

**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, 2005 AND 2004

ATLANTIC MUNICIPAL UTILITIES

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ATLANTIC MUNICIPAL UTILITIES
Officials
December 31, 2005

Trustees

Term Expires

Frank W. Greiner, Chairperson

April, 2009

Keith C. Stork, Vice-Chairperson

April, 2009

Sharon L. Winchell

April, 2011

Bernard L. Elming

April, 2011

Lawrence E. Turner

April, 2007

Management Personnel

General Manager

Allen J. Bonderman

Comptroller

Steve J. Tjepkes

Director of Water Operations

Jon H. Martens

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

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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, 2005 and 2004, 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 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, 2005 and 2004, 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.

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2006 on our consideration of Atlantic Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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.

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, 2003 (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.

Gronewold, Bell, Kuhlman + Co. P.C.

Atlantic, Iowa
February 10, 2006

AMU

Atlantic Municipal Utilities

Management's Discussion and Analysis Audited Financial Statements Years Ended December 31, 2005 and 2004

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, 2005. 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 2005

The Utility's combined net assets increased by \$1,233,430, or 5.79%, from \$21.29 million to \$22.52 million. The Electric Department's net assets increased by \$1,201,023, or 6.77%, from \$17.74 million to \$18.94 million. The Water Department's net assets increased by \$32,407, or 0.91%, from \$3.55 million to \$3.58 million.

Combined operating revenues increased by \$1,012,431 or 13.77%. Electric Department operating revenues increased by \$1,008,861, or 15.93%, from \$6.33 million to \$7.34 million. Water Department operating revenues increased by \$3,570, or 0.35%, from \$1.020 million to \$1.023 million.

Long-term debt (see Table 1) of the two departments was reduced by \$748,289, with the Electric Department debt being reduced by \$580,000, and the Water Department debt reduced by \$168,289.

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
	2005	2004	Change	Change	2005	2004	Change	Change	2005	2004	Change	Change
Current and Other Assets	8,340.4	7,306.0	1,034.4	14.16%	1,500.0	1,511.2	11.2	-0.74%	9,840.4	8,817.2	1,045.6	11.86%
Capital Assets	14,112.2	14,066.1	46.1	0.33%	4,185.5	4,289.0	(103.5)	-2.41%	18,297.7	18,355.1	(57.4)	-0.31%
Total Assets	22,452.6	21,372.1	1,080.5	5.06%	5,685.5	5,800.2	(114.7)	-1.98%	28,138.1	27,172.3	965.8	3.55%
Long-Term Debt	1,900.0	2,480.0	(580.0)	-23.39%	1,690.5	1,858.8	(168.3)	-9.05%	3,590.5	4,338.8	(748.3)	-17.25%
Other Liabilities	1,609.7	1,150.2	459.5	39.95%	415.5	394.3	21.2	5.38%	2,025.2	1,544.5	480.7	31.12%
Total Liabilities	3,509.7	3,630.2	(120.5)	-3.32%	2,106.0	2,253.1	(147.1)	-6.53%	5,615.7	5,883.3	(267.6)	-4.55%
Total Net Assets	18,942.9	17,741.9	1,201.0	6.77%	3,579.5	3,547.1	32.4	0.91%	22,522.4	21,289.0	1,233.4	5.79%
Total Liabilities & Net Assets	22,452.6	21,372.1	1,080.5	5.06%	5,685.5	5,800.2	(114.7)	-1.98%	28,138.1	27,172.3	(965.8)	-3.55%

Electric Department

A total of \$1,088,567 was invested in new capital assets, but after accounting for depreciation, there was only an increase of \$46,092 in Capital Assets. Capital additions included additions at Council Bluffs Unit No. 3, installation of a new Supervisory Control And Data Acquisition (SCADA) system, and routine additions to distribution facilities. The most noteworthy additions to distribution assets was the replacement of poles within approximately nine miles of rural electric lines. All capital asset additions were funded from cash on hand.

Special Purpose Funds, Current and Other Assets increased by \$1,034,443, or 14.16%. Total Assets increased from \$21.37 million to \$22.45 million, or 5.06%.

Total long-term debt of the Electric Department was reduced from \$2,480,000 to \$1,900,000, a total of \$580,000. Current and Other Liabilities increased from \$1,150,227 to \$1,609,739, a change of \$459,512, or 39.95%. This change was mostly attributable to increases in Accounts Payable at the end of the year, which was high due to costs related to generation maintenance and improvements.

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 \$1,008,861, or 15.93%. Energy sales to retail customers were markedly higher (+8.85%), due primarily to the summer being one of the warmest on record. Revenues from those sales were also higher, increasing by \$349,286, or 7.05%. Wholesale sales to other utilities again increased dramatically, increasing from \$1,307,186 to \$1,965,856. This increase was due almost solely to higher market prices, as the amount of energy sold at the wholesale level was only about 1 percent higher than the previous year.

Operating Expenses for the Electric Department also increased, from \$5,595,250 the prior year, to \$5,928,214 in 2005. Most of the increased expenses were related to increases in operating and maintenance costs for generating facilities, both at Council Bluffs Unit 3 and local generation. Labor, insurance, fuel and other costs continue to add to the overall expense of operating the utility.

Net Income increased from \$665,677 to \$1,434,840, an increase of \$769,163. Virtually all of this increase in net income resulted from increased revenues from sales of surplus energy in the wholesale market.

Net Assets of the electric utility increased by \$1,201,023 to \$18.943 million. Transfers to the City of Atlantic totaled \$233,817, an increase of \$9,215.

Water Department

A total of \$126,796 was invested in new capital assets, but after accounting for depreciation, there was a reduction of \$103,502 in Capital Assets. Capital additions consisted mostly of water meter replacements, as well as the purchase of materials for water main extensions which will be installed during 2006. Bids were solicited for the main installation during 2005, but the sole bid was rejected, and the project deferred. All capital asset additions were funded from cash on hand.

Special Purpose Funds, Current and Other Assets and Deferred Costs decreased slightly, by \$11,170, to \$1,500,049. Total Assets decreased from \$5.8 million to \$5.68 million, or -1.98%.

Total long-term debt of the Water Department was reduced from \$1,858,776 to \$1,690,487, a total of \$168,289. Current and Other Liabilities increased from \$394,342 to \$415,552, a change of \$21,210, or 5.38%.

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 insignificantly (0.3%) from 2004, with revenues totaling \$1,023,613 in 2005, as compared to \$1,020,043 in 2004. Sales of water declined by approximately 7.6 million gallons, presumably due to weather.

Net Income for the year increased from \$84,173 in 2004, to \$100,045 in 2005. The increase was due to slightly higher sales revenues, as well as lower expenses.

