal annual installments of \$20,000 each.

For an explanation of the Note Receivable - Water Department, see Note H.

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended December 31, 2004 and 2003 follows:

	Balance 2003	Additions	Disposals	Balance 2004
1999 Revenue Bonds	\$ 3,570,000	\$ --	\$ 535,000	\$ 3,035,000
Less Current Portion	(535,000)	(555,000)	(535,000)	(555,000)
Total Long-Term Debt	3,035,000	(555,000)	--	2,480,000
Consumer Deposits	21,806	--	891	20,915
Reserve for Employee Retirement	82,000	1,000	--	83,000
Total Non-Current Liabilities	\$ 3,138,806	\$(554,000)	\$ 891	\$ 2,583,915

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

	<u>Balance 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2003</u>
1999 Revenue Bonds	\$ 4,085,000	\$ --	\$ 515,000	\$ 3,570,000
Less Current Portion	<u>(515,000)</u>	<u>(535,000)</u>	<u>(515,000)</u>	<u>(535,000)</u>
Total Long-Term Debt	3,570,000	(535,000)	--	3,035,000
Consumer Deposits	20,941	865	--	21,806
Reserve for Employee Retirement	<u>81,000</u>	<u>1,000</u>	<u>--</u>	<u>82,000</u>
Total Non-Current Liabilities	<u>\$ 3,671,941</u>	<u>\$(533,135)</u>	<u>\$ --</u>	<u>\$ 3,138,806</u>

The 1999 Series Revenue Bonds constitute a lien on the net income of the Electric Department. They are not general obligations of the City of Atlantic. The bonds mature in increasing amounts ranging from \$535,000 in 2003 to \$660,000 in 2009. Interest rates range from 4.00% to 4.125%. The part of these bonds maturing on and after April 1, 2006 are subject to early redemption on or after that date.

The resolutions of the Board of Trustees authorizing the issuance of the 1999 electric revenue bonds specify the creation and maintenance of a bond sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements for bond funds have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Electric Department long-term debt during each of the five years ending December 31, 2005 through 2009 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 555,000	\$ 111,125	\$ 666,125
2006	580,000	88,425	668,425
2007	605,000	64,725	669,725
2008	635,000	39,925	674,925
2009	<u>660,000</u>	<u>13,613</u>	<u>673,613</u>
	<u>\$ 3,035,000</u>	<u>\$ 317,813</u>	<u>\$ 3,352,813</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE H - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended December 31, 2004 and 2003 follows:

	<u>Balance 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2004</u>
1998 Capital Loan Notes	\$ 1,680,000	\$ --	\$ 150,000	\$ 1,530,000
Deferred Refunding Costs	<u>(11,097)</u>	<u>--</u>	<u>(2,104)</u>	<u>(8,993)</u>
	1,668,903	--	147,896	1,521,007
Less Current Portion	<u>(147,896)</u>	<u>(158,086)</u>	<u>(147,896)</u>	<u>(158,086)</u>
	1,521,007	(158,086)	--	1,362,921
Note Payable - Electric	<u>495,855</u>	<u>--</u>	<u>--</u>	<u>495,855</u>
Total Long-Term Debt	2,016,862	(158,086)	--	1,858,776
Consumer Deposits	11,500	--	365	11,135
Reserve for Employees' Retirement	<u>23,000</u>	<u>1,000</u>	<u>--</u>	<u>24,000</u>
Total Non-Current Liabilities	<u>\$ 2,051,362</u>	<u>\$(157,086)</u>	<u>\$ 365</u>	<u>\$ 1,893,911</u>
	<u>Balance 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2003</u>
1998 Capital Loan Notes	\$ 1,830,000	\$ --	\$ 150,000	\$ 1,680,000
Deferred Refunding Costs	<u>(13,390)</u>	<u>--</u>	<u>(2,293)</u>	<u>(11,097)</u>
	1,816,610	--	147,707	1,668,903
Less Current Portion	<u>(147,707)</u>	<u>(147,896)</u>	<u>(147,707)</u>	<u>(147,896)</u>
	1,668,903	(147,896)	--	1,521,007
Note Payable - Electric	<u>495,855</u>	<u>--</u>	<u>--</u>	<u>495,855</u>
Total Long-Term Debt	2,164,758	(147,896)	--	2,016,862
Consumer Deposits	11,385	115	--	11,500
Reserve for Employees' Retirement	<u>21,000</u>	<u>2,000</u>	<u>--</u>	<u>23,000</u>
Total Non-Current Liabilities	<u>\$ 2,197,143</u>	<u>\$(145,781)</u>	<u>\$ --</u>	<u>\$ 2,051,362</u>

