

ALGONA MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

December 31, 2004

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

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OFFICIALS
ALGONA MUNICIPAL UTILITIES

December 31, 2004

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	James Modrell	May 2007
Chairman Pro Tem	Jay Geving	May 2009
Trustee	Allan Bonde	May 2006
Trustee	Karen Schaaf	May 2008
Trustee	Donald Schiltz	May 2005
General Manager	John Bilsten	
Assistant General Manager	Paul Oldham	(retired 2004)
Comptroller	Brien Rindone	

T P .Anderson & Company, P C .

Certified Public Accountants
701 Sumner Ave—PO Box 509
Humboldt, IA 50548

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Algona Municipal Utilities
Algona, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of Algona Municipal Utilities, (a component unit of the City of Algona) as of and for the years ended December 31, 2004 and 2003, which collectively comprise the Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Algona Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities, each major fund and the aggregate remaining fund information of Algona Municipal Utilities at December 31, 2004 and 2003, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 18 to the financial statements, during the year ended December 31, 2004, Algona Municipal Utilities adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 17, 2005 on our consideration of Algona Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Algona Municipal Utilities's basic financial statements. The Comparative Summaries of Electricity Distributed and Billed and the Comparative Summaries of Water Pumped and Billed and the Comparative Summaries of Cable, Internet, and Telephone Service Provided included on pages 36 through 38 is presented for additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

T.P. Anderson & Co, P.C.

May 10, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2004. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

Because the Utilities are implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the AMU's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- ◆ The Utilities revenues increased 1.0%, or approximately \$62,000, from fiscal 2003 to fiscal 2004.
- ◆ Disbursements increased 3.35%, or approximately \$292,000, in 2004 from 2003.
- ◆ The Utility's net assets decreased 4.0%, or approximately \$(1,146,000) during 2004.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities and Net Assets. These provide information about the activities of AMU as a whole and present an overall view of the Utility's finances.

Fund financial statements report the Utility's operations in more detail than the government-wide statements by providing information about the most significant funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

The Accompanying Information is unaudited and provides detailed information about the usage levels of each utility.

REPORTING THE UTILITIES FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information, which helps answer, this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Utility's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of AMU is improving or deteriorating.

The Statement of Activities presents information showing how the Utilities' net assets changed during the most recent year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

Fund Financial Statements

Algona Municipal Utilities as one kind of fund:

- 1) Proprietary funds account for the Utility's enterprise funds. Enterprise funds are used to report business type activities. The Utility maintains three Enterprise Funds to provide separate information for the electric, water, and communications funds, all considered to be major funds of the utility.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Algona Municipal Utility's combined net assets decreased \$1.1 million from a year ago, decreasing from to \$28.7 million. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Current and other assets	\$ 6,340	7,324
Capital assets (net of depreciation)	27,216	27,848
Total assets	33,556	35,172
Long-term debt outstanding	4,700	5,000
Other liabilities	1,221	1,391
Total liabilities	5,921	6,391
Net assets:		
Invested in capital assets	27,216	27,848
Restricted	1,151	1,247
Unrestricted	(732)	(347)
Total net assets	\$ 27,635	28,781

Net assets of Algona Municipal Utility's activities decreased by four percent (\$27.6 million compared to \$28.8 million). The largest portion of the Utility's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased from approximately \$393,000 at December 31, 2003 to approximately \$178,786 at December 31, 2004.

This reduction of in unrestricted net assets was a result of many factors including decreased electric and water sales, decreased interest rates received on investments, and high programming costs in the communications fund.

Changes in Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended December 31,	
	2004	2003
Revenues:		
Program revenues:		
Charges for service	\$ 7,654	7,355
General revenues:		
Unrestricted investment earnings	77	160
Other general revenues	125	200
Total revenues	<u>7,856</u>	<u>7,715</u>
Program expenses:		
Business type activities	9,002	8,709
Total expenses	<u>9,002</u>	<u>8,709</u>
(Decrease) in net assets	(1,146)	(994)
Net assets beginning of year	<u>28,781</u>	<u>29,775</u>
Net assets end of year	<u>\$ 27,635</u>	<u>28,781</u>

INDIVIDUAL MAJOR FUND ANALYSIS

As Algona Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$27.6 million, a decrease of more than \$1.1 million under last year's total of \$28.7 million. The decrease in fund balance is primarily attributable to high programming and operations costs in the communications fund. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- Electric Fund revenues and expenditures remained consistent when compared to the prior year. The ending fund balance showed a modest decline of \$103,000 from the prior year to \$25,361,000. The decrease was due to decreased sales volumes during the year that exceeded the decrease in the cost of electricity recognized.
- Water Fund revenues decreased during 2004 while expenses increase mainly due to additional staff costs and inflated purification costs. The ending fund balance as a result decreased \$130,000 from the prior year to \$2,372,000.
- Communications fund revenues increased more than 60% due to full telephone service being available all year. The communications fund expenses increased 40% due to higher servicing costs for more customers, and increased programming costs. The results of the activities resulted in a reduction in fund balance of \$912,000. The fund balance during the year was also affected by positively by having a portion of the interfund loan payable forgiven in accordance with the Code of Iowa.

BUDGETARY HIGHLIGHTS

Over the course of the year, Algona Municipal Utility's did not amend their budget.

The Utility did not exceed the budgeted expenditures for the year ended December 31, 2004.

CAPTIAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2004, AMU had approximately \$27 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net decrease (including additions and deletions net of depreciation) of approximately \$632,000, or 2.3 percent under last year.

	Capital Assets of Governmental Activities at Year End	
	(Expressed in Thousands)	
	Year ended December 31,	
	2004	2003
Land	\$ 412	412
Buildings and improvements	2,020	2,057
Equipment and vehicles	1,162	1,200
Infrastructure	23,622	24,179
Total	27,216	27,848

AMU had depreciation expense of \$1,874,934 in FY04 and total accumulated depreciation of \$25,236,970 at December 31, 2004.

LONG TERM DEBT/LIABILITIES

At December 31, 2004, AMU had approximately \$4,700,000 in revenue bonds outstanding compared to \$5,000,000 at December 31, 2003, as shown below. The Utilities' liability for deferred compensation also decreased from approximately \$230,000 to \$206,000.

	Outstanding debt of Governmental Activities at Year End	
	(Expressed in Thousands)	
	Year ended December 31,	
	2004	2003
Revenue Bonds	\$ 4,700	5,000
Deferred compensation	206	230
Total	\$ 4,906	5,230

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Algona Municipal Utility's appointed officials considered many factors when setting the fiscal year 2005 budget including fees that will be charged for the services the Utilities' provide. One of those factors is the economy. The City of Algona experienced negative growth in the last US census, but if the housing developments located within 2 miles of Algona city limits are considered Algona experienced a slight growth in population. Unemployment has fluctuated over the last several years in response to the national economic downturn. However, the unemployment rate has decreased from 5.0% to 3.4% over the last year. The current unemployment rate is less than that of the State's 4.7%. Management has also conducted and is conducting rate studies that have been considered in connection with the budget setting process.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$10.2 million, a decrease of 9.3 percent under the 2004 budget. The budget is likely to closer reflect the actual cash receipts received as estimated based on 2004 results. Budgeted disbursements are expected to decrease also by approximately \$2,459,000. Again the 2005 budget was set to more closely reflect the actual results as estimated based on 2004 actual results

If these estimates are realized, the Utilities' budgetary operating balance is expected to modestly increase by the close of 2005.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provided our citizens, taxpayers, customers, and creditors with a general overview of AMU's finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact management at 104 W Call Street in Algona.