Net Assets of the water utility increased by \$32,407 to \$3.58 million (Note: Includes Contributions In Aid Of Construction, and amortizations of said contributions). Transfers to the City of Atlantic totaled \$76,183.

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			
	2005	2004	Dollar Change	Percent Change	2005	2004	Dollar Change	Percent Change	2005	2004	Dollar Change	Percent Change
	Operating Revenues	7,341.9	6,333.0	1,008.9	15.93%	1,023.6	1,020.0	3.6	0.35%	8,365.5	7,353.0	1,012.5
Other Income (Deductions)	21.2	(72.1)	93.3	129.40%	(51.0)	(62.1)	11.1	17.87%	(29.8)	(134.2)	104.4	77.79%
Total Operating Income	7,363.1	6,260.9	1,102.2	17.61%	972.6	957.9	14.7	1.53%	8,335.7	7,218.8	1,116.9	15.47%
Depreciation	1,033.7	1,007.8	25.9	2.57%	230.3	225.0	5.3	2.35%	1,264.0	1,232.8	31.2	2.53%
Other Operating Expenses	4,894.6	4,587.4	307.2	6.70%	642.2	648.7	(6.5)	(1.00%)	5,536.8	5,236.1	300.7	5.74%
Total Operating Expense	5,928.3	5,595.2	333.1	5.95%	872.5	873.7	(1.2)	(0.14%)	6,800.8	6,468.9	331.9	5.13%
Net Income	1,434.8	665.7	769.1	115.53%	100.1	84.2	15.9	18.88%	1,534.9	749.9	785.0	104.68%
Net Assets												
Beginning Balance	17,741.9	17,300.8	441.1	2.55%	3,547.1	3,526.8	20.3	.58%	21,289.0	20,827.6	461.4	2.22%
Net Income	1,434.8	665.7	769.2	115.53%	100.1	84.2	15.9	18.88%	1,534.9	749.9	785.0	104.68%
Less: Distribution to the City	(233.8)	(224.6)	9.2	4.10%	(76.2)	(75.4)	0.8	1.06%	(310.0)	(300.0)	(10.0)	(3.33%)
Plus: *Adjustments Ending Balance					8.5	11.5	(3.0)	(26.09%)	8.5	11.5	(3.0)	(26.09%)
	18,942.9	17,741.9	1,201.0	6.77%	3,579.5	3,547.1	32.4	0.91%	22,522.4	21,289.0	1,233.4	5.79%

*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 2006, so no increase in rates is planned for the coming year. However, it is likely that adjustments to water rates will be necessary for 2007 and beyond.

The Electric Department continues to face challenges, related to rising costs within the electric utility industry. Dramatic changes are taking place regarding electric transmission. Utilities needing to arrange for transmission, something which historically could be done in a matter of days, now requires lead times measured in months and years. Costs for transmission service are rising, and will continue an upward trend as more and more facilities are constructed. AMU continues to participate in groups which are attempting to minimize the adverse effects of higher prices through an ownership strategy. We benefit by receiving revenues for the use of those facilities, reducing our overall costs.

Costs for both coal and rail transportation continue to increase, and are expected to continue to increase consistently throughout the foreseeable future. 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 continued to experience extreme drought conditions – some of the worst in the history of the federal hydropower system – and have increased rates effective January of 2006. This increase amounted to approximately 17 percent, and is the second double-digit rate increase in the past three years.

Fuel costs for local generation have increased, and there is presently no indication that costs will decline to previous levels.

On the positive side, AMU's power supply mix is a low-cost set of resources. Federal hydropower remains a relatively low-cost option, despite increases in rates. CB3 continues to be 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), is used only sparingly, yet provides 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 are adequate to meet normal growth during the next several years. The addition of significant new industrial loads would have some impact on AMU's overall cost structure, though, and might trigger the need for rate adjustments. 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.

AMU continues to have 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 \$25,796 during 2005 brought the total number of heat pumps installed to 160, a total of 490 tons, since the program's inception in 2001. The program has also resulted in the installation of 141 electric water heaters, and some 234 installations of electric space heating, totaling over 1,465 kilowatts of load. Annual revenues resulting from the program are currently estimated to be about \$58,000.

2006 will include several challenges. Major environmental equipment will be added to CB Unit 3 over the next three years, resulting in an AMU investment of over \$4.5 million. Here in Atlantic, AMU is preparing to retire some obsolete facilities, including portions of our power plant building which were constructed between 1890 and 1940. Two boilers and steam turbines will be removed, as well as a lot of equipment. A new metal building shell will be constructed over the existing floor space. Asbestos materials will have to be abated, an expensive process. The overall project cost is expected to be over \$1 million. The Board intends to utilize cash reserves to finance a portion of these 2006 projects, and to issue revenue bonds for the balance of the costs.

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.

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. This type of information is required, under the new federal rules.

Distribution system infrastructure is 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 every year or two, using cash flow as opposed to issuing debt for these routine replacements.

Sales of water during 2004 and 2005 returned to a more 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.

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 2006, but it appears that adjustments will be necessary for early 2007, barring some unforeseen new large water customer.

Increased operating costs for almost every aspect of providing drinking water and related services will continue to cause upward pressure on rates. Management 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, while meeting the needs of the Atlantic community.

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>2005</u>	<u>2004</u>
Utility Plant :		
Depreciable capital assets	\$ 12,996,501	\$ 13,175,164
Non-depreciable capital assets	<u>1,115,710</u>	<u>890,955</u>
Total utility plant	14,112,211	14,066,119
Special Purpose Funds:		
Revenue bond funds	1,253,338	1,240,371
Board designated funds	<u>2,215,499</u>	<u>2,229,804</u>
Total special purpose funds	3,468,837	3,470,175
Current Assets:		
Cash	503,750	569,491
Operating and capital reserves	2,986,585	1,953,359
Receivables, less allowance for doubtful accounts (\$25,000 in 2005, \$24,000 in 2004)	401,776	348,072
Inventory	434,586	413,377
Prepaid expenses	<u>37,161</u>	<u>36,841</u>
Total current assets	4,363,858	3,321,140
Other Assets:		
Notes receivable	495,855	495,855
Deferred costs	<u>11,855</u>	<u>18,792</u>
Total other assets	<u>507,710</u>	<u>514,647</u>
	<u>\$ 22,452,616</u>	<u>\$ 21,372,081</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
Long-Term Debt, less current maturities	\$ 1,900,000	\$ 2,480,000
Current Liabilities:		
Current maturities of long-term debt	580,000	555,000
Accounts payable	648,571	202,276
Accrued employee compensation	104,872	117,000
Accrued property taxes	116,000	125,000
Other accrued taxes	11,840	7,614
Accrued interest	25,006	30,556
Accrued payroll taxes and withholdings	19,765	8,866
Total current liabilities	<u>1,506,054</u>	<u>1,046,312</u>
Other Liabilities:		
Consumer deposits	22,685	20,915
Reserve for employees' retirement	81,000	83,000
Total other liabilities	<u>103,685</u>	<u>103,915</u>
Total liabilities	3,509,739	3,630,227
Net Assets:		
Restricted - expendable	1,253,338	1,240,371
Invested in capital assets net of related debt	11,632,211	11,031,119
Unrestricted	6,057,328	5,470,364
Total net assets	<u>18,942,877</u>	<u>17,741,854</u>
	<u>\$ 22,452,616</u>	<u>\$ 21,372,081</u>