The note payable to the Electric Department represents a temporary transfer of funds as part of the financing for a water improvement project. The note is non-interest bearing and is due in 2012. It is subordinate to any bonds or other debt obligations payable from revenues of the Water Department.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE H - WATER DEPARTMENT NON-CURRENT LIABILITIES - Continued

The 1998 Series Refunding Capital Loan Notes constitute a lien on the net income of the Water Department. They are not general obligations of the City of Atlantic. The bonds mature in increasing amounts ranging from \$150,000 in 2003 to \$215,000 in 2012. Interest rates range from 4.40% to 4.90%. The part of these bonds maturing on and after December 1, 2006 are subject to early redemption on or after that date.

The resolutions of the Board of Trustees authorizing the issuance of the 1991 water revenue bonds and the 1998 capital loan notes specify the creation and maintenance of a bond sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements for bond funds have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Water Department long-term debt during each of the five years ending December 31, 2005 through 2009 and succeeding years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 160,000	\$ 71,475	\$ 231,475
2006	170,000	64,355	234,355
2007	175,000	56,705	231,705
2008	185,000	48,743	233,743
2009	200,000	40,232	240,232
2010 - 2012	<u>1,135,855</u>	<u>62,463</u>	<u>1,198,318</u>
	<u>\$ 2,025,855</u>	<u>\$ 343,973</u>	<u>\$ 2,369,828</u>

NOTE I - EMPLOYEE RETIREMENT AND DEFINED BENEFIT PENSION PLAN

Reserve For Employees' Retirement

Under rules adopted by the Board of Trustees, upon retirement, employees are eligible to receive payments based on accumulated but unused sick leave credits. Payments based on unused sick leave credits are also payable to a named beneficiary if a retiree dies before receiving all benefits earned.

Iowa Public Employees Retirement System

The 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 are required to contribute 3.70% of their annual salary and the Utilities are required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended December 31, 2004, 2003, and 2002, were approximately \$82,300, \$79,100, and \$75,200, respectively, equal to the required contributions for each year.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE J - DEFERRED COMPENSATION PLAN

The Utilities sponsor a deferred compensation plan which is administered by two trustees (the General Manager and Comptroller of the Utilities) and independent contractors under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Utilities are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the contractor designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Utilities' fiduciary responsibility is limited to due care in selecting administrators and an indemnification of the trustees. The trustees are responsible for withholdings and W-2's when the participants receive payments. The contractors are required to submit monthly reports on participants' accounts to the Utilities. The Utilities are liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant. The market values of the exclusive benefit plan assets at December 31, 2004 were approximately \$195,700.

NOTE K - COMMITMENTS AND CONTINGENCIES

Power Supply

The Electric Utility participates with several other utility companies in the operation of the Council Bluffs Power Station Unit No. 3 (CB #3) to supply power. The project represents an ongoing commitment to provide operating and construction funds as they are needed to maintain and update the facility. The share applicable to Atlantic is approximately 2.5% of the total costs.

The Electric Department construction in progress of approximately \$322,000 represents the Utility's share of ongoing construction projects at CB #3. The Utility currently plans to finance future costs of these and other projects through funds generated internally.