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

**STATEMENT OF NET ASSETS
DECEMBER 31:**

	BUSINESS TYPE ACTIVITIES	
	2004	2003
Utility plant:		
Property and equipment	\$ 52,084,671	\$ 50,998,387
Less accumulated depreciation	(25,236,970)	(23,392,997)
	26,847,701	27,605,390
Construction in progress	368,377	242,480
Utility Plant - Net	27,216,078	27,847,870
Board designated funds		
Cash and cash equivalents	588,553	317,374
Temporary investments	3,200,000	3,985,000
	3,788,553	4,302,374
Restricted funds		
Cash and cash equivalents	469,794	257,311
Temporary cash investments	681,391	980,098
	1,151,185	1,237,409
Current Assets:		
Cash and cash equivalents	205,959	597,931
Accounts receivable (net of allowance for doubtful accounts)	533,215	477,961
Unbilled usage	117,490	135,696
Inventory	492,913	562,746
Prepaid insurance	31,587	-
Accrued Interest receivable	19,496	9,699
Accrued interest receivable - interfund loan	-	-
	1,400,660	1,784,033
Total assets	\$ 33,556,476	\$ 35,171,686

See Notes to Financial Statements

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

STATEMENT OF NET ASSETS - continued
DECEMBER 31:

	BUSINESS TYPE ACTIVITIES	
	2004	2003
Liabilities:		
Current liabilities:		
Accounts payable	\$ 209,252	\$ 288,177
Accounts payable - City of Algona	163,781	101,115
Accounts payable - interfund	-	-
Checks in excess of bank balance	70,866	-
Retainage and contracts payable	70,484	270,241
Accrued taxes	120,199	126,038
Accrued wages and compensated absences	152,166	163,646
Accrued interest payable	119,235	126,210
Deferred revenue	109,500	85,149
Revenue bonds payable	315,000	300,000
	1,330,483	1,460,576
Noncurrent liabilities		
Revenue bonds payable - net of current portion	4,385,000	4,700,000
Other liabilities		
Deferred compensation liability	206,391	230,098
Total liabilities	5,921,874	6,390,674
Net Assets		
Invested in capital assets, net of related debt	22,516,078	22,847,870
Restricted for:		
Employee benefits	206,391	230,098
Debt Service	944,794	1,007,239
Unrestricted	3,967,339	4,695,805
Total net assets	\$ 27,634,602	\$ 28,781,012

See Notes to Financial Statements

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

**STATEMENTS OF ACTIVITIES
Year ended December 31, 2004**

	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for service	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Business-type activities					
Electric Utility	\$ 6,286,949	5,630,045	-	-	(656,904)
Water utility	617,956	463,674	-	-	(154,282)
Communications utility	2,096,892	1,559,742	-	-	(537,150)
Total Business-type activities	<u>\$ 9,001,797</u>	<u>7,653,461</u>	<u>-</u>	<u>-</u>	<u>(1,348,336)</u>
Net (expense)					(1,348,336)
General Revenues:					
Unrestricted investment income					\$ 76,892
Miscellaneous income					125,034
Total general revenues					<u>201,926</u>
Change in net assets					(1,146,410)
Net assets - beginning					<u>28,781,012</u>
Net assets - ending					<u>\$ 27,634,602</u>

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

**STATEMENTS OF ACTIVITIES
Year ended December 31, 2003**

	Program Revenues			Net (Expense) Revenue
	Charges for service	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs				
Business-type activities				
Electric Utility	\$ 6,625,971	5,886,783	-	(739,188)
Water utility	573,117	504,983	-	(68,134)
Communications utility	1,510,556	963,096	-	(547,460)
Total Business-type activities	<u>\$ 8,709,644</u>	<u>7,354,862</u>	<u>-</u>	<u>(1,354,782)</u>

Net (expense)

(1,354,782)

General Revenues:

 Unrestricted investment income

\$ 159,814

 Miscellaneous income

200,254

 Total general revenues

360,068

Change in net assets

(994,714)

Net assets - beginning

29,775,726

Net assets - ending

\$ 28,781,012

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

**PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS
DECEMBER 31:**

	<u>ENTERPRISE</u>	
	<u>ELECTRIC</u>	
	<u>2004</u>	<u>2003</u>
Utility plant:		
Property and equipment	\$ 42,891,831	\$ 42,199,063
Less accumulated depreciation	(22,339,818)	(20,851,792)
	<u>20,552,013</u>	<u>21,347,271</u>
Construction in progress	207,227	198,064
Utility Plant - Net	<u>20,759,240</u>	<u>21,545,335</u>
Board designated funds		
Cash and cash equivalents	564,303	194,724
Temporary investments	3,010,000	3,645,000
	<u>3,574,303</u>	<u>3,839,724</u>
Restricted funds		
Cash and cash equivalents	469,794	257,311
Temporary cash investments	671,282	975,484
	<u>1,141,076</u>	<u>1,232,795</u>
Current Assets:		
Cash and cash equivalents	205,959	493,919
Accounts receivable (net of allowance for doubtful accounts)	340,740	397,890
Unbilled usage	102,319	107,370
Accounts receivable -interfund	400,315	271,693
Inventory	435,061	449,412
Prepaid insurance	21,325	-
Accrued Interest receivable	18,434	9,391
Accrued interest receivable - interfund loan	472,412	217,836
	<u>1,996,565</u>	<u>1,947,511</u>
Other assets:		
Interfund loan receivable	3,440,000	5,000,000
	<u>3,440,000</u>	<u>5,000,000</u>
Total assets	<u>\$ 30,911,184</u>	<u>\$ 33,565,365</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2004	2003	2004	2003	2004	2003
\$ 4,391,448	\$ 4,225,069	\$ 4,801,392	\$ 4,574,255	\$ 52,084,671	\$ 50,998,387
(2,396,104)	(2,308,258)	(501,048)	(232,947)	(25,236,970)	(23,392,997)
1,995,344	1,916,811	4,300,344	4,341,308	26,847,701	27,605,390
161,150	44,416	-	-	368,377	242,480
2,156,494	1,961,227	4,300,344	4,341,308	27,216,078	27,847,870
24,250	122,650	-	-	588,553	317,374
190,000	340,000	-	-	3,200,000	3,985,000
214,250	462,650	-	-	3,788,553	4,302,374
-	-	-	-	469,794	257,311
1,404	731	8,705	3,883	681,391	980,098
1,404	731	8,705	3,883	1,151,185	1,237,409
-	13,401	-	90,611	205,959	597,931
28,086	11,805	164,389	68,266	533,215	477,961
15,171	28,326	-	-	117,490	135,696
-	-	-	-	400,315	271,693
49,715	80,326	8,137	33,008	492,913	562,746
4,774	-	5,488	-	31,587	-
1,062	308	-	-	19,496	9,699
-	-	-	-	472,412	217,836
98,808	134,166	178,014	191,885	2,273,387	2,273,562
-	-	-	-	3,440,000	5,000,000
-	-	-	-	3,440,000	5,000,000
\$ 2,470,956	\$ 2,558,774	\$ 4,487,063	\$ 4,537,076	\$ 37,869,203	\$ 40,661,215