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

	2005	2004
Operating Revenue:		
Retail electricity sales	\$ 5,018,923	\$ 4,701,428
Services provided to the City	282,321	250,530
Sales to other utilities	1,965,856	1,307,186
Total sale of electricity	7,267,100	6,259,144
Other operating revenue	74,766	73,861
Total operating revenue	7,341,866	6,333,005
Operating Expenses:		
Electric production	2,142,133	1,668,271
Purchased power	758,728	921,913
Transmission	388,763	383,133
Distribution	558,377	541,040
Administrative and accounting	1,046,534	1,073,110
Provision for depreciation	1,033,679	1,007,783
Total operating expenses	5,928,214	5,595,250
Income from Operations	1,413,652	737,755
Other Income and (Deductions):		
Income from investments	142,979	101,827
Interest on revenue bonds	(105,575)	(127,575)
Loss on disposal of equipment	(8,269)	(37,171)
Other interest expense	(1,010)	(764)
Amortization of bond issue costs	(6,937)	(8,395)
Other income (deductions), net	21,188	(72,078)
Net Income	\$ 1,434,840	\$ 665,677

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>2005</u>	<u>2004</u>
Balance, Beginning	\$ 17,741,854	\$ 17,300,779
Net Income	1,434,840	665,677
Distribution to the City	<u>(233,817)</u>	<u>(224,602)</u>
Balance, Ending	<u>\$ 18,942,877</u>	<u>\$ 17,741,854</u>

The accompanying notes are an integral part of these statements.

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

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 6,920,587	\$ 6,014,545
Cash paid to suppliers	(3,647,694)	(3,781,440)
Cash paid to employees	(875,947)	(937,932)
Other operating revenue	<u>73,328</u>	<u>72,148</u>
Net cash provided by operating activities	2,470,274	1,367,321
Cash flows from noncapital financing activities:		
Consumer deposits, net	1,770	(891)
Interest paid	<u>(1,010)</u>	<u>(764)</u>
Net cash provided by (used in) noncapital financing activities	760	(1,655)
Cash flows from capital and related financing activities:		
Principal payments	(555,000)	(535,000)
Interest paid on revenue bonds	(111,125)	(132,925)
Capital expenditures	(981,741)	(868,980)
Proceeds (costs) from disposal of equipment	<u>--</u>	<u>(34,726)</u>
Net cash used in capital and related financing activities	(1,647,866)	(1,571,631)
Cash flows from investing activities:		
Special purpose fund investments		
Acquisitions	(429,128)	(2,663,568)
Proceeds	444,990	2,806,033
Operating and capital reserves		
Acquisitions	(2,850,588)	(2,154,393)
Proceeds	1,817,362	2,157,922
Income from investments	142,979	101,827
Decrease in notes receivable	<u>--</u>	<u>20,000</u>
Net cash provided by (used in) investing activities	<u>(874,385)</u>	<u>267,821</u>
Net increase (decrease) in cash	(51,217)	61,856
Cash at beginning of year	<u>1,066,706</u>	<u>1,004,850</u>
Cash at end of year	<u>\$ 1,015,489</u>	<u>\$ 1,066,706</u>

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

	2005	2004
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 503,750	\$ 569,491
Cash in special purpose funds	511,739	497,215
Total cash	\$ 1,015,489	\$ 1,066,706
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 1,413,652	\$ 737,755
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	1,033,679	1,007,783
Materials returned to stock	527	25,952
Uncollectible accounts	11,926	11,905
Reserve for employees' retirement	(2,000)	1,000
Distribution to City	(233,817)	(224,602)
Change in assets and liabilities		
Receivables	(65,630)	4,218
Inventory	(21,209)	(38,949)
Prepaid expenses	(320)	317
Accounts payable	339,469	(169,365)
Accrued employee compensation	(12,128)	11,000
Accrued property taxes	(9,000)	4,000
Other accrued taxes	4,226	(4,529)
Accrued payroll taxes and withholdings	10,899	836
Total adjustments	1,056,622	629,566
Net cash provided by operating activities	\$ 2,470,274	\$ 1,367,321

The accompanying notes are an integral part of these statements.

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

ASSETS

	<u>2005</u>	<u>2004</u>
Utility Plant:		
Depreciable capital assets	\$ 3,971,295	\$ 4,163,154
Non-depreciable capital assets	<u>214,175</u>	<u>125,818</u>
Total utility plant	4,185,470	4,288,972
Special Purpose Funds:		
Revenue bond funds	750,000	750,000
Board designated funds	203,673	199,559
Memorial fund	<u>3,636</u>	<u>3,618</u>
Total special purpose funds	957,309	953,177
Current Assets:		
Cash	299,419	259,296
Operating and capital reserves	--	64,460
Receivables, less allowance for doubtful accounts (\$6,000 in 2005 and in 2004)	146,322	137,357
Materials and supplies inventory	75,200	71,664
Prepaid expenses	<u>7,926</u>	<u>7,642</u>
Total current assets	528,867	540,419
Deferred Costs	<u>13,873</u>	<u>17,623</u>
	<u>\$ 5,685,519</u>	<u>\$ 5,800,191</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
Long-Term Debt, less current maturities and deferred refunding costs	\$ 1,690,487	\$ 1,858,776
Current Liabilities:		
Current maturities of long-term debt	168,289	158,086
Accounts payable:		
Trade	12,953	25,751
City sewer	143,147	123,756
Accrued employee compensation	39,911	40,500
Other accrued taxes	3,137	2,488
Accrued interest	5,363	5,956
Accrued payroll taxes and withholdings	5,057	2,670
Total current liabilities	<u>377,857</u>	<u>359,207</u>
Other Liabilities:		
Consumer deposits	11,695	11,135
Reserve for employees' retirement	26,000	24,000
Total other liabilities	<u>37,695</u>	<u>35,135</u>
Total liabilities	2,106,039	2,253,118
Net Assets:		
Contributions in aid of construction	661,455	665,864
Restricted - expendable	753,636	753,618
Invested in capital assets, net of related debt	2,326,694	2,272,110
Unrestricted	(162,305)	(144,519)
Total net assets	<u>3,579,480</u>	<u>3,547,073</u>
	<u>\$ 5,685,519</u>	<u>\$ 5,800,191</u>