Risk Management

The Utilities are exposed to common business risks of loss. These risks are covered to the extent practical by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Natural Gas Supply

The Electric Utility has entered into an agreement to purchase a specified volume of natural gas from a supplier during a six year period ending in May, 2005. The natural gas is a fuel source for the Utility's generating plants in Atlantic. Should the Utility not use the full commitment, it will be liable for the delivery cost of any unused quantity at the end of the contract term.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2004 and 2003

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Environmental Regulations

The Utilities are subject to various federal and state environmental regulations. These regulations are continuously revised and updated, resulting in ongoing compliance requirements. Management has determined that the facility is currently in compliance with the applicable regulations. The Utility anticipates that any future cost incurred relating to environmental regulations will be recovered through rates charged to customers.

NOTE L - ACCOUNTING CHANGE

During the year ended December 31, 2004, the Utilities implemented Government Accounting Standards Board Statements No. 34, 37, and 38. As a result, certain items on the statements of net assets, statements of income and statements of changes in net assets for the year ended December 31, 2003 have been reclassified to be comparable to the amounts reported in the new 2004 format. The reclassifications had no effect on total net assets or the total change in net assets for 2003.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
 Budgetary Comparison Schedule
 Year Ended December 31, 2004

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for debt payments and net assets differently for financial statement and budget purposes.

	<u>Per Financial Statements</u>		<u>Budget</u>	<u>Combined</u>
	<u>Electric</u>	<u>Water</u>	<u>Adjustments</u>	<u>Utilities</u>
Revenues	\$ 6,434,832	\$ 1,042,320	\$ 11,508	\$ 7,488,660
Contributions	--	11,508	(11,508)	--
Expenses	<u>5,769,155</u>	<u>958,147</u>	<u>695,000</u>	<u>7,422,302</u>
Net	665,677	95,681	(695,000)	66,358
Balance beginning of year	17,300,779	3,526,790	(14,043,754)	6,783,815
Transfers to the City	<u>(224,602)</u>	<u>(75,398)</u>	--	<u>(300,000)</u>
Balance end of year	<u>\$ 17,741,854</u>	<u>\$ 3,547,073</u>	<u>\$(14,738,754)</u>	<u>\$ 6,550,173</u>
		<u>Budget</u>	<u>Budget</u>	<u>Variance</u>
		<u>Basis</u>		<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues		\$ 7,488,660	\$ 7,671,000	\$(182,340)
Expenses		<u>7,422,302</u>	<u>7,896,000</u>	<u>473,698</u>
Net		66,358	(225,000)	291,358
Balance beginning of year		6,783,815	6,783,815	--
Transfers to the City		<u>(300,000)</u>	<u>(310,000)</u>	<u>10,000</u>
Balance end of year		<u>\$ 6,550,173</u>	<u>\$ 6,248,815</u>	<u>\$ 301,358</u>

See Independent Auditor's Report.

OTHER SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
Revenue Bonds/Notes
December 31,

ELECTRIC DEPARTMENT:

<u>Due Date</u>	<u>Optional Call Date</u>	<u>Interest Rate</u>	<u>2004</u>	<u>2003</u>
<u>1999 Series</u>				
April 1, 2004	--	4.000%	\$ --	\$ 535,000
April 1, 2005	--	4.000	555,000	555,000
April 1, 2006	--	4.000	580,000	580,000
April 1, 2007	April 1, 2006	4.000	605,000	605,000
April 1, 2008	April 1, 2006	4.000	635,000	635,000
April 1, 2009	April 1, 2006	4.125	<u>660,000</u>	<u>660,000</u>
			<u>\$ 3,035,000</u>	<u>\$ 3,570,000</u>

WATER DEPARTMENT:

