

**ALGONA MUNICIPAL UTILITIES**

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

**December 31, 2005**

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

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**OFFICIALS  
ALGONA MUNICIPAL UTILITIES**

**December 31, 2005**

| <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          | Walter Krahenbuhl       | May 2011            |
| General Manager  | John Bilsten            |                     |
| Comptroller      | Brien Rindone           |                     |

# T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

701 SUMNER, SUITE 200

HUMBOLDT, IOWA 50548

515-332-3466

## 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, 2005 and 2004, 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 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, 2005 and 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 19, 2006 on our consideration of Algona Municipal Utilities's 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 read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 7 and 29 through 30 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. We previously audited, in accordance with the Standards referred to in the second paragraph of this report, the financial statements for the two years ended December 31, 2004 (none of which are presented herein) and expressed unqualified opinions on those 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 31 through 33 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 do not express an opinion on it.

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

April 19, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2005. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### 2005 FINANCIAL HIGHLIGHTS

- ◆ The Utilities revenues increased 17%, or approximately \$1.4 million, from fiscal 2004 to fiscal 2005.
- ◆ Expenses increased 20%, or approximately \$1.9 million, in 2005 from 2004.
- ◆ The Utility's net assets decreased 6.9%, or approximately \$1.7 million during 2005.

### 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.

Fund financial statements report the Utility's operations by providing information about the most significant funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the 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

#### *Fund Financial Statements*

Algona Municipal Utilities utilizes 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 are 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.

The condensed statement of net assets, shown below, shows how assets and liabilities have changed over the past two years. Capital assets, net of depreciation, decreased from 2004 to 2005. This decrease is due to depreciation exceeding capital asset purchases during 2005. Total assets increased by approximately \$1,000,000 and liabilities increased by 2,600,000 resulting in the decrease in net assets of approximately 1.6 million dollars during the year.

| Net Assets of Business Type Activities<br>(Expressed in Thousands) |                     |        |
|--------------------------------------------------------------------|---------------------|--------|
|                                                                    | Year ended June 30, |        |
|                                                                    | 2005                | 2004   |
| Current and other assets                                           | \$ 12,349           | 10,653 |
| Capital assets (net of depreciation)                               | 26,567              | 27,216 |
| Total assets                                                       | 38,916              | 37,869 |
| Long-term debt outstanding                                         | 9,148               | 7,825  |
| Other liabilities                                                  | 3,805               | 2,409  |
| Total liabilities                                                  | 12,953              | 10,234 |
| Net assets:                                                        |                     |        |
| Invested in capital assets                                         | 19,189              | 19,521 |
| Restricted                                                         | 500                 | 500    |
| Unrestricted                                                       | 6,274               | 7,613  |
| Total net assets                                                   | \$ 25,962           | 27,634 |

## INDIVIDUAL MAJOR FUND ANALYSIS

As Algona Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$26.0 million, a decrease of more than \$1.6 million under last year's total of \$27.6 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- Electric Fund revenues showed an increase of \$800,000 due to increased power sales. The Electric Fund expenses increased \$1.7 million mainly attributable to the NEAL 4 shut down and increased power purchases in the 4<sup>th</sup> quarter of the year.
- Water Fund revenues increased during 2005 due to expanded customer sales while expenses increase only slightly. The ending fund balance as a result decreased \$11,000 from the prior year to \$2,361,000.
- Communications fund revenues increased approximately 30% due to continued growth in cable, internet, and telephone sales. The communications fund expenses increased slightly mainly as a result of the continued growth of the cable, internet, and telephone customers. Increased property tax expenses were also a factor in the increased expenses. The results of the activities resulted in a reduction in fund balance of \$635,000.