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

	2005	2004
Operating Revenue:		
Sale of water:		
Residential	\$ 598,292	\$ 586,463
Commercial	334,780	343,110
Services provided to the City	76,797	79,252
Total sale of water	1,009,869	1,008,825
Other operating revenue	13,744	11,218
Total operating revenue	1,023,613	1,020,043
Operating Expenses:		
Source of supply	31,455	35,542
Pumping	35,431	41,972
Water treatment	96,315	85,660
Distribution	182,869	190,636
Administrative and accounting	296,172	294,957
Provision for depreciation	230,298	225,008
Total operating expenses	872,540	873,775
Income from Operations	151,073	146,268
Other Income and (Deductions):		
Income from investments	25,965	22,277
Interest on revenue bonds	(72,795)	(79,629)
Other interest expense	(448)	(621)
Amortization of bond issue costs	(3,750)	(4,122)
Other income (deductions), net	(51,028)	(62,095)
Net Income	\$ 100,045	\$ 84,173

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>2005</u>	<u>2004</u>
Balance, Beginning	\$ 3,547,073	\$ 3,526,790
Net Income	100,045	84,173
Contributions in Aid of Construction	8,545	11,508
Distribution to the City	<u>(76,183)</u>	<u>(75,398)</u>
Balance, Ending	<u>\$ 3,579,480</u>	<u>\$ 3,547,073</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>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 921,385	\$ 918,817
Cash paid to suppliers	(282,962)	(281,500)
Cash paid to employees	(348,031)	(350,113)
Other operating revenue	<u>13,051</u>	<u>10,849</u>
Net cash provided by operating activities	303,443	298,053
Cash flows from noncapital financing activities:		
Consumer deposits, net	560	(365)
Interest paid	<u>(448)</u>	<u>(621)</u>
Net cash provided by (used in) noncapital financing activities	112	(986)
Cash flows from capital and related financing activities:		
Principal payments	(160,000)	(150,000)
Interest paid on revenue bonds	(71,474)	(78,075)
Capital expenditures	(126,796)	(193,574)
Contributions in aid of construction	<u>8,545</u>	<u>11,508</u>
Net cash used in capital and related financing activities	(349,725)	(410,141)
Cash flows from investing activities:		
Special purpose fund investments:		
Acquisitions	(223,527)	(926,350)
Proceeds	362,402	931,884
Temporary investments:		
Acquisitions	(135,000)	(199,836)
Proceeds	199,460	248,593
Income from investments	<u>25,965</u>	<u>22,277</u>
Net cash provided by investing activities	<u>229,300</u>	<u>76,568</u>
Net increase (decrease) in cash	183,130	(36,506)
Cash at beginning of year	<u>322,801</u>	<u>359,307</u>
Cash at end of year	<u>\$ 505,931</u>	<u>\$ 322,801</u>
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 299,419	\$ 259,296
Cash in special purpose funds	<u>206,512</u>	<u>63,505</u>
Total cash	<u>\$ 505,931</u>	<u>\$ 322,801</u>

(continued next page)

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

	2005	2004
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 151,073	\$ 146,268
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	230,298	225,008
Uncollectible accounts	3,415	2,873
Reserve for employees' retirement	2,000	1,000
Distribution to City	(76,183)	(75,398)
Change in assets and liabilities		
Receivables	(12,380)	(11,125)
Materials and supplies inventory	(3,536)	(16,173)
Prepaid expenses	(284)	(1,596)
Accounts payable:		
Trade	(12,798)	12,842
City sewer	19,391	12,659
Accrued employee compensation	(589)	2,500
Accrued payroll taxes and withholdings	2,387	132
Other accrued taxes	649	(937)
Total adjustments	152,370	151,785
Net cash provided by operating activities	\$ 303,443	\$ 298,053

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2005 and 2004

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, 2005 and 2004

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, 2005 and 2004

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, 2005 and 2004

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>2005</u>	<u>2004</u>
Fees for Services Provided to City	\$ 282,321	\$ 250,530
Payment From and Part of Distribution to City	<u>233,817</u>	<u>224,602</u>
Franchise Requirement	<u>\$ 48,504</u>	<u>\$ 25,928</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2005 and 2004

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

<u>Water Department</u>	<u>2005</u>	<u>2004</u>
Fees for Services Provided to City	\$ 76,797	\$ 79,252
Payment From and Distribution to City	<u>76,183</u>	<u>75,398</u>
Franchise Requirement	<u>\$ 614</u>	<u>\$ 3,854</u>
Sewer Fees Collected for City	<u>\$ 653,052</u>	<u>\$ 567,765</u>
Charge to City for Sewer Billing Service	<u>\$ 2,674</u>	<u>\$ 2,706</u>
Account Payable to City	<u>\$ 143,147</u>	<u>\$ 123,756</u>

NOTE C - SPECIAL PURPOSE FUNDS

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

<u>Electric Department</u>	<u>2005</u>	<u>2004</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 953,338	\$ 940,371
Capital improvements	<u>300,000</u>	<u>300,000</u>
Total restricted	<u>\$ 1,253,338</u>	<u>\$ 1,240,371</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	150,424	150,572
Funding of bond requirements	<u>65,075</u>	<u>79,232</u>
Total board designated	<u>\$ 2,215,499</u>	<u>\$ 2,229,804</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2005 and 2004

NOTE C - SPECIAL PURPOSE FUNDS - Continued

Water Department

	2005	2004
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 250,000	\$ 250,000
Capital improvements	500,000	500,000
Bond funds	750,000	750,000
Restricted by donor for well field improvements	3,636	3,618
Total restricted	\$ 753,636	\$ 753,618
Board Designated for:		
System improvements	\$ 135,000	\$ 135,000
Employee retirement	40,000	40,000
Funding of bond requirements	28,673	24,559
Total board designated	\$ 203,673	\$ 199,559

During the year ended December 31, 2005 and 2004, no restricted funds were expended.