<u>1998 Series</u>				
Dec. 1, 2004	--	4.40%	\$ --	\$ 150,000
Dec. 1, 2005	--	4.45	160,000	160,000
Dec. 1, 2006	--	4.50	170,000	170,000
Dec. 1, 2007	Dec. 1, 2006	4.55	175,000	175,000
Dec. 1, 2008	Dec. 1, 2006	4.60	185,000	185,000
Dec. 1, 2009	Dec. 1, 2006	4.70	200,000	200,000
Dec. 1, 2010	Dec. 1, 2006	4.75	205,000	205,000
Dec. 1, 2011	Dec. 1, 2006	4.80	220,000	220,000
Dec. 1, 2012	Dec. 1, 2006	4.90	<u>215,000</u>	<u>215,000</u>
			<u>\$ 1,530,000</u>	<u>\$ 1,680,000</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
 Operating Revenue
 Year ended December 31,

	<u>2004</u>	<u>2003</u>
<u>ELECTRIC DEPARTMENT</u>		
Retail Electricity Sales:		
Residential	\$ 1,487,260	\$ 1,430,389
Commercial	2,353,832	2,264,481
Rural resident and rural commercial	835,849	746,347
Interdepartmental sales	<u>24,487</u>	<u>24,211</u>
	<u>\$ 4,701,428</u>	<u>\$ 4,465,428</u>
Other Operating Revenue:		
Customer late payment charges	\$ 11,845	\$ 11,305
Service charges	10,060	10,110
Rent from electric properties	17,653	22,001
Net contract work	7,313	4,864
Transmission service	9,209	7,377
Internet wireless services, net	15,189	26,181
Scrap sales	879	232
Bad debts recovered	1,713	2,004
Miscellaneous	<u>--</u>	<u>190</u>
	<u>\$ 73,861</u>	<u>\$ 84,264</u>
<u>WATER DEPARTMENT</u>		
Other Operating Revenue:		
Service charges	\$ 5,900	\$ 5,590
Net contract work	4,686	9,235
Scrap sales	263	--
Bad debts recovered	<u>369</u>	<u>948</u>
	<u>\$ 11,218</u>	<u>\$ 15,773</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses
Year ended December 31,

	2004	2003
Electric Production:		
CB #3 Production:		
Operating supervision and labor	\$ 67,317	\$ 63,987
Fuel	894,683	846,882
Operating supplies and expense	154,451	144,163
Maintenance of production plant	401,709	502,415
Total CB #3 production	1,518,160	1,557,447
Atlantic Production:		
Operating supervision and labor	9,126	10,449
Fuel	30,110	34,019
Operating supplies and expense	2,252	3,287
Maintenance of production plant	108,623	60,776
Total Atlantic production	150,111	108,531
Total electric production	1,668,271	1,665,978
Purchased Power	921,913	500,934
Transmission Expense:		
Maintenance of transmission line and other	383,133	427,153
Distribution Expense:		
City:		
Operating supervision and labor	63,363	65,080
Line and station supplies and expense	55,930	48,608
Meter expense	32,675	42,756
Customer installation	--	2,192
Miscellaneous distribution expense	56,824	62,097
Maintenance of structures and equipment	18,601	10,386
Maintenance of lines	125,857	115,278
Maintenance of line transformers	12,578	6,931
Maintenance of street lighting and signal systems	17,215	19,969
Maintenance of meters	11,048	20,442
Total city distribution expense	394,091	393,739
Rural:		
Operating supervision and labor	39,841	39,150
Line and station supplies and expense	8,429	8,938
Meter expense	730	4,782
Miscellaneous distribution expense	14,947	13,808
Maintenance of structures and equipment	22,687	11,603

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses - Continued
Year ended December 31,