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS - continued
DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2004	2003
Liabilities:		
Current liabilities:		
Accounts payable	162,267	240,063
Accounts payable - City of Algona	96,179	101,115
Accounts payable - interfund	-	-
Checks in excess of bank balance	-	-
Retainage and contracts payable	65,972	65,972
Accrued taxes	117,641	124,890
Accrued wages and compensated absences	92,304	116,596
Accrued interest payable	119,235	126,210
Deferred revenue	-	-
Revenue bonds payable	315,000	300,000
	968,598	1,074,846
Noncurrent liabilities		
Revenue bonds payable - net of current portion	4,385,000	4,700,000
Other liabilities		
Deferred compensation liability	196,282	225,484
Total liabilities	5,549,880	6,000,330
Fund Net Assets		
Invested in capital assets, net of related debt	16,059,240	16,545,335
Restricted - employee benefits	196,282	225,556
Restricted - debt service	944,794	1,007,239
Unrestricted (deficit)	8,160,988	9,786,905
Total Net Assets	\$ 25,361,304	\$ 27,565,035

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2004	2003	2004	2003	2004	2003
18,511	21,429	28,474	26,685	209,252	288,177
(5,273)	-	72,875	-	163,781	101,115
-	-	400,315	271,693	400,315	271,693
50,003	-	20,863	-	70,866	-
4,512	3,549	-	200,720	70,484	270,241
1,500	655	1,058	493	120,199	126,038
28,422	30,023	31,440	17,027	152,166	163,646
-	-	472,412	217,836	591,647	344,046
-	-	109,500	85,149	109,500	85,149
-	-	-	-	315,000	300,000
<u>97,675</u>	<u>55,656</u>	<u>1,136,937</u>	<u>819,603</u>	<u>2,203,210</u>	<u>1,950,105</u>
-	-	3,440,000	5,000,000	7,825,000	9,700,000
1,404	731	8,705	3,883	206,391	230,098
<u>99,079</u>	<u>56,387</u>	<u>4,585,642</u>	<u>5,823,486</u>	<u>10,234,601</u>	<u>11,880,203</u>
2,156,494	1,961,227	860,344	-	19,076,078	18,506,562
1,404	731	8,705	3,883	206,391	230,170
-	-	-	-	944,794	1,007,239
<u>213,979</u>	<u>540,429</u>	<u>(967,628)</u>	<u>(1,290,293)</u>	<u>7,407,339</u>	<u>9,037,041</u>
<u>\$ 2,371,877</u>	<u>\$ 2,502,387</u>	<u>\$ (98,579)</u>	<u>\$ (1,286,410)</u>	<u>\$ 27,634,602</u>	<u>\$ 28,781,012</u>

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

**PROPRIETARY FUNDS
STATEMENTS OF REVENUE AND EXPENSES
AND CHANGES IN FUND NET ASSETS**

DECEMBER 31:

ENTERPRISE	
ELECTRIC	
2004	2003

Operating revenues:

Sale of electricity:

Residential and commercial	\$ 4,878,853	\$ 4,998,738
Capacity	60,000	198,000
Neal 4	500,843	463,209
Service provided to City of Algona	72,110	89,243
Sales to other utilities	83,955	90,856
Sale of water	-	-
Cable TV fees	-	-
Internet fees	-	-
Telephone Service	-	-
Merchandising	13,986	25,057
Miscellaneous	148,920	21,680
Total operating revenue	5,758,667	5,886,783

Operating expenses

Generation and power purchased	2,729,192	3,325,820
Transmission-distribution maintenance	353,398	377,684
Meter reading supplies and labor	146,129	159,238
Sales	60,979	94,318
General and other	507,777	442,407
Administration and general	258,274	202,953
Rebates and other expenses	37,399	31,365
Merchandise, jobbing and construction	-	12,118
Property tax and insurance	122,075	194,543
Depreciation	1,512,465	1,196,167
Sales and use tax	-	1,861
Source of supply	-	-
Maintenance of mains, services and meters	-	-
Maintenance of distribution and equipment	-	-
Headend programming	-	-
Customer accounts	-	-
Total operating expenses	\$ 5,727,688	\$ 6,038,474
Income (loss) from operations	\$ 30,979	\$ (151,691)

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2004	2003	2004	2003	2004	2003
\$ -	\$ -	\$ -	\$ -	\$ 4,878,853	\$ 4,998,738
-	-	-	-	60,000	198,000
-	-	-	-	500,843	463,209
-	-	-	-	72,110	89,243
-	-	-	-	83,955	90,856
450,937	499,357	-	-	450,937	499,357
-	-	599,659	514,898	599,659	514,898
-	-	487,800	423,338	487,800	423,338
-	-	457,578	13,781	457,578	13,781
12,737	5,626	-	-	26,723	30,683
-	-	14,705	11,079	163,625	32,759
<u>463,674</u>	<u>504,983</u>	<u>1,559,742</u>	<u>963,096</u>	<u>7,782,083</u>	<u>7,354,862</u>
-	-	-	-	2,729,192	3,325,820
-	-	-	-	353,398	377,684
-	-	-	-	146,129	159,238
-	-	-	-	60,979	94,318
-	-	-	-	507,777	442,407
174,826	163,172	456,084	199,239	889,184	565,364
-	-	-	-	37,399	31,365
4,256	7,744	88,931	81,337	93,187	101,199
-	-	44,529	53,871	166,604	248,414
88,235	82,029	274,234	138,076	1,874,934	1,416,272
-	-	3,628	2,097	3,628	3,958
159,389	130,411	-	-	159,389	130,411
116,362	113,866	-	-	116,362	113,866
-	-	264,000	335,093	264,000	335,093
-	-	947,614	664,348	947,614	664,348
46,400	48,481	69,108	69,454	115,508	117,935
\$ <u>589,468</u>	\$ <u>545,703</u>	\$ <u>2,148,128</u>	\$ <u>1,543,515</u>	\$ <u>8,465,284</u>	\$ <u>8,127,692</u>
\$ (125,794)	\$ (40,720)	\$ (588,386)	\$ (580,419)	\$ (683,201)	\$ (772,830)

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

**PROPRIETARY FUNDS
STATEMENTS OF REVENUE AND EXPENSES
AND CHANGES IN FUND NET ASSETS**

DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2004	2003
Non-operating income (expense) and transfers		
Interest income	\$ 326,471	\$ 403,700
Interest expense	(238,470)	(252,420)
Miscellaneous	98,080	102,213
Donations	(23,233)	(27,415)
Transfers to City - in lieu of property tax	(281,568)	(307,662)
Gain (Loss) on disposition of assets	(15,990)	-
Total other income (expense)	(134,710)	(81,584)
(Loss) before transfers	(103,731)	(233,275)
Transfers in (out)	(2,100,000)	-
Change in Net Assets	(2,203,731)	(233,275)
Total net assets, beginning	27,565,035	27,798,310
Total net assets, ending	\$ 25,361,304	\$ 27,565,035