NOTE D - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2005 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, 2005 and 2004

NOTE D - DEPOSITS AND INVESTMENTS - Continued

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

	2005	2004
Invested Funds:		
U.S. Treasury Securities	\$ 1,913,726	\$ 2,175,907
Government Agencies	3,980,114	2,719,822
Other Interest Bearing Accounts	511,739	497,215
Interest Receivable	49,843	30,590
Total Investments	\$ 6,455,422	\$ 5,423,534
Special Purpose Funds:		
Restricted	\$ 1,253,338	\$ 1,240,371
Board Designated	2,215,499	2,229,804
Total Special Purpose Funds	3,468,837	3,470,175
Operating and Capital Reserves	2,986,585	1,953,359
Total Investments	\$ 6,455,422	\$ 5,423,534

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

	2005	2004
Invested Funds:		
U.S. Treasury Securities	\$ 73,496	\$ 326,870
Government Agencies	674,949	624,547
Other Interest Bearing Accounts	206,512	63,505
Interest Receivable	2,352	2,715
Total Investments	\$ 957,309	\$ 1,017,637
Special Purpose Funds:		
Restricted	\$ 753,636	\$ 753,618
Board Designated	203,673	199,559
Total Special Purpose Funds	957,309	953,177
Operating and Capital Reserves	--	64,460
Total Investments	\$ 957,309	\$ 1,017,637

The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2005 and 2004

NOTE E - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2005 and 2004 were as follows:

	<u>Balance 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2005</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 34,700,539	\$ 863,812	\$ 129,266	\$ 35,435,085
Depreciation	<u>21,525,375</u>	<u>1,033,679</u>	<u>120,470</u>	<u>22,438,584</u>
Depreciable Capital Assets, Net	<u>\$ 13,175,164</u>	<u>\$(169,867)</u>	<u>\$ 8,796</u>	<u>\$ 12,996,501</u>
Construction in Progress	\$ 321,878	\$ 1,088,567	\$ 863,812	\$ 546,633
Land and Land Rights	<u>569,077</u>	<u>--</u>	<u>--</u>	<u>569,077</u>
Non-Depreciable Capital Assets	<u>\$ 890,955</u>	<u>\$ 1,088,567</u>	<u>\$ 863,812</u>	<u>\$ 1,115,710</u>
	<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>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2005 and 2004

NOTE E - CAPITAL ASSETS - Continued

	<u>Balance 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2005</u>
<u>Water Department</u>				
Plant and Equipment	\$ 7,901,524	\$ 38,439	\$ 1,778	\$ 7,938,185
Depreciation	<u>3,738,370</u>	<u>230,298</u>	<u>1,778</u>	<u>3,966,890</u>
Depreciable Capital Assets, Net	<u>\$ 4,163,154</u>	<u>\$ (191,859)</u>	<u>\$ --</u>	<u>\$ 3,971,295</u>
Construction in Progress	\$ --	\$ 126,796	\$ 38,439	\$ 88,357
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>\$ 126,796</u>	<u>\$ 38,439</u>	<u>\$ 214,175</u>
	<u>Balance 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2004</u>
<u>Water Department</u>				
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>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2005 and 2004

NOTE F - ELECTRIC DEPARTMENT NOTE RECEIVABLE

Following is information about the Electric Department note receivable at December 31:

	2005	2004
Note Receivable - Water Department	\$ 495,855	\$ 495,855

The note receivable from the Water 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.

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended December 31, 2005 and 2004 follows:

	Balance 2004	Additions	Reductions	Balance 2005
1999 Revenue Bonds	\$ 3,035,000	\$ --	\$ 555,000	\$ 2,480,000
Less Current Portion	(555,000)	(580,000)	(555,000)	(580,000)
Total Long-Term Debt	2,480,000	(580,000)	--	1,900,000
Consumer Deposits	20,915	1,770	--	22,685
Reserve for Employee Retirement	83,000	--	2,000	81,000
Total Non-Current Liabilities	\$ 2,583,915	\$(578,230)	\$ 2,000	\$ 2,003,685

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2005 and 2004

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

	<u>Balance 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2004</u>
1999 Revenue Bonds	\$ 3,570,000	\$ --	\$ 535,000	\$ 3,035,000
Less Current Portion	<u>(535,000)</u>	<u>(555,000)</u>	<u>(535,000)</u>	<u>(555,000)</u>
Total Long-Term Debt	3,035,000	(555,000)	--	2,480,000
Consumer Deposits	21,806	--	891	20,915
Reserve for Employee Retirement	<u>82,000</u>	<u>1,000</u>	<u>--</u>	<u>83,000</u>
Total Non-Current Liabilities	<u>\$ 3,138,806</u>	<u>\$(554,000)</u>	<u>\$ 891</u>	<u>\$ 2,583,915</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 2004 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, 2006 through 2009 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 2,480,000</u>	<u>\$ 206,688</u>	<u>\$ 2,686,688</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2005 and 2004

NOTE H - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended December 31, 2005 and 2004 follows:

	Balance 2004	Additions	Reductions	Balance 2005
1998 Capital Loan Notes	\$ 1,530,000	\$ --	\$ 160,000	\$ 1,370,000
Deferred Refunding Costs	(8,993)	--	(1,914)	(7,079)
	1,521,007	--	158,086	1,362,921
Less Current Portion	(158,086)	(168,289)	(158,086)	(168,289)
	1,362,921	(168,289)	--	1,194,632
Note Payable - Electric	495,855	--	--	495,855
Total Long-Term Debt	1,858,776	(168,289)	--	1,690,487
Consumer Deposits	11,135	560	--	11,695
Reserve for Employees' Retirement	24,000	2,000	--	26,000
Total Non-Current Liabilities	<u>\$ 1,893,911</u>	<u>\$(165,729)</u>	<u>\$ --</u>	<u>\$ 1,728,182</u>
	Balance 2003	Additions	Reductions	Balance 2004
1998 Capital Loan Notes	\$ 1,680,000	\$ --	\$ 150,000	\$ 1,530,000
Deferred Refunding Costs	(11,097)	--	(2,104)	(8,993)
	1,668,903	--	147,896	1,521,007
Less Current Portion	(147,896)	(158,086)	(147,896)	(158,086)
	1,521,007	(158,086)	--	1,362,921
Note Payable - Electric	495,855	--	--	495,855
Total Long-Term Debt	2,016,862	(158,086)	--	1,858,776
Consumer Deposits	11,500	--	365	11,135
Reserve for Employees' Retirement	23,000	1,000	--	24,000
Total Non-Current Liabilities	<u>\$ 2,051,362</u>	<u>\$(157,086)</u>	<u>\$ 365</u>	<u>\$ 1,893,911</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, 2005 and 2004

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 2004 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 resolution of the Board of Trustees authorizing the issuance of the 1998 capital loan notes specifies 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, 2006 through 2010 and succeeding years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	205,000	30,833	235,833
2011 - 2012	<u>930,855</u>	<u>31,630</u>	<u>962,485</u>
	<u>\$ 1,865,855</u>	<u>\$ 272,498</u>	<u>\$ 2,138,353</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, 2005, 2004, and 2003, were approximately \$86,600, \$82,300, and \$79,100, respectively, equal to the required contributions for each year.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2005 and 2004

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, 2005 were approximately \$243,800.