	<u>2004</u>	<u>2003</u>
Distribution Expense (Continued):		
Rural (Continued):		
Maintenance of lines	\$ 55,483	\$ 48,632
Maintenance of line transformers	3,396	4,137
Maintenance of meters	<u>1,436</u>	<u>6,368</u>
Total rural distribution expense	<u>146,949</u>	<u>137,418</u>
Total distribution expense	541,040	531,157
Administrative and Accounting Expense:		
Customer accounting:		
Meter reading labor	27,517	28,899
Accounting and collecting costs	93,757	86,296
Supplies and expense	1,183	701
Uncollectible accounts	<u>11,905</u>	<u>18,549</u>
Total customer accounting	134,362	134,445
Administrative and general:		
Administrative and general salaries	61,309	60,756
Office supplies and expense	39,173	40,748
Outside service employed	29,774	31,073
Property insurance	50,547	51,450
Liability insurance and safety program costs	60,499	69,832
Employees' pension and benefits	261,173	243,322
Franchise requirement	25,928	(2,842)
Regulatory commission expense	7,037	9,408
Internet	17,059	8,055
Energy efficiency grant/rebate program	17,373	17,340
Miscellaneous general expense	80,484	69,372
Maintenance of general plant	36,398	29,170
Payroll taxes	154,810	151,032
Property taxes	<u>127,247</u>	<u>111,387</u>
Total administrative and general	968,811	890,103
Administrative adjustments	21,662	18,882
Less administrative expense transferred	<u>(51,725)</u>	<u>(52,314)</u>
Net administrative and general	<u>938,748</u>	<u>856,671</u>
Total administrative and accounting expense	1,073,110	991,116
Provision for Depreciation	<u>1,007,783</u>	<u>1,004,746</u>
Total operating expenses	<u>\$ 5,595,250</u>	<u>\$ 5,121,084</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses
Year ended December 31,

	<u>2004</u>	<u>2003</u>
Source of Supply Expense:		
Operating supplies and expense	\$ 6,758	\$ 6,963
Maintenance of water source	<u>28,784</u>	<u>27,640</u>
Total source of supply expense	35,542	34,603
Pumping Expense:		
Operating labor	19,578	17,430
Fuel and power pumping	16,066	15,483
Maintenance of pumping station	<u>6,328</u>	<u>6,880</u>
Total pumping expense	41,972	39,793
Water Treatment Expense:		
Operating labor	43,266	45,504
Chemicals	22,952	17,574
Operating supplies and expense	13,156	12,603
Maintenance of water treatment plant	<u>6,286</u>	<u>3,706</u>
Total water treatment expense	85,660	79,387
Distribution Expense:		
Operating labor	107,180	109,108
Operating supplies and expense	12,949	13,046
Maintenance of distribution reservoirs and standpipes	7,461	6,143
Maintenance of mains	55,502	56,463
Maintenance of services	1,270	964
Maintenance of meters	1,709	2,086
Maintenance of hydrants	<u>4,565</u>	<u>6,932</u>
Total distribution expense	190,636	194,742
Administrative and Accounting Expense:		
Customer Accounting:		
Meter reading labor	14,334	13,648
Accounting and collecting labor	38,251	37,166
Supplies and expense	10,136	6,726
Uncollectible accounts	<u>2,873</u>	<u>2,904</u>
Total customer accounting	65,594	60,444

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses - Continued
Year ended December 31,

	2004	2003
Administrative and Accounting Expense (Continued):		
Administrative and General:		
Administrative and general salaries	\$ 29,283	\$ 27,765
Office supplies and other expense	20,731	20,275
Outside service employed	10,383	7,864
Property insurance	5,737	5,354
Liability insurance costs	23,050	16,899
Employees' pensions and benefits	88,683	83,686
Franchise requirement	3,854	(3,959)
Regulatory Commission expense	1,108	1,099
Miscellaneous general expense	20,468	21,159
Transportation expense	6,153	6,051
Maintenance of general plant	2,945	3,186
Payroll taxes	<u>32,316</u>	<u>31,116</u>
Total administrative and general	244,711	220,495
Administrative adjustments	(2,293)	4,489
Less administrative expense transferred	<u>(13,055)</u>	<u>(11,980)</u>
Net administrative and general	<u>229,363</u>	<u>213,004</u>
Total administrative and accounting expense	294,957	273,448
Provision for Depreciation	<u>225,008</u>	<u>223,696</u>
Total operating expenses	<u>\$ 873,775</u>	<u>\$ 845,669</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Comparative Statements of Income
Year ended December 31,