The following analysis focuses on the change in net assets for the combined divisions of Algona Municipal Utilities.

| Changes in Net Assets of Business Type Activities<br>(Expressed in Thousands) |                         |         |
|-------------------------------------------------------------------------------|-------------------------|---------|
|                                                                               | Year ended December 31, |         |
|                                                                               | 2005                    | 2004    |
| Revenues:                                                                     |                         |         |
| Program revenues:                                                             |                         |         |
| Charges for service                                                           | \$ 9,202                | 7,782   |
| General revenues:                                                             |                         |         |
| Unrestricted investment earnings                                              | 329                     | 331     |
| Other general revenues                                                        | 94                      | 125     |
| Total revenues                                                                | 9,625                   | 8,238   |
| Program expenses:                                                             |                         |         |
| Business type activities                                                      | 11,297                  | 9,384   |
| Total expenses                                                                | 11,297                  | 9,384   |
| (Decrease) in net assets                                                      | (1,672)                 | (1,146) |
| Net assets beginning of year                                                  | 27,635                  | 28,781  |
| Net assets end of year                                                        | \$ 25,963               | 27,635  |

## BUDGETARY HIGHLIGHTS

Algona Municipal Utility's did not amend their budget during the year nor did they exceed the budgeted limits for expenditures.

## CAPTIAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2005, AMU had approximately \$26 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 \$1,000,000 or 4 percent under last year.

| Capital Assets of Business Type Activities at Year End<br>(Expressed in Thousands) |                         |        |
|------------------------------------------------------------------------------------|-------------------------|--------|
|                                                                                    | Year ended December 31, |        |
|                                                                                    | 2005                    | 2004   |
| Land                                                                               | \$ 412                  | 412    |
| Buildings and improvements                                                         | 2,016                   | 2,020  |
| Equipment and vehicles                                                             | 1,016                   | 1,162  |
| Infrastructure                                                                     | 23,123                  | 23,622 |
| Total                                                                              | 26,567                  | 27,216 |

The largest addition to capital assets was NEAL 4 improvements included under the Electric Utility.

AMU had depreciation expense of \$1,919,830 in FY05 and total accumulated depreciation of \$27,099,303 at December 31, 2005.

## LONG TERM DEBT/LIABILITIES

At December 31, 2005, AMU had approximately \$6,043,000 in revenue bonds outstanding compared to \$4,700,000 at December 31, 2004, as shown below. The Utilities' liability for deferred compensation also decreased from approximately \$206,000 to \$178,000.

During 2005 in order to finance further improvements, extensions, and regular communication fund operations, the Communications Fund issued revenue notes totaling \$1,750,000.

| Outstanding debt of Business Type Activities at Year End<br>(Expressed in Thousands) |                         |       |
|--------------------------------------------------------------------------------------|-------------------------|-------|
|                                                                                      | Year ended December 31, |       |
|                                                                                      | 2005                    | 2004  |
| Revenue Bonds                                                                        | \$ 6,043                | 4,700 |
| Deferred compensation                                                                | 178                     | 206   |
| Total                                                                                | \$ 6,221                | 4,906 |

At December 31, 2005 and 2004 the Communications Fund owed the Electric Fund \$3,440,000 under an interfund loan agreement established to finance the AMU broadband telecommunications network. The loan agreement calls for interest to accrue at 5% per year and to be repaid within 180 months.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Algona Municipal Utility's appointed officials considered many factors when setting the calendar year 2006 budget including fees that will be charged for the services the Utilities' provide.

These factors were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$11.0 million, an increase of 8 percent over the 2005 budget. The budget is likely to closer reflect the actual cash receipts received as estimated based on 2005 results. Budgeted disbursements are expected to increase also by approximately \$1,000,000. Again the 2006 budget was set to more closely reflect the actual results as estimated based on 2005 actual results.

If these estimates are realized, the Utilities' budgetary operating balance is expected to decrease by the close of 2006.