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. Biannually CB #3 shuts down production for several weeks for major maintenance and repairs. The last shut down occurred in 2004 and the next will be in 2006. The Electric Utility accrues an estimate (\$300,000 during 2005 included in accounts payable) of the pro rata annual expense it will incur related to this shutdown. During the shutdown, the Electric Utility purchases replacement electricity on the open market.

Of the Electric Department's construction in progress, approximately \$285,000 represents the Utility's share of ongoing construction projects at CB #3. The Utility regularly finances costs of these and other projects through funds generated internally. During 2005, the Electric Utility identified various projects including retirement and replacement of obsolete facilities and equipment in both Atlantic and at CB #3, which will be completed between now and the end of 2008. Approximate total cost of the projects is estimated to approach \$6,500,000. Financing for these projects will be provided through approximately \$1,000,000 of funds generated internally and the remainder through a debt issue.

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.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2005 and 2004

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Natural Gas Line and Supply

During the construction of the Electric Utility's Atlantic generating plant, it contracted with a company to build a gas supply line to the plant. The agreement indicated that the cost of the supply line would be reduced, based on the quantity of gas purchased from the company at specified rates, through May, 2005. At December 31, 2005 the Utility recorded a liability (in accounts payable) of approximately \$107,000 for the remaining obligation under the contract.

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.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
Budgetary Comparison Schedule
Year Ended December 31, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. 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	\$ 7,484,845	\$ 1,049,578	\$ 8,545	\$ 8,542,968
Contributions	--	8,545	(8,545)	--
Expenses	<u>6,050,005</u>	<u>949,533</u>	<u>715,000</u>	<u>7,714,538</u>
Net	1,434,840	108,590	(715,000)	828,430
Balance beginning of year	17,741,854	3,547,073	(14,712,970)	6,575,957
Transfers to the City	<u>(233,817)</u>	<u>(76,183)</u>	<u>--</u>	<u>(310,000)</u>
Balance end of year	<u>\$ 18,942,877</u>	<u>\$ 3,579,480</u>	<u>\$(15,427,970)</u>	<u>\$ 7,094,387</u>

	<u>Budget</u>	<u>Budget</u>	<u>Variance</u>
	<u>Basis</u>	<u>Budget</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
Revenues	\$ 8,542,968	\$ 8,107,000	\$ 435,968
Expenses	<u>7,714,538</u>	<u>8,146,000</u>	<u>431,462</u>
Net	828,430	(39,000)	867,430
Balance beginning of year	6,575,957	6,575,957	--
Transfers to the City	<u>(310,000)</u>	<u>(347,000)</u>	<u>37,000</u>
Balance end of year	<u>\$ 7,094,387</u>	<u>\$ 6,189,957</u>	<u>\$ 904,430</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>2005</u>	<u>2004</u>
<u>1999 Series</u>				
April 1, 2005	--	4.000%	\$ --	\$ 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>\$ 2,480,000</u>	<u>\$ 3,035,000</u>

WATER DEPARTMENT:

<u>1998 Series</u>				
Dec. 1, 2005	--	4.45%	\$ --	\$ 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>\$ 1,370,000</u>	<u>\$ 1,530,000</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
 Operating Revenue
 Year ended December 31,

	<u>2005</u>	<u>2004</u>
<u>ELECTRIC DEPARTMENT</u>		
Retail Electricity Sales:		
Residential	\$ 1,642,032	\$ 1,487,260
Commercial	2,496,907	2,353,832
Rural resident and rural commercial	854,121	835,849
Interdepartmental sales	<u>25,863</u>	<u>24,487</u>
	<u>\$ 5,018,923</u>	<u>\$ 4,701,428</u>
Other Operating Revenue:		
Customer late payment charges	\$ 12,015	\$ 11,845
Service charges	10,965	10,060
Rent from electric properties	19,641	17,653
Net contract work	4,693	7,313
Transmission service	10,598	9,209
Internet wireless services, net	11,704	15,189
Scrap sales	2,790	879
Bad debts recovered	1,438	1,713
Miscellaneous	<u>922</u>	<u>--</u>
	<u>\$ 74,766</u>	<u>\$ 73,861</u>
<u>WATER DEPARTMENT</u>		
Other Operating Revenue:		
Service charges	\$ 6,280	\$ 5,900
Net contract work	6,440	4,686
Scrap sales	331	263
Bad debts recovered	<u>693</u>	<u>369</u>
	<u>\$ 13,744</u>	<u>\$ 11,218</u>

See Independent Auditor's Report.

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

	2005	2004
Electric Production:		
CB #3 Production:		
Operating supervision and labor	\$ 92,887	\$ 67,317
Fuel	1,100,903	894,683
Operating supplies and expense	181,840	154,451
Maintenance of production plant	572,244	401,709
Total CB #3 production	1,947,874	1,518,160
Atlantic Production:		
Operating supervision and labor	11,315	9,126
Fuel	62,603	30,110
Operating supplies and expense	2,579	2,252
Maintenance of production plant	117,762	108,623
Total Atlantic production	194,259	150,111
Total electric production	2,142,133	1,668,271
Purchased Power	758,728	921,913
Transmission Expense:		
Maintenance of transmission line and other	388,763	383,133
Distribution Expense:		
City:		
Operating supervision and labor	55,645	63,363
Line and station supplies and expense	68,252	55,930
Meter expense	32,797	32,675
Miscellaneous distribution expense	59,454	56,824
Maintenance of structures and equipment	7,648	18,601
Maintenance of lines	143,028	125,857
Maintenance of line transformers	4,295	12,578
Maintenance of street lighting and signal systems	21,163	17,215
Maintenance of meters	16,747	11,048
Total city distribution expense	409,029	394,091
Rural:		
Operating supervision and labor	32,902	39,841
Line and station supplies and expense	1,159	8,429
Meter expense	237	730
Miscellaneous distribution expense	15,130	14,947
Maintenance of structures and equipment	6,042	22,687