	<u>2004</u>	<u>2003</u>
Operating Revenue:		
Sale of electricity	\$ 6,259,144	\$ 5,426,887
Other operating revenue	<u>73,861</u>	<u>84,264</u>
Total operating revenue	6,333,005	5,511,151
Operating Expenses (Not Including Depreciation)	<u>4,587,467</u>	<u>4,116,338</u>
Operating Income Before Depreciation	1,745,538	1,394,813
Provision for Depreciation	<u>1,007,783</u>	<u>1,004,746</u>
Income From Operations	737,755	390,067
Other Income and (Deductions), Net	<u>(72,078)</u>	<u>(35,170)</u>
Net Income	<u>\$ 665,677</u>	<u>\$ 354,897</u>
Net Income as a Percent of Total Operating Revenue	<u>10.51%</u>	<u>6.44%</u>

See Independent Auditor's Report.

<u>2002</u>	<u>2001</u>	<u>2000</u>
\$ 5,338,122	\$ 5,550,146	\$ 5,432,246
<u>87,635</u>	<u>69,331</u>	<u>65,633</u>
5,425,757	5,619,477	5,497,879
<u>4,005,293</u>	<u>3,824,924</u>	<u>3,951,843</u>
1,420,464	1,794,553	1,546,036
<u>992,974</u>	<u>984,857</u>	<u>974,770</u>
427,490	809,696	571,266
<u>55,333</u>	<u>73,630</u>	<u>91,339</u>
<u>\$ 482,823</u>	<u>\$ 883,326</u>	<u>\$ 662,605</u>
<u>8.89%</u>	<u>15.72%</u>	<u>12.05%</u>

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Comparative Summaries of Electricity Distributed and Billed
Year ended December 31,

	2004	2003
Sale of Electricity:		
Sales to consumers	\$ 4,951,958	\$ 4,670,904
Sales to other utilities	1,307,186	755,983
Total Electricity Sales	\$ 6,259,144	\$ 5,426,887
Kilowatt Hours:		
Generated	118,826,300	134,511,300
Purchased	43,609,516	33,743,706
Energy available	162,435,816	168,255,006
Station power/transmission loss	4,982,221	4,956,759
Available for sale	157,453,595	163,298,247
Sales and transfers to other utilities	56,774,495	62,512,447
Output to the system	100,679,100	100,785,800
Billed to consumers	95,640,186	96,008,126
Distribution loss	5,038,914	4,777,674
Distribution loss percent	5.0%	4.7%
Revenue Billed Per KWH to Consumers	5.18¢	4.87¢
Peak Hour Demand in KW	24,465	25,445
Services Provided to the City:		
Street Lighting:		
Energy	\$ 70,832	\$ 71,189
Operation and maintenance	18,049	20,525
Depreciation	32,538	31,432
	121,419	123,146
Energy for public buildings, parks and other uses	129,111	82,330
	\$ 250,530	\$ 205,476
 <u>Consumer Classifications</u>		
Residential	3,197	3,194
Small Commercial	584	584
Large Commercial	45	51
Rural Residential	559	558
Rural Commercial	97	94
Area Lighting	272	276
City and Water Department	87	84
Total number of consumers	4,841	4,841

See Independent Auditor's Report.