FUNDS						
WATER		COMMUNICATIONS		TOTAL		
2004	2003	2004	2003	2004	2003	
\$ 4,997	\$ 10,690	\$ -	\$ -	\$ 331,468	\$ 414,390	
-	-	(254,576)	(217,836)	(493,046)	(470,256)	
18,775	25,448	8,179	72,593	125,034	200,254	
-	-	-	-	(23,233)	(27,415)	
(27,643)	(27,414)	(75,519)	(3,781)	(384,730)	(338,857)	
(845)	-	(1,867)	-	(18,702)	-	
<u>(4,716)</u>	<u>8,724</u>	<u>(323,783)</u>	<u>(149,024)</u>	<u>(463,209)</u>	<u>(221,884)</u>	
(130,510)	(31,996)	(912,169)	(729,443)	(1,146,410)	(994,714)	
-	-	2,100,000	-	-	-	
(130,510)	(31,996)	1,187,831	(729,443)	(1,146,410)	(994,714)	
<u>2,502,387</u>	<u>2,534,383</u>	<u>(1,286,410)</u>	<u>(556,967)</u>	<u>28,781,012</u>	<u>\$ 29,775,726</u>	
<u>\$ 2,371,877</u>	<u>\$ 2,502,387</u>	<u>\$ (98,579)</u>	<u>\$ (1,286,410)</u>	<u>\$ 27,634,602</u>	<u>\$ 28,781,012</u>	

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

**PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS
DECEMBER 31:**

	<u>ENTERPRISE</u>	
	<u>ELECTRIC</u>	
	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash receipts to customers	\$ 5,623,295	\$ 5,705,983
Cash receipts from interfund services	48,653	41,903
Other operating cash receipts	20,298	21,680
Cash payments to suppliers	(3,484,032)	(4,288,491)
Cash payments to employees	(851,013)	(727,402)
Cash payments for interfund services	(8,400)	(5,280)
	<u>1,348,801</u>	<u>748,393</u>
Cash flows from noncapital financing activities		
Transfer to the City of Algona in-lieu of property tax	(281,568)	(300,578)
Donations	(23,233)	(27,415)
	<u>(304,801)</u>	<u>(327,993)</u>
Cash flows from capital and related financing activities		
Deferred compensation payments	(50,217)	(27,828)
Deferred compensation deposits	21,015	41,544
Acquisition and construction of capital assets	(742,360)	(2,405,297)
Repayment of revenue bonds	(300,000)	(800,000)
Proceed from interfund loan	-	-
Interest expense	(238,470)	(252,420)
	<u>(1,310,032)</u>	<u>(3,444,001)</u>
Cash flows from investing activities:		
Interest received	62,852	365,177
Advances received(made) interfund loan	(540,000)	(1,000,000)
Principal received on economic development loan	10,000	7,500
Proceeds from redemption of investments	2,690,000	5,000,000
Purchase of investments	(1,760,798)	(1,193,691)
Miscellaneous income	98,080	102,213
	<u>98,080</u>	<u>102,213</u>
Net cash provided by investing activities	<u>\$ 560,134</u>	<u>\$ 3,281,199</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2004	2003	2004	2003	2004	2003
\$ 459,896	\$ 527,209	\$ 1,465,465	\$ 933,818	\$ 7,548,656	\$ 7,167,010
652	660	7,800	4,680	57,105	47,243
-	-	14,705	11,079	35,003	32,759
(297,522)	(357,474)	(1,526,166)	(904,078)	(5,307,720)	(5,550,043)
(102,026)	(98,155)	(275,062)	(215,691)	(1,228,101)	(1,041,248)
(33,829)	(31,338)	(14,876)	(10,625)	(57,105)	(47,243)
<u>27,171</u>	<u>40,902</u>	<u>(328,134)</u>	<u>(180,817)</u>	<u>1,047,838</u>	<u>608,478</u>
(27,643)	(27,414)	(75,519)	(3,781)	(384,730)	(331,773)
-	-	-	-	(23,233)	(27,415)
<u>(27,643)</u>	<u>(27,414)</u>	<u>(75,519)</u>	<u>(3,781)</u>	<u>(407,963)</u>	<u>(359,188)</u>
-	-	-	-	(50,217)	(27,828)
673	731	4,822	3,883	26,510	46,158
(284,347)	(110,582)	(235,137)	(692,785)	(1,261,844)	(3,208,664)
-	-	-	-	(300,000)	(800,000)
-	-	540,000	1,000,000	540,000	1,000,000
-	-	-	(217,836)	(238,470)	(470,256)
<u>(283,674)</u>	<u>(109,851)</u>	<u>309,685</u>	<u>93,262</u>	<u>(1,284,021)</u>	<u>(3,460,590)</u>
4,243	\$ 12,539	-	-	67,095	377,716
-	-	-	-	(540,000)	(1,000,000)
-	-	-	-	10,000	7,500
259,327	74,269	-	-	2,949,327	5,074,269
(110,000)	-	(4,822)	(3,883)	(1,875,620)	(1,197,574)
<u>18,775</u>	<u>25,448</u>	<u>8,179</u>	<u>72,593</u>	<u>125,034</u>	<u>200,254</u>
<u>\$ 172,345</u>	<u>\$ 112,256</u>	<u>\$ 3,357</u>	<u>\$ 68,710</u>	<u>\$ 735,836</u>	<u>\$ 3,462,165</u>

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS - continued
DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2004	2003
Net increase (decrease) in cash and cash equivalents	\$ 294,102	\$ 257,598
Cash and cash equivalents-beginning of year	945,954	688,356
Cash and cash equivalents-end of year	<u>1,240,056</u>	<u>945,954</u>
Board designated funds	564,303	194,724
Restricted funds	469,794	257,311
Current assets	<u>205,959</u>	<u>493,919</u>
	<u>1,240,056</u>	<u>945,954</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Income (Loss) from operations	30,979	(151,691)
Adjustments to reconcile operating income to Net cash provided by operating activities:		
Depreciation	1,512,465	1,196,167
Change in accounts receivable	57,150	(109,621)
Change in unbilled usage	5,051	(7,596)
Change in accounts receivable - interfund	(128,622)	(271,693)
Change in prepaid expenses	(21,325)	-
Change in inventory	14,351	8,200
Change in accounts payable and retainages payable	(82,732)	73,275
Change in checks in excess of bank balance	-	-
Change in accrued taxes	(7,249)	35,627
Change in accrued wages and compensated absences	(24,292)	12,317
Change in accrued payroll tax and withholding	-	(12,592)
Change in accrued interest expense	(6,975)	(24,000)
Change in deferred revenue	-	-
	<u>\$ 1,348,801</u>	<u>\$ 748,393</u>

Non-Cash investing and financing activities:

The Electric Utility Fund transferred net assets to the Communications Utility Fund to forgive \$2,100,000 of the interfund loan. This transfer did not involve any cash.

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2004	2003	2004	2003	2004	2003
\$ (111,801)	\$ 15,893	\$ (90,611)	\$ (22,626)	\$ 91,690	\$ 250,865
136,051	120,158	90,611	113,237	1,172,616	921,751
24,250	136,051	-	90,611	1,264,306	1,172,616
24,250	122,650	-	-	588,553	317,374
-	-	-	-	469,794	257,311
-	13,401	-	90,611	205,959	597,931
24,250	136,051	-	90,611	1,264,306	1,172,616
(125,794)	(40,720)	(588,386)	(580,419)	(683,201)	(772,830)
88,235	82,029	274,234	138,076	1,874,934	1,416,272
(16,281)	32,497	(96,123)	(38,768)	(55,254)	(115,892)
13,155	(9,611)	-	-	18,206	(17,207)
-	-	128,622	271,693	-	-
(4,774)	-	(5,488)	-	(31,587)	-
30,611	(30,969)	24,871	7,925	69,833	(14,844)
(7,228)	7,418	(126,056)	(69,163)	(216,016)	11,530
50,003	-	20,863	-	70,866	-
845	-	565	(513)	(5,839)	35,114
(1,601)	603	14,413	8,752	(11,480)	21,672
-	(345)	-	(540)	-	(13,477)
-	-	-	56,891	(6,975)	32,891
-	-	24,351	25,249	24,351	25,249
\$ 27,171	\$ 40,902	\$ (328,134)	\$ (180,817)	\$ 1,047,838	\$ 608,478

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Algona Municipal Utilities is a component unit of the City of Algona whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Algona is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The Utility board of trustees operates the City Utility by the authority of Chapters 384 and 388 of the Code of Iowa. Algona Municipal Utilities provides electric, water, cable tv, internet, telephone, and data services on a user charge basis to the general public and other governmental units within Kossuth County, Iowa.