## 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**

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

|                                                                 | ENTERPRISE           |                      |
|-----------------------------------------------------------------|----------------------|----------------------|
|                                                                 | ELECTRIC             |                      |
|                                                                 | 2005                 | 2004                 |
| Utility plant:                                                  |                      |                      |
| Property and equipment                                          | \$ 43,739,636        | \$ 42,891,831        |
| Less accumulated depreciation                                   | (23,802,494)         | (22,339,818)         |
|                                                                 | <u>19,937,142</u>    | <u>20,552,013</u>    |
| Construction in progress                                        | 203,789              | 207,227              |
| Utility Plant - Net                                             | <u>20,140,931</u>    | <u>20,759,240</u>    |
| Restricted funds                                                |                      |                      |
| Cash and cash equivalents                                       | 472,127              | 469,794              |
| Temporary cash investments                                      | 636,395              | 671,282              |
|                                                                 | <u>1,108,522</u>     | <u>1,141,076</u>     |
| Current Assets:                                                 |                      |                      |
| Cash and cash equivalents                                       | 474,374              | 770,262              |
| Accounts receivable (net of allowance for<br>doubtful accounts) | 399,129              | 340,740              |
| Unbilled usage                                                  | 110,885              | 102,319              |
| Accounts receivable -interfund                                  | 528,937              | 400,315              |
| Investments                                                     | 2,935,000            | 2,835,000            |
| Inventory                                                       | 382,814              | 435,061              |
| Prepaid insurance                                               | 18,191               | 21,325               |
| Accrued Interest receivable                                     | 53,254               | 18,434               |
| Accrued interest receivable - interfund loan                    | 644,412              | 472,412              |
|                                                                 | <u>5,546,996</u>     | <u>5,395,868</u>     |
| Other assets:                                                   |                      |                      |
| Interfund loan receivable                                       | 3,440,000            | 3,440,000            |
| Economic development loans receivable                           | 317,500              | 175,000              |
|                                                                 | <u>3,757,500</u>     | <u>3,615,000</u>     |
| Total assets                                                    | <u>\$ 30,553,949</u> | <u>\$ 30,911,184</u> |

| FUNDS        |              |                |              |               |               |
|--------------|--------------|----------------|--------------|---------------|---------------|
| WATER        |              | COMMUNICATIONS |              | TOTAL         |               |
| 2005         | 2004         | 2005           | 2004         | 2005          | 2004          |
| \$ 4,664,325 | \$ 4,391,448 | \$ 4,907,256   | \$ 4,801,392 | \$ 53,311,217 | \$ 52,084,671 |
| (2,492,776)  | (2,396,104)  | (804,033)      | (501,048)    | (27,099,303)  | (25,236,970)  |
| 2,171,549    | 1,995,344    | 4,103,223      | 4,300,344    | 26,211,914    | 26,847,701    |
| -            | 161,150      | 151,554        | -            | 355,343       | 368,377       |
| 2,171,549    | 2,156,494    | 4,254,777      | 4,300,344    | 26,567,257    | 27,216,078    |
| -            | -            | -              | -            | 472,127       | 469,794       |
| 2,074        | 1,404        | 14,854         | 8,705        | 653,323       | 681,391       |
| 2,074        | 1,404        | 14,854         | 8,705        | 1,125,450     | 1,151,185     |
| 43,450       | 24,250       | 1,434,532      | -            | 1,952,356     | 794,512       |
| 39,106       | 28,086       | 206,730        | 164,389      | 644,965       | 533,215       |
| 22,993       | 15,171       | -              | -            | 133,878       | 117,490       |
| -            | -            | -              | -            | 528,937       | 400,315       |
| 90,000       | 190,000      | -              | -            | 3,025,000     | 3,025,000     |
| 43,552       | 49,715       | 13,821         | 8,137        | 440,187       | 492,913       |
| 6,064        | 4,774        | 14,797         | 5,488        | 39,052        | 31,587        |
| 3,272        | 1,062        | -              | -            | 56,526        | 19,496        |
| -            | -            | -              | -            | 644,412       | 472,412       |
| 248,437      | 313,058      | 1,669,880      | 178,014      | 7,465,313     | 5,886,940     |
| -            | -            | -              | -            | 317,500       | 175,000       |
| -            | -            | -              | -            | 3,757,500     | 3,615,000     |
| \$ 2,422,060 | \$ 2,470,956 | \$ 5,939,511   | \$ 4,487,063 | \$ 38,915,520 | \$ 37,869,203 |