<u>2002</u>	<u>2001</u>	<u>2000</u>
\$ 4,751,773	\$ 4,681,329	\$ 4,704,851
<u>586,349</u>	<u>868,817</u>	<u>727,395</u>
<u>\$ 5,338,122</u>	<u>\$ 5,550,146</u>	<u>\$ 5,432,246</u>
126,703,200	132,178,600	120,398,000
40,422,832	35,797,713	43,527,464
167,126,032	167,976,313	163,925,464
5,192,452	4,859,836	4,162,690
161,933,580	163,116,477	159,762,774
59,274,280	63,154,277	56,691,574
102,659,300	99,962,200	103,071,200
97,840,705	96,475,732	98,488,166
4,818,595	3,486,468	4,583,034
4.7%	3.5%	4.4%
4.86¢	4.85¢	4.78¢
25,496	26,432	25,359
\$ 72,549	\$ 73,718	\$ 77,536
21,322	28,803	24,909
<u>30,238</u>	<u>29,224</u>	<u>27,819</u>
124,109	131,745	130,264
<u>81,757</u>	<u>78,125</u>	<u>75,360</u>
<u>\$ 205,866</u>	<u>\$ 209,870</u>	<u>\$ 205,624</u>
3,168	3,204	3,213
574	518	516
50	49	49
554	556	556
92	84	80
274	271	271
<u>81</u>	<u>80</u>	<u>80</u>
<u>4,793</u>	<u>4,762</u>	<u>4,765</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Comparative Statements of Income
Year ended December 31,

	<u>2004</u>	<u>2003</u>
Operating Revenue:		
Sale of water	\$ 1,008,825	\$ 993,815
Other operating revenue	<u>11,218</u>	<u>15,773</u>
Total operating revenue	1,020,043	1,009,588
Operating Expenses (Not Including Depreciation)	<u>648,767</u>	<u>621,973</u>
Operating Income Before Depreciation	371,276	387,615
Provision for Depreciation	<u>225,008</u>	<u>223,696</u>
Income From Operations	146,268	163,919
Other Income (Deductions), Net	<u>(62,095)</u>	<u>(56,809)</u>
Net Income	<u>\$ 84,173</u>	<u>\$ 107,110</u>
Net Income as a Percent of Total Operating Revenue	<u>8.25%</u>	<u>10.61%</u>

See Independent Auditor's Report.

<u>2002</u>	<u>2001</u>	<u>2000</u>
\$ 1,011,758	\$ 993,595	\$ 1,011,037
<u>14,497</u>	<u>18,333</u>	<u>15,079</u>
1,026,255	1,011,928	1,026,116
<u>585,211</u>	<u>549,077</u>	<u>463,547</u>
441,044	462,851	562,569
<u>222,130</u>	<u>210,262</u>	<u>204,755</u>
218,914	252,589	357,814
<u>(48,350)</u>	<u>(72,724)</u>	<u>(82,871)</u>
<u>\$ 170,564</u>	<u>\$ 179,865</u>	<u>\$ 274,943</u>
<u>16.62%</u>	<u>17.77%</u>	<u>26.79%</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Comparative Summaries of Water Pumped and Billed
Year ended December 31,

	<u>2004</u>	<u>2003</u>
Total Revenue Billed	\$ <u>1,008,825</u>	\$ <u>993,815</u>
Gallonage:		
Pumped	350,129,325	383,853,485
Billed	290,892,000	302,849,000
System maintenance*	10,549,425	10,965,785
System loss**	48,687,900	70,038,700
Total system maintenance and loss	59,237,325	81,004,485
Percent loss	13.9%	18.2%
Percent used in system maintenance and loss	16.9%	21.1%
Revenue Billed Per 100 Gallons	34.7¢	32.8¢
Number of Consumers	3,294	3,295
Peak Day - Gallons Pumped	1,930,000	1,771,000
Services Provided to the City:		
Water for parks, disposal plant and public buildings	\$ 7,600	\$ 5,354
Operation and maintenance	35,305	36,552
Depreciation	<u>36,347</u>	<u>35,817</u>
	<u>\$ 79,252</u>	<u>\$ 77,723</u>

* Includes water used in backwashing filters and flushing mains.

** Includes water used in washing streets, fire department drills, fighting fires, main and customer service line breaks.

See Independent Auditor's Report.