At the November 4, 1997 general election, the residents of the City of Algona approved the establishment of a municipal communications utility to be operated by the Algona Municipal Utilities board of trustees. Construction of the communications utility began during the year ended December 31, 2000. The cable tv, internet, and data services divisions of the communications utility were placed in service during the year ended December 31, 2002. The telephone division of the communications utility was placed in service during the year ended December 31, 2003.

A. Reporting Entity

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

B. Basis of Presentation

Entity-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Algona Municipal Utilities. For the most part, the effect of interfund activity has been removed from this statement. Business type activities rely to a significant extent on fees and charges for services.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

The Statement of Activities and Net Assets presents the Utilities' nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Algona Municipal Utilities reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the Utilities' water system.

The Electric Fund is used to account for the operation and maintenance of the Utilities' electric system.

The Communications Fund is used to account for the cable t.v., internet, telephone and data services systems.

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

C. Measurement Focus and Basis of Accounting

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

E. Utility Plant and Depreciation

The utility plant is stated at original cost when first devoted to public service. Expenditures for additions and betterments (including labor charges) are capitalized, while expenditures for repairs and maintenance are charged to operations as incurred. Interest costs incurred during construction periods are also capitalized. The costs of assets retired or sold and the related accumulated depreciation are eliminated from the accounts in the year of disposal, with the resulting gain or loss credited or charged to operations.

The straight-line method is used for computing depreciation with estimated useful lives ranging from two to fifty years.

F. Revenue, Unbilled Usage, and Deferred Revenue

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

G. Inventory

Inventory is valued at the lower of cost or market. Cost is determined on a first in, first out method for materials and supplies and the average cost method for fuel.

H. Joint Plant Ownership

Under a joint ownership agreement with other utilities, the Utility has a 2.937% undivided interest in a 640 MW electric generation station known as George Neal Generating Station Unit No. 4. As of December 31, 2004 and 2003, the Utility's interest in this plant represents a total investment of \$10,031,811 included in property and equipment respectively. Accumulated depreciation associated with the Utility's ownership in this plant totaled \$(7,884,702) and \$(7,554,972) at December 31, 2004 and 2003 respectively. Operating costs and depreciation associated with this plant are reflected in the statement of income.

The Utility also has a 4.18% undivided interest in the Lehigh-Webster Transmission System. As of December 31, 2004 and 2003, the Utility's interest in the system represents a total investment of \$364,770 included in property and equipment. Accumulated depreciation associated with the Utility's ownership in this plant totaled \$(312,679) and \$(299,603) at December 31, 2004 and 2003 respectively. Operating costs and depreciation associated with this system are reflected in the statement of income.

I. Interest Capitalization

The Utility capitalizes interest costs incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is written off over the asset's estimated useful life.

J. Rate Matters

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

K. Use of Estimates

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

L. Cash and Cash Equivalents

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

NOTE 2 - CASH AND INVESTMENTS

The Utility's deposits at December 31, 2004 and 2003 (which include certificates of deposit totaling \$2,500,000 and 1,700,000 respectively) were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

The Utility had investments in the Iowa Public Agency Investments Trust at December 31, 2004 and 2003, which are valued at and amortized cost of \$1,000,000 and \$2,850,000 respectively pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Reconciliation of the Utility's cash and cash equivalents and temporary cash and investments for the years ended December 31, 2004 and 2003 is as follows:

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS-continued

The board designated funds as of December 31, 2004 and 2003 are summarized below.

	December 31, 2004			
	Electric Utility	Water Utility	Communications Utility	Total
Cash and Cash Equivalents				
Board Designated	\$ 564,303	\$ 24,250	\$ -	\$ 588,553
Restricted	469,794	-	-	469,794
Current Assets	<u>205,959</u>	<u>-</u>	<u>-</u>	<u>205,959</u>
	\$ 1,240,056	\$ 24,250	\$ -	\$ 1,264,306
Temporary Investments				
Board Designated	\$ 3,010,000	\$ 190,000	\$ -	\$ 3,200,000
Restricted	<u>671,282</u>	<u>1,404</u>	<u>8,705</u>	<u>681,391</u>
	<u>\$ 3,681,282</u>	<u>\$ 191,404</u>	<u>\$ 8,705</u>	<u>\$ 3,881,391</u>
Total Cash and Cash Equivalents and Temporary Cash Investments	<u>\$ 4,921,338</u>	<u>\$ 215,654</u>	<u>\$ 8,705</u>	<u>\$ 5,145,697</u>

	December 31, 2003			
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Board designated	\$ 194,724	\$ 122,650	\$ -	\$ 317,374
Restricted	257,311	-	-	257,311
Current assets	<u>493,919</u>	<u>13,401</u>	<u>90,611</u>	<u>597,931</u>
	\$ 945,954	\$ 136,782	\$ 90,611	\$ 1,172,616
Temporary cash investments				
Board designated	\$ 3,645,000	\$ 340,000	\$ -	\$ 3,985,000
Restricted	<u>975,484</u>	<u>731</u>	<u>3,883</u>	<u>980,098</u>
	<u>\$ 4,620,484</u>	<u>\$ 340,731</u>	<u>\$ 3,883</u>	<u>\$ 4,965,098</u>
Total cash and cash equivalents and temporary cash investments	<u>\$ 5,566,438</u>	<u>\$ 477,513</u>	<u>\$ 94,494</u>	<u>\$ 6,137,714</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – BOARD DESIGNATED FUNDS

The Board of Trustees of the Utility has designated certain funds to be placed in a transmission reserve account. These funds, are designated for the payment of future expansion and maintenance of transmission facilities.

The Board of Trustees of the utility has designated certain funds to be placed in contingency reserve accounts. These funds are designated for contingencies such as natural disaster and cannot be expended without board approval.

The Board of Trustees of the Utility has designated certain funds to be placed in an improvement reserve account. These funds are designated for the payment of future expansion and maintenance of facilities.

The Board of Trustees of the Utility has designated certain funds to be placed in a medical self-insurance account. The approximate savings from raising health insurance deductibles are placed into this account and then used to pay a portion of employees' medical claims.

The Board of Trustees of the Utility has designated certain funds to be placed in a medical self-insured reserve funds. No reductions in insurance coverage have been made as these funds are set aside in addition to the insurance coverage that the utility has.

The board designated funds as of December 31, 2004 and 2003 are summarized below.