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

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

|                                                 | ENTERPRISE           |                      |
|-------------------------------------------------|----------------------|----------------------|
|                                                 | ELECTRIC             |                      |
|                                                 | 2005                 | 2004                 |
| Liabilities:                                    |                      |                      |
| Current liabilities:                            |                      |                      |
| Accounts payable                                | \$ 1,172,544         | \$ 162,267           |
| Accounts payable - City of Algona               | 150,875              | 96,179               |
| Accounts payable - interfund                    | -                    | -                    |
| Checks in excess of bank balance                | -                    | -                    |
| Retainage and contracts payable                 | -                    | 65,972               |
| Accrued taxes                                   | 128,024              | 117,641              |
| Accrued wages and compensated absences          | 108,523              | 92,304               |
| Accrued interest payable                        | 111,833              | 119,235              |
| Deferred revenue                                | -                    | -                    |
| Revenue bonds payable                           | 335,000              | 315,000              |
|                                                 | <u>2,006,799</u>     | <u>968,598</u>       |
| Noncurrent liabilities                          |                      |                      |
| Revenue bonds payable - net of current portion  | 4,050,000            | 4,385,000            |
| Interfund loan - payable                        | -                    | -                    |
|                                                 | <u>4,050,000</u>     | <u>4,385,000</u>     |
| Other liabilities                               |                      |                      |
| Deferred compensation liability                 | 161,395              | 196,282              |
|                                                 | <u>161,395</u>       | <u>196,282</u>       |
| Total liabilities                               | <u>6,218,194</u>     | <u>5,549,880</u>     |
| Fund Net Assets                                 |                      |                      |
| Invested in capital assets, net of related debt | 16,203,058           | 16,504,034           |
| Restricted - Bond Covenant                      | 500,000              | 500,000              |
| Unrestricted (deficit)                          | 7,632,697            | 8,357,270            |
| Total Net Assets                                | <u>\$ 24,335,755</u> | <u>\$ 25,361,304</u> |

See Notes to Financial Statements

| FUNDS               |                     |                     |                    |                      |                      |
|---------------------|---------------------|---------------------|--------------------|----------------------|----------------------|
| WATER               |                     | COMMUNICATIONS      |                    | TOTAL                |                      |
| 2005                | 2004                | 2005                | 2004               | 2005                 | 2004                 |
| \$ 2,028            | \$ 18,511           | \$ 154,092          | \$ 28,474          | \$ 1,328,664         | \$ 209,252           |
| -                   | (5,273)             | -                   | 72,875             | 150,875              | 163,781              |
| -                   | -                   | 528,937             | 400,315            | 528,937              | 400,315              |
| 19,690              | 50,003              | -                   | 20,863             | 19,690               | 70,866               |
| 3,529               | 4,512               | -                   | -                  | 3,529                | 70,484               |
| 1,978               | 1,500               | 66,545              | 1,058              | 196,547              | 120,199              |
| 32,098              | 28,422              | 35,863              | 31,440             | 176,484              | 152,166              |
| -                   | -                   | 644,412             | 472,412            | 756,245              | 591,647              |
| -                   | -                   | 130,455             | 109,500            | 130,455              | 109,500              |
| -                   | -                   | 137,665             | -                  | 472,665              | 315,000              |
| <u>59,323</u>       | <u>97,675</u>       | <u>1,697,969</u>    | <u>1,136,937</u>   | <u>3,764,091</u>     | <u>2,203,210</u>     |
| -                   | -                   | 1,520,438           | -                  | 5,570,438            | 4,385,000            |
| -                   | -                   | 3,440,000           | 3,440,000          | 3,440,000            | 3,440,000            |
| -                   | -                   | 4,960,438           | 3,440,000          | 9,010,438            | 7,825,000            |
| <u>2,074</u>        | <u>1,404</u>        | <u>14,854</u>       | <u>8,705</u>       | <u>178,323</u>       | <u>206,391</u>       |
| <u>61,397</u>       | <u>99,079</u>       | <u>6,673,261</u>    | <u>4,585,642</u>   | <u>12,952,852</u>    | <u>10,234,601</u>    |
| 2,171,549           | 2,156,494           | 814,777             | 860,344            | 19,189,384           | 19,520,872           |
| -                   | -                   | -                   | -                  | 500,000              | 500,000              |
| 189,114             | 215,383             | (1,548,527)         | (958,923)          | 6,273,284            | 7,613,730            |
| <u>\$ 2,360,663</u> | <u>\$ 2,371,877</u> | <u>\$ (733,750)</u> | <u>\$ (98,579)</u> | <u>\$ 25,962,668</u> | <u>\$ 27,634,602</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   |      |
| 2005       | 2004 |