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

	2005	2004
Distribution Expense (Continued):		
Rural (Continued):		
Maintenance of lines	\$ 83,921	\$ 55,483
Maintenance of line transformers	7,105	3,396
Maintenance of meters	2,852	1,436
Total rural distribution expense	149,348	146,949
Total distribution expense	558,377	541,040
Administrative and Accounting Expense:		
Customer accounting:		
Meter reading labor	16,662	27,517
Accounting and collecting costs	93,080	93,757
Supplies and expense	1,516	1,183
Uncollectible accounts	11,926	11,905
Total customer accounting	123,184	134,362
Administrative and general:		
Administrative and general salaries	51,373	61,309
Office supplies and expense	39,953	39,173
Outside service employed	25,608	29,774
Property insurance	51,317	50,547
Liability insurance and safety program costs	51,263	60,499
Employees' pension and benefits	258,520	261,173
Franchise requirement	48,504	25,928
Regulatory commission expense	10,096	7,037
Internet	11,521	17,059
Energy efficiency grant/rebate program	27,926	17,373
Miscellaneous general expense	83,006	80,484
Maintenance of general plant	35,166	36,398
Payroll taxes	158,526	154,810
Property taxes	111,404	127,247
Total administrative and general	964,183	968,811
Administrative adjustments	31,236	21,662
Less administrative expense transferred	(72,069)	(51,725)
Net administrative and general	923,350	938,748
Total administrative and accounting expense	1,046,534	1,073,110
Provision for Depreciation	1,033,679	1,007,783
Total operating expenses	\$ 5,928,214	\$ 5,595,250

See Independent Auditor's Report.

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

	2005	2004
Source of Supply Expense:		
Operating supplies and expense	\$ 7,656	\$ 6,758
Maintenance of water source	23,799	28,784
Total source of supply expense	31,455	35,542
Pumping Expense:		
Operating labor	17,327	19,578
Fuel and power pumping	16,009	16,066
Maintenance of pumping station	2,095	6,328
Total pumping expense	35,431	41,972
Water Treatment Expense:		
Operating labor	47,828	43,266
Chemicals	25,570	22,952
Operating supplies and expense	9,739	13,156
Maintenance of water treatment plant	13,178	6,286
Total water treatment expense	96,315	85,660
Distribution Expense:		
Operating labor	109,204	107,180
Operating supplies and expense	14,475	12,949
Maintenance of distribution reservoirs and standpipes	5,616	7,461
Maintenance of mains	44,868	55,502
Maintenance of services	1,609	1,270
Maintenance of meters	1,212	1,709
Maintenance of hydrants	5,885	4,565
Total distribution expense	182,869	190,636
Administrative and Accounting Expense:		
Customer Accounting:		
Meter reading labor	11,059	14,334
Accounting and collecting labor	38,970	38,251
Supplies and expense	7,006	10,136
Uncollectible accounts	3,415	2,873
Total customer accounting	60,450	65,594

(continued next page)

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

	2005	2004
Administrative and Accounting Expense (Continued):		
Administrative and General:		
Administrative and general salaries	\$ 31,865	\$ 29,283
Office supplies and other expense	20,139	20,731
Outside service employed	11,792	10,383
Property insurance	6,570	5,737
Liability insurance costs	23,984	23,050
Employees' pensions and benefits	91,428	88,683
Franchise requirement	614	3,854
Regulatory Commission expense	1,096	1,108
Miscellaneous general expense	17,802	20,468
Transportation expense	9,768	6,153
Maintenance of general plant	2,977	2,945
Payroll taxes	32,008	32,316
Total administrative and general	250,043	244,711
Administrative adjustments	(2,626)	(2,293)
Less administrative expense transferred	(11,695)	(13,055)
Net administrative and general	235,722	229,363
Total administrative and accounting expense	296,172	294,957
Provision for Depreciation	230,298	225,008
Total operating expenses	\$ 872,540	\$ 873,775

See Independent Auditor's Report.

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

	2005	2004
Operating Revenue:		
Sale of electricity	\$ 7,267,100	\$ 6,259,144
Other operating revenue	74,766	73,861
Total operating revenue	7,341,866	6,333,005
Operating Expenses (Not Including Depreciation)	4,894,535	4,587,467
Operating Income Before Depreciation	2,447,331	1,745,538
Provision for Depreciation	1,033,679	1,007,783
Income From Operations	1,413,652	737,755
Other Income and (Deductions), Net	21,188	(72,078)
Net Income	\$ 1,434,840	\$ 665,677
Net Income as a Percent of Total Operating Revenue	19.54%	10.51%

See Independent Auditor's Report.

<u>2003</u>	<u>2002</u>	<u>2001</u>
\$ 5,426,887	\$ 5,338,122	\$ 5,550,146
<u>84,264</u>	<u>87,635</u>	<u>69,331</u>
5,511,151	5,425,757	5,619,477
<u>4,116,338</u>	<u>4,005,293</u>	<u>3,824,924</u>
1,394,813	1,420,464	1,794,553
<u>1,004,746</u>	<u>992,974</u>	<u>984,857</u>
390,067	427,490	809,696
<u>(35,170)</u>	<u>55,333</u>	<u>73,630</u>
<u>\$ 354,897</u>	<u>\$ 482,823</u>	<u>\$ 883,326</u>
<u>6.44%</u>	<u>8.89%</u>	<u>15.72%</u>

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

	<u>2005</u>	<u>2004</u>
Sale of Electricity:		
Sales to consumers	\$ 5,301,244	\$ 4,951,958
Sales to other utilities	<u>1,965,856</u>	<u>1,307,186</u>
Total Electricity Sales	<u>\$ 7,267,100</u>	<u>\$ 6,259,144</u>
Kilowatt Hours:		
Generated	133,382,000	118,826,300
Purchased	36,780,027	43,609,516
Energy available	170,162,027	162,435,816
Station power/transmission loss	5,110,260	4,982,221
Available for sale	165,051,767	157,453,595
Sales and transfers to other utilities	57,490,867	56,774,495
Output to the system	107,560,900	100,679,100
Billed to consumers	104,106,914	95,640,186
Distribution loss	3,453,986	5,038,914
Distribution loss percent	3.2%	5.0%
Revenue Billed Per KWH to Consumers	5.09¢	5.18¢
Peak Hour Demand in KW	25,211	24,465
Services Provided to the City:		
Street Lighting:		
Energy	\$ 71,494	\$ 70,832
Operation and maintenance	21,374	18,049
Depreciation	<u>33,625</u>	<u>32,538</u>
	126,493	121,419
Energy for public buildings, parks and other uses	<u>155,828</u>	<u>129,111</u>
	<u>\$ 282,321</u>	<u>\$ 250,530</u>
<u>Consumer Classifications</u>		
Residential	3,226	3,197
Small Commercial	578	584
Large Commercial	44	45
Rural Residential	565	559
Rural Commercial	99	97
Area Lighting	279	272
City and Water Department	<u>89</u>	<u>87</u>
Total number of consumers	<u>4,880</u>	<u>4,841</u>

See Independent Auditor's Report.