	December 31, 2004			Total
	Electric Utility	Water Utility	Communications Utility	
Transmission Reserve:				
Cash and Cash Equivalents	\$ 260,000	\$ -	\$ -	\$ 260,000
Temporary Cash Investments	<u>2,234,000</u>	<u>-</u>	<u>-</u>	<u>2,235,000</u>
	<u>\$ 2,495,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,495,000</u>
Contingency Reserve:				
Cash & Cash Equivalents	\$ -	\$ -	\$ -	\$ -
Temporary Cash Investments	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>
Improvement Reserve:				
Cash and Cash Equivalents	\$ -	\$ 18,250	\$ -	\$ 18,250
Temporary Cash Investments	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
	<u>\$ -</u>	<u>\$ 28,250</u>	<u>\$ -</u>	<u>\$ 28,250</u>
Medical Self-Insurance				
Cash and Cash Investments	\$ 42,303	\$ -	\$ -	\$ 42,303
Temporary Cash Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 42,303</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,303</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – BOARD DESIGNATED FUNDS-continued

Self-Insured Reserve				
Cash and Cash Equivalents	\$ -	\$ 6,000	\$ -	\$ 6,000
Temporary Cash Investments	<u>150,000</u>	<u>80,000</u>	<u>-</u>	<u>230,000</u>
	<u>\$ 150,000</u>	<u>\$ 86,000</u>	<u>\$ -</u>	<u>\$ 236,000</u>
Capacity Reserve				
Cash and Cash Equivalents	\$ 107,000	\$ -	\$ -	\$ 107,000
Temporary Cash Investments	<u>450,000</u>	<u>-</u>	<u>-</u>	<u>450,000</u>
	<u>\$ 557,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 557,000</u>
Economic Loan Fund				
Cash and Cash Equivalents	\$ 155,000	\$ -	\$ -	\$ 155,000
Temporary Investments	<u>175,000</u>	<u>-</u>	<u>-</u>	<u>175,000</u>
	<u>\$ 330,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 330,000</u>
Total Board Designated Funds				
Cash and Cash Equivalents	\$ 564,303	\$ 24,250	\$ -	\$ 588,553
Temporary Cash Investments	<u>3,010,000</u>	<u>190,000</u>	<u>-</u>	<u>3,200,000</u>
	<u>\$ 3,574,303</u>	<u>\$ 214,250</u>	<u>\$ -</u>	<u>\$ 3,788,553</u>

December 31, 2003				
	Electric Utility	Water Utility	Communications Utility	Total
Transmission Reserve:				
Cash and Cash Equivalents	\$ 35,000	\$ -	\$ -	\$ 35,000
Temporary Cash Investments	<u>2,460,000</u>	<u>-</u>	<u>-</u>	<u>2,460,000</u>
	<u>\$ 2,495,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,495,000</u>
Contingency Reserve:				
Cash & Cash Equivalents	\$ -	\$ -	\$ -	\$ -
Temporary Cash Investments	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>
	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 250,000</u>
Improvement Reserve:				
Cash and Cash Equivalents	\$ -	\$ 117,750	\$ -	\$ 117,750
Temporary Cash Investments	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
	<u>\$ -</u>	<u>\$ 127,750</u>	<u>\$ -</u>	<u>\$ 127,750</u>
Medical Self-Insurance				
Cash and Cash Investments	\$ 48,722	\$ -	\$ -	\$ 48,722
Temporary Cash Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 48,722</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,722</u>
Self-Insured Reserve				
Cash and Cash Equivalents	\$ -	\$ 4,900	\$ -	\$ 4,900
Temporary Cash Investments	<u>450,000</u>	<u>80,000</u>	<u>-</u>	<u>530,000</u>
	<u>\$ 450,000</u>	<u>\$ 84,900</u>	<u>\$ -</u>	<u>\$ 534,900</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – BOARD DESIGNATED FUNDS-continued

Capacity Reserve				
Cash and Cash Equivalents	\$ 111,002	\$ -	\$ -	\$ 111,002
Temporary Investments	<u>550,000</u>	<u>-</u>	<u>-</u>	<u>550,000</u>
	<u>\$ 661,002</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 661,002</u>
Economic Development Loan Fund				
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
Temporary Investments	<u>185,000</u>	<u>-</u>	<u>-</u>	<u>185,000</u>
	<u>\$ 185,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,000</u>
Total Board Designated Funds				
Cash and Cash Equivalents	\$ 194,724	\$ 122,650	\$ -	\$ 317,374
Temporary Cash Investments	<u>3,645,000</u>	<u>340,000</u>	<u>-</u>	<u>3,985,000</u>
	<u>\$ 3,839,724</u>	<u>\$ 462,650</u>	<u>\$ -</u>	<u>\$ 4,302,374</u>

NOTE 4 – INTERFUND LOAN

The Board of Trustees passed resolutions creating an interfund loan account dedicated to the financing and operation of the Algona Municipal Utilities broadband telecommunications network. Management authorized interfund loans not to exceed \$5,540,000. All monies transferred shall be repaid to the originating account within 180 months with interest at the rate of 5.0% per annum. In accordance with Iowa Senate file 224, Sec. 3, the Utilities passed a resolution effective June 30, 2004 forgiving \$2,100,000 of the previously authorized interfund loans. Accrued interest was not part of the resolution forgiving a portion of the interfund loan. The resolution did however decrease the interest rate on the interfund loan from 5.5% to 5.0%. As of December 31, 2004 and 2003 the outstanding balance on the interfund loan was \$3,440,000 and \$5,000,000 respectively. These amounts are reflected on the Electric Department Balance Sheets as an Other Asset. They are reflected on the Communication Department's Balance Sheets as an Other Liability. Accrued interest as of December 31, 2004 and 2003 of \$472,412 and \$217,836 respectively is also reflected on the Electric Department's Balance Sheet as Accrued Interest Receivable – Interfund Loan and the Communication Department's Balance Sheet as Accrued Interest Payable - Interfund Loan.

NOTE 5 – ECONOMIC DEVELOPMENT LOAN FUND

Algona Municipal Utilities has established through board designation a revolving loan fund in conjunction with the City of Algona. This fund was established by designating \$330,000 to be used for this purpose. To date \$277,000 has been lent to the City of Algona to fund the project. From these funds, money was lent by the City of Algona to the Algona Area Economic Development Corporation (AAEDC) to construct a spec building. This loan is to be repaid by the City of Algona as they receive payments from the AAEDC. As of December 31, 2004 and 2003 the balance due on this note receivable was \$125,000 and \$135,000 respectively.

The City of Algona also used \$50,000 of these funds to provide an economic development loan to a local business. The City is collecting this loan and in turn owes the balance of to Algona Municipal Utilities.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – REVENUE BONDS PAYABLE

The following is a summary of changes in long-term debt for the year ended December 31, 2004.

Description of purpose:	Bal. 1/1/04	Issued	Repaid	Bal. 12/31/04
Business type activities:				
Revenue Bonds	\$ 5,000,000	-	300,000	\$ 4,700,000

Annual debt service requirements to maturity for the electric revenue bonds issued in 2000 are as follows:

Year Ending December 31	Series 2000	
	<u>Principal</u>	<u>Interest</u>
2005	315,000	231,067
2006	335,000	215,709
2007	355,000	199,144
2008	375,000	181,347
2009	395,000	162,285
2010	420,000	141,805
2011	445,000	119,853
2012	470,000	96,402
2013	500,000	71,175
2014	530,000	44,005
2015	<u>560,000</u>	<u>14,980</u>
	<u>\$4,700,000</u>	<u>\$1,477,772</u>

The resolutions providing for the issuance of the local option sales and services tax revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to the Electric Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- C. A reserve fund shall be established and maintained at a level equal to or less than \$500,000. Should the balance exceed \$500,000 it must be invested at a yield no higher than the Bond Yield.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – INTEREST COSTS

During the years ended December 31, 2004 and 2003 the interest incurred by the Electric Fund was \$238,470 and \$252,420 respectively.