<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>\$ 1,011,758</u>	<u>\$ 993,595</u>	<u>\$ 1,011,037</u>
381,989,830	388,786,470	392,260,225
315,630,500	306,021,400	318,447,200
10,330,930	12,208,420	10,203,025
56,028,400	70,556,650	63,610,000
66,359,330	82,765,070	73,813,025
14.7%	18.1%	16.2%
17.4%	21.3%	18.8%
32.1¢	32.5¢	31.7¢
3,277	3,261	3,271
2,041,000	2,137,000	2,226,000
\$ 4,631	\$ 3,590	\$ 4,248
32,662	38,922	24,086
<u>37,151</u>	<u>34,740</u>	<u>34,330</u>
<u>\$ 74,444</u>	<u>\$ 77,252</u>	<u>\$ 62,664</u>

ATLANTIC MUNICIPAL UTILITIES
Net Income Available For Debt Service
Year ended December 31,

	<u>2004</u>	<u>2003</u>
<u>ELECTRIC DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 665,677	\$ 354,897
Add:		
Depreciation	1,007,783	1,004,746
Interest on revenue bonds	127,575	148,775
Loss on disposal of equipment	37,171	3,287
Amortization	<u>8,395</u>	<u>9,798</u>
Available For Debt Service	<u>\$ 1,846,601</u>	<u>\$ 1,521,503</u>
Maximum Debt Service in Any Year	<u>\$ 674,900</u>	<u>\$ 674,900</u>
Actual Coverage	<u>274%</u>	<u>225%</u>
Minimum Coverage Required	<u>125%</u>	<u>125%</u>
 <u>WATER DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 84,173	\$ 107,110
Add:		
Depreciation	225,008	223,696
Interest on revenue bonds	79,629	86,349
Amortization	<u>4,122</u>	<u>4,494</u>
Available For Debt Service	<u>\$ 392,932</u>	<u>\$ 421,649</u>
Maximum Debt Service on Bonds in Any Year	<u>\$ 252,000</u>	<u>\$ 252,000</u>
Actual Coverage	<u>156%</u>	<u>167%</u>
Minimum Coverage Required	<u>125%</u>	<u>125%</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

ROGER A. BELL
MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited the financial statements of Atlantic Municipal Utilities (Electric Department and Water Department) (a component of the City of Atlantic, Iowa) as of and for the year ended December 31, 2004, and have issued our report thereon dated February 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Atlantic Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2004 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. Prior year statutory comments have been resolved.

To the Board of Trustees
Atlantic Municipal Utilities

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Atlantic Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Atlantic Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 04-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of Atlantic Municipal Utilities and other parties to whom the Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald, Bell, Kuhn & Co. P.C.
Atlantic, Iowa
February 15, 2005

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2004

PART I - REPORTABLE CONDITIONS

04-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Utilities.

Recommendation: We recognize that it may not be economically feasible for the Utilities to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Utilities to employ additional personnel for this reason. We have initiated a policy of board member approval for all investment transactions. We have also segregated cash receipts, posting, and deposit functions to the extent practicable in our size of entity.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

04-II-A Official Depositories: A resolution naming official depositories has been adopted by the Board. During the audit, no deposits in excess of the limits were noted.

04-II-B Certified Budget: The Utilities' expenditures during the year ended December 31, 2004 did not exceed amounts budgeted.

04-II-C Questionable Expenditures: During the audit, we noted no expenditures of the Utilities' funds without proper documentation of public purpose.

04-II-D Travel Expense: No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials and/or employees were noted.

04-II-E Business Transactions: No business transactions between the Utilities and Utilities' officials and/or employees were noted.

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

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings - Continued
Year ended December 31, 2004

PART II - REQUIRED STATUTORY REPORTING (Continued)

04-II-G Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

04-II-H Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy.

04-II-I Revenue Bonds: No violations of revenue bond resolution requirements were noted.

04-II-J Internet Access Regulation: No violations of Iowa laws regarding providing of telecommunications services were noted.

* * *