<u>2003</u>	<u>2002</u>	<u>2001</u>
\$ 4,670,904	\$ 4,751,773	\$ 4,681,329
<u>755,983</u>	<u>586,349</u>	<u>868,817</u>
<u>\$ 5,426,887</u>	<u>\$ 5,338,122</u>	<u>\$ 5,550,146</u>
134,511,300	126,703,200	132,178,600
33,743,706	40,422,832	35,797,713
168,255,006	167,126,032	167,976,313
4,956,759	5,192,452	4,859,836
163,298,247	161,933,580	163,116,477
62,512,447	59,274,280	63,154,277
100,785,800	102,659,300	99,962,200
96,008,126	97,840,705	96,475,732
4,777,674	4,818,595	3,486,468
4.7%	4.7%	3.5%
4.87¢	4.86¢	4.85¢
25,445	25,496	26,432
\$ 71,189	\$ 72,549	\$ 73,718
20,525	21,322	28,803
<u>31,432</u>	<u>30,238</u>	<u>29,224</u>
123,146	124,109	131,745
<u>82,330</u>	<u>81,757</u>	<u>78,125</u>
<u>\$ 205,476</u>	<u>\$ 205,866</u>	<u>\$ 209,870</u>
3,194	3,168	3,204
584	574	518
51	50	49
558	554	556
94	92	84
276	274	271
<u>84</u>	<u>81</u>	<u>80</u>
<u>4,841</u>	<u>4,793</u>	<u>4,762</u>

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

	<u>2005</u>	<u>2004</u>
Operating Revenue:		
Sale of water	\$ 1,009,869	\$ 1,008,825
Other operating revenue	<u>13,744</u>	<u>11,218</u>
Total operating revenue	1,023,613	1,020,043
Operating Expenses (Not Including Depreciation)	<u>642,242</u>	<u>648,767</u>
Operating Income Before Depreciation	381,371	371,276
Provision for Depreciation	<u>230,298</u>	<u>225,008</u>
Income From Operations	151,073	146,268
Other Income (Deductions), Net	<u>(51,028)</u>	<u>(62,095)</u>
Net Income	<u>\$ 100,045</u>	<u>\$ 84,173</u>
Net Income as a Percent of Total Operating Revenue	<u>9.77%</u>	<u>8.25%</u>

See Independent Auditor's Report.

<u>2003</u>	<u>2002</u>	<u>2001</u>
\$ 993,815	\$ 1,011,758	\$ 993,595
<u>15,773</u>	<u>14,497</u>	<u>18,333</u>
1,009,588	1,026,255	1,011,928
<u>621,973</u>	<u>585,211</u>	<u>549,077</u>
387,615	441,044	462,851
<u>223,696</u>	<u>222,130</u>	<u>210,262</u>
163,919	218,914	252,589
<u>(56,809)</u>	<u>(48,350)</u>	<u>(72,724)</u>
<u>\$ 107,110</u>	<u>\$ 170,564</u>	<u>\$ 179,865</u>
<u>10.61%</u>	<u>16.62%</u>	<u>17.77%</u>

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

	2005	2004
Total Revenue Billed	\$ <u>1,009,869</u>	\$ <u>1,008,825</u>
Gallage:		
Pumped	326,127,000	340,930,000
Billed	283,333,025	290,892,000
Total system maintenance and loss*	42,793,975	50,038,000
Percent used in system maintenance and loss	13.1%	14.7%
Revenue Billed Per 100 Gallons	35.6¢	34.7¢
Number of Consumers	3,310	3,294
Peak Day - Gallons Pumped	1,540,000	1,930,000
Services Provided to the City:		
Water for parks, disposal plant and public buildings	\$ 8,966	\$ 7,600
Operation and maintenance	29,501	35,305
Depreciation	<u>38,330</u>	<u>36,347</u>
	<u>\$ 76,797</u>	<u>\$ 79,252</u>

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

See Independent Auditor's Report.

<u>2003</u>	<u>2002</u>	<u>2001</u>
<u>\$ 993,815</u>	<u>\$ 1,011,758</u>	<u>\$ 993,595</u>
374,556,000	372,986,000	379,323,000
302,849,000	315,630,500	306,021,400
71,707,000	57,355,500	73,301,600
19.1%	15.4%	19.3%
32.8¢	32.1¢	32.5¢
3,295	3,277	3,261
1,771,000	2,041,000	2,137,000
\$ 5,354	\$ 4,631	\$ 3,590
36,552	32,662	38,922
<u>35,817</u>	<u>37,151</u>	<u>34,740</u>
<u>\$ 77,723</u>	<u>\$ 74,444</u>	<u>\$ 77,252</u>

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

	<u>2005</u>	<u>2004</u>
<u>ELECTRIC DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 1,434,840	\$ 665,677
Add:		
Depreciation	1,033,679	1,007,783
Interest on revenue bonds	105,575	127,575
Loss on disposal of equipment	8,269	37,171
Amortization	<u>6,937</u>	<u>8,395</u>
Available For Debt Service	<u>\$ 2,589,300</u>	<u>\$ 1,846,601</u>
Maximum Debt Service in Any Year	<u>\$ 674,900</u>	<u>\$ 674,900</u>
Actual Coverage	<u>384%</u>	<u>274%</u>
Minimum Coverage Required	<u>125%</u>	<u>125%</u>
 <u>WATER DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 100,045	\$ 84,173
Add:		
Depreciation	230,298	225,008
Interest on revenue bonds	72,795	79,629
Amortization	<u>3,750</u>	<u>4,122</u>
Available For Debt Service	<u>\$ 406,888</u>	<u>\$ 392,932</u>
Maximum Debt Service on Bonds in Any Year	<u>\$ 252,000</u>	<u>\$ 252,000</u>
Actual Coverage	<u>161%</u>	<u>156%</u>
Minimum Coverage Required	<u>125%</u>	<u>125%</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

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

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
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, 2005, and have issued our report thereon dated February 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 an opinion 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 caused by error or fraud 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 05-I-A is a material weakness.

To the Board of Trustees
Atlantic Municipal Utilities

Compliance and Other Matters

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, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2005 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Atlantic Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities. 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 10, 2006

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2005

PART I - REPORTABLE CONDITIONS

05-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

05-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.

05-II-B Certified Budget: The Utilities' expenditures during the year ended December 31, 2005 did not exceed amounts budgeted.

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

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

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

05-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, 2005

PART II - REQUIRED STATUTORY REPORTING (Continued)

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

05-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.

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

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

* * *