During the years ended December 31, 2004 and 2003 the interest incurred by the Communication Fund was \$254,576 and \$217,836 respectively. The Electric Fund recognized interest income from the interfund loan during 2004 and 2003 equal to the interest expense incurred by the Communications Fund.

NOTE 8 – RESTRICTED FUNDS

As of December 31, 2004 and 2003 Restricted Funds related to the Electric Department consisted of the following.

	December 31, 2004		
	Cash and Cash	Temporary Cash	Total
	Equivalents	Investments	
Bond Sinking Fund	\$ 444,794	\$ -	\$ 444,794
Bond Reserve Fund	<u>475,000</u>	<u>25,000</u>	<u>500,000</u>
Total Restricted Bond Funds	\$ 919,794	\$ 25,000	\$ 944,794
Deferred Compensation Fund	<u>-</u>	<u>196,282</u>	<u>196,282</u>
	<u>\$ 919,794</u>	<u>\$ 221,282</u>	<u>\$ 1,141,076</u>
	December 31, 2003		
	Cash and Cash	Temporary Cash	Total
	Equivalents	Investments	
Bond Sinking Fund	\$ 257,239	\$ 150,000	\$ 407,239
Bond Reserve Fund	<u>-</u>	<u>600,000</u>	<u>600,000</u>
Total Restricted Bond Funds	\$ 257,239	\$ 750,000	\$ 1,007,239
Deferred Compensation Fund	-	225,484	225,484
Customer Project Share Fund	<u>72</u>	<u>-</u>	<u>72</u>
	<u>\$ 257,311</u>	<u>\$ 975,484</u>	<u>\$ 1,232,795</u>

The bond funds are restricted as stated in Note 6.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – RESTRICTED FUNDS-continued

The Utility previously entered into an unfunded deferred compensation plan with a former general manager. The former general manager retired in 2000 and began receiving distributions from this fund. The Utility has a fiduciary responsibility over this restricted fund and the fund assets remain the property of the Utility until paid. The restricted funds related to this program were \$154,131 and \$176,132 at December 31, 2004, and 2003 respectively. The remaining deferred compensation fund assets are maintained in a 457(b) plan.

The water and communications utilities had restricted funds of \$1,404 and \$8,705 as of December 31, 2004 and \$731 and \$3,883 as of December 31, 2003. These funds were all held in the 457(b) deferred compensation plan offered AMU employees.

NOTE 9 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2004, 2003 and 2002 were \$81,896, \$81,794 and \$62,000 respectively, equal to the required contributions for each year.

NOTE 10 - TRANSFERS TO CITY IN LIEU OF PROPERTY TAXES

By resolution of the Board or Trustees, voluntary transfers in lieu of property taxes are made to the City of Algona, Iowa. For the years ended December 31, 2004 and 2003, transfers totaled 5% of gross sales less actual property taxes paid and services rendered to the City of Algona, Iowa.

NOTE 11 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. The Utility also has a self-insured reserve fund to be used for replacement and repair of outside assets in the event of disaster. See Note 3 for more detail regarding the self-insured reserve fund.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - JOINT VENTURE

Algona Municipal Utilities (AMU) has an 11.1% ownership interest in the Iowa Distributed Wind Generation Project (IDWGP). IDWGP is a consortium of seven municipal electric utilities that jointly own and operate three 750 KW wind turbine generators at a site six miles southeast of the City of Algona.

AMU, through a contractual relationship with IDWGP, provides operating, maintenance, and site management for the project. In addition, AMU currently purchases the majority of the electricity produced by the project.

NOTE 13 – SUBSEQUENT EVENTS

As of February 10, 2005, the Communications Fund issued an additional \$500,000 in revenue capital loan notes for the purpose of paying costs of improvements, extensions, and operations of the Municipal Telecommunications Utility. The Revenue Capital Loan Notes carry an interest rate of 3.74%.

NOTE 14 – COMPENSATED ABSENCES

Utility employees accumulate a limited amount of earned but unused vacation. The Utility’s approximate liability for earned vacation payments payable to employees at December 31, 2004, is as follows:

Type of Benefit	Electric	Water	Communications	Total
Vacation	\$ 39,100	9,766	17,098	\$ 65,964

This liability has been computed based on rates of pay in effect at January 1, 2005.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 15 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2004 was as follows:

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 412,301	-		\$ 412,301
Construction in progress	242,480	327,466	201,569	368,377
	<u>\$ 654,781</u>	<u>327,466</u>	<u>201,569</u>	<u>\$ 780,678</u>
 Capital Assets being depreciated:				
Buildings and improvements	\$ 2,417,378	28,131	-	\$ 2,445,509
Equipment and vehicles	2,420,637	182,584	48,429	2,554,792
Infrastructure	45,748,071	925,233	1,235	46,672,069
Total capital assets being depreciated	<u>50,586,086</u>	<u>1,135,948</u>	<u>49,664</u>	<u>51,672,370</u>
 Less accumulated depreciation for:				
Buildings and improvements	360,429	65,275	-	425,704
Equipment and vehicles	1,118,458	304,609	30,572	1,392,495
Infrastructure, road network	21,914,110	1,505,050	389	23,418,771
Total accumulated depreciation	<u>23,392,997</u>	<u>1,874,934</u>	<u>30,961</u>	<u>25,236,970</u>
 Total capital assets being depreciated, net	<u>27,193,089</u>			<u>26,435,400</u>
 Governmental activities capital assets, net	<u>\$ 27,847,870</u>			<u>\$ 27,216,078</u>

Depreciation expense was charged to the following functions:

Proprietary activities:	
Utilities	<u>\$ 1,874,934</u>

NOTE 16 – DEFICIT FUND BALANCE

The Communications Fund has a deficit balance of \$98,579 and \$1,286,410 as of December 31, 2004 and 2003 respectively. The deficit is a result of the start up stage of the communications operations.

NOTE 17 – INTERFUND TRANSFERS

Transferred from:	Transferred to:	Amount
Electric Fund	Communications Fund	\$ 2,100,000

The transfer was made with Board approval in connection with forgiving a portion of the interfund loan.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 18 – ACCOUNTING CHANGE AND RESTATEMENTS

Governmental Accounting Standards Board Statement No 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented for the year ended December 31, 2004. The Statements create new basic financial statements for reporting the Utility’s financial activities. While there was no restatement of net assets for the GASB 34 implementation, 2003 financial statement presentation has been restated from the 2003 report to allow for comparability from 2003 to 2004. The financial statements now include a government-wide financial statement and fund financial statements, which present information for individual major funds rather than by fund type.

The government-wide financial statement reports the Utility’s business type activities.

Required Supplementary Information

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

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS
BUDGET AND ACTUAL - ALL PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2004

	Proprietary Funds Actual	Budgeted Amounts	Final to Net Variance
		Original	
Receipts:			
Charges for service	\$ 7,640,764	10,550,000	(2,909,236)
Interest earnings	67,095	-	67,095
Miscellaneous	1,486,564	700,000	786,564
	<u>9,194,423</u>	<u>11,250,000</u>	<u>(2,055,577)</u>
Disbursements:			
Program			
Business type activities	9,102,733	12,459,000	3,356,267
	<u>9,102,733</u>	<u>12,459,000</u>	<u>3,356,267</u>
Net (loss)	91,690	(1,209,000)	1,300,690
Balance beginning of year	<u>28,781,012</u>	<u>10,803,424</u>	-
Balance end of year	<u>\$ 28,872,702</u>	<u>9,594,424</u>	<u>19,278,278</u>

The budgetary presentation is based on a comprehensive basis of accounting which is different than that used to prepare the financial statements. The reconciliation from US generally accepted accounting principals used for financial reporting and those used to prepare the budget is presented below.

	Financial Statements	Adjustments	Budget
Revenues	7,855,387	1,339,036	9,194,423
Disbursements	<u>(9,001,797)</u>	<u>(100,936)</u>	<u>(9,102,733)</u>
Net income(Loss)	<u>(1,146,410)</u>	<u>1,238,100</u>	<u>91,690</u>

See accompanying independent auditor's report

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2004

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

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis and appropriations lapse at year end.

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

Other Supplementary Information

ALGONA MUNICIPAL UTILITIES

Schedule 1

**ELECTRIC DEPARTMENT
COMPARATIVE SUMMARIES OF ELECTRICITY DISTRIBUTED AND BILLED
YEAR ENDED DECEMBER 31,**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sale of electricity:			
Sales to consumers	\$ 4,878,853	\$ 4,998,738	\$ 4,913,162
Sales to other utilities	156,065	180,099	167,490
Sales for resale	<u>560,843</u>	<u>661,209</u>	<u>543,383</u>
Total electricity sales	<u><u>5,595,761</u></u>	<u><u>5,840,046</u></u>	<u><u>5,624,035</u></u>
Kilowatt hours:			
Wind generation	5,615,400	5,054,708	6,231,013
Generated	126,640,440	111,388,560	123,966,870
Purchases	<u>3,798,000</u>	<u>17,039,160</u>	<u>2,681,000</u>
Energy available	136,053,840	133,482,428	132,878,883
Station power/transmission loss	<u>1,313,460</u>	<u>897,530</u>	<u>1,321,260</u>
Available for sale	134,740,380	132,584,898	131,557,623
Billed to consumers	90,798,264	92,420,813	91,144,166
Sales to other utilities	2,887,794	3,162,897	3,147,290
Sales for resale	36,070,000	33,329	33,518,000
Distribution loss	4,984,322	3,672,188	3,748,167
Distribution loss percent	5.05%	3.70%	3.82%
Revenue billed per KWH to consumers	0.0537	0.0541	0.0539
Peak hour demand in KW	20,400	22,200	22,400
Services provided to the City			
Street lighting:			
Energy	\$ 55,628	\$ 70,607	\$ 67,332
Operation and Maintenance	<u>16,482</u>	<u>18,636</u>	<u>17,319</u>
	72,110	89,243	84,651
Energy for Public Buildings, Parks and Other uses	<u>83,955</u>	<u>90,856</u>	<u>82,839</u>
	<u><u>\$ 156,065</u></u>	<u><u>\$ 180,099</u></u>	<u><u>\$ 167,490</u></u>
Year to date KWH sales			
Residential	28,796,142	29,367,476	30,200,800
Commercial	62,002,122	63,053,337	60,943,366
Area Lighting	1,308,394	1,534,942	1,509,313
City	<u>1,920,622</u>	<u>1,627,955</u>	<u>1,637,977</u>
Total number of KWH sales	<u><u>\$ 94,027,280</u></u>	<u><u>\$ 95,583,710</u></u>	<u><u>\$ 94,291,456</u></u>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 2

**WATER DEPARTMENT
COMPARATIVE SUMMARIES OF WATER PUMPED AND BILLED
YEAR ENDED DECEMBER 31,**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Revenue billed	\$ <u>450,937</u>	\$ <u>499,357</u>	\$ <u>513,697</u>
Cubic Foot			
Pumped	39,978,040	39,122,667	40,030,267
Billed	33,628,795	37,913,128	35,285,127
City of Algona	1,720,317	1,752,072	1,759,580
System loss	4,628,928	361,807	2,985,560
Percent loss	11.58%	0.92%	7.46%
Revenue billed per cubic foot	0.0134	0.0132	0.0146
Peak day-cubic footage pumped	171,773	197,893	171,067
Services provided to City			
Water for parks, disposal plant and public buildings	15,010	15,108	15,372
Public fire protection	<u>12,318</u>	<u>12,306</u>	<u>12,096</u>
	\$ <u>27,328</u>	\$ <u>27,414</u>	\$ <u>27,468</u>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 3

**COMMUNICATIONS
COMPARATIVE SUMMARIES OF CABLE, INTERNET, AND TELEPHONE
YEAR ENDED DECEMBER 31,**

	2004	2003	2002
Operating revenue:			
Cable TV	\$ 599,659	\$ 514,898	\$ 117,775
Internet	487,800	423,338	158,563
Telephone	457,578	13,781	-
Miscellaneous	14,705	11,079	-
Total operating revenue	1,559,742	963,096	276,338
Customers			
Cable TV	1,713	1,572	843
Internet	1,150	1,038	444
Telephone	1,096	610	-
Average monthly revenue per customer			
Cable TV	29.17	27.30	11.64
Internet	35.35	33.99	29.76
Telephone	34.79	22.59	-
Services Provided to City			
Cable TV	923	587	-
Internet	3,576	3,045	-
Telephone	381	149	-
	\$ 4,880	\$ 3,781	\$ -

Unaudited - See Accompanying Independent Auditor's Report

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

To the Board of Trustees of the
Algona Municipal Utilities:

We have audited the financial statements of Algona Municipal Utilities, a component unit of the City of Algona, Iowa, as of and for the year ended December 31, 2004, and have issued our report thereon dated May 10, 2005. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with U.S. generally accepted accounting principals. We conducted our audit in accordance with U. S. generally accepted auditing standards, in addition our report noted the implementation of GASB 34 during the current year 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 the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's 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 Utility's 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 II 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 above, we believe item II-A-04 is a material weaknesses.

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

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

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

May 10, 2005

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

SCHEDULE OF FINDINGS

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance, which is material to the financial statements.

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

SCHEDULE OF FINDINGS

Part II: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Credit Cards – The Utility has credit cards for use by various employees while on City business. The Utility has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The Utility should adopt a formal written policy regulating the use of Utility credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – We presently have unwritten guidelines, but have not established a formal written policy detailing specifics on the use of Utility credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

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

SCHEDULE OF FINDINGS

Part III: Other Findings Related to Statutory Reporting:

III-A-04 Official Depositories – A resolution naming official depositories has been approved by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.

III-B-04 Certified Budget - Disbursements during the year ended December 31, 2004 were within the budgeted limits.

III-C-04 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employee’s were noted.

III-E-04 Business Transactions – Business transactions between the Utilities and Utility officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Audrey Rindone, wife of Brien Rindone, Comptroller	Contracted Cleaner	\$13,200
Allen Bonde, Trustee Owner at Al’s Repair	Minor Repair work	\$ 330

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Board of Trustee’s Member do not appear to represent a conflict of interest since total transaction was less than \$1500 during the fiscal year.

III-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

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

III-H-04 Revenue Bonds – No violations of revenue bond resolution requirements were noted.

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

SCHEDULE OF FINDINGS

Part III: Other Findings Related to Statutory Reporting: continued

III-I-04 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.

III-J-04 Telecommunication Services – No instance of non compliance with Chapter 388.10 of the Code of Iowa were noted.

III-K-04 Financial Condition – The Communication fund had a deficit fund balance of \$98,579 at December 31, 2004.

Recommendation – The Utilities should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response – The Utilities are and have been conducting rate studies reviewing options to eliminate the deficit.

Conclusion – Response accepted.