|                                           |              |             |
|-------------------------------------------|--------------|-------------|
| Operating revenues:                       |              |             |
| Sale of electricity:                      |              |             |
| Residential and commercial                | \$ 5,202,549 | \$4,878,853 |
| Capacity                                  | -            | 60,000      |
| Neal 4                                    | 1,041,948    | 500,843     |
| Service provided to City of Algona        | 71,325       | 72,110      |
| Sales to other utilities                  | 87,667       | 83,955      |
| Sale of water                             | -            | -           |
| Cable TV fees                             | -            | -           |
| Internet fees                             | -            | -           |
| Telephone Service                         | -            | -           |
| Merchandising                             | 19,784       | 13,986      |
| Miscellaneous                             | 146,673      | 148,920     |
| Total operating revenue                   | 6,569,946    | 5,758,667   |
| Operating expenses                        |              |             |
| Generation and power purchased            | 4,134,246    | 2,729,192   |
| Transmission-distribution maintenance     | 459,575      | 353,398     |
| Meter reading supplies and labor          | 152,685      | 146,129     |
| Sales                                     | 54,673       | 60,979      |
| General and other                         | 568,202      | 507,777     |
| Administration and general                | 279,614      | 258,274     |
| Rebates and other expenses                | 40,565       | 37,399      |
| Merchandise, jobbing and construction     | 6,421        | -           |
| Property tax and insurance                | 195,389      | 122,075     |
| Depreciation                              | 1,520,173    | 1,512,465   |
| Sales and use tax                         | -            | -           |
| Source of supply                          | -            | -           |
| Maintenance of mains, services and meters | -            | -           |
| Maintenance of distribution and equipment | -            | -           |
| Headend programming                       | -            | -           |
| Customer accounts                         | -            | -           |
| Total operating expenses                  | 7,411,543    | 5,727,688   |
| Income (loss) from operations             | \$ (841,597) | \$ 30,979   |

See Notes to Financial Statements

| FUNDS          |                |                  |                  |                   |                  |
|----------------|----------------|------------------|------------------|-------------------|------------------|
| WATER          |                | COMMUNICATIONS   |                  | TOTAL             |                  |
| 2005           | 2004           | 2005             | 2004             | 2005              | 2004             |
| \$ -           | \$ -           | \$ -             | \$ -             | \$ 5,202,549      | \$ 4,878,853     |
| -              | -              | -                | -                | -                 | 60,000           |
| -              | -              | -                | -                | 1,041,948         | 500,843          |
| -              | -              | -                | -                | 71,325            | 72,110           |
| -              | -              | -                | -                | 87,667            | 83,955           |
| 584,869        | 450,937        | -                | -                | 584,869           | 450,937          |
| -              | -              | 735,363          | 599,659          | 735,363           | 599,659          |
| -              | -              | 527,695          | 487,800          | 527,695           | 487,800          |
| -              | -              | 751,670          | 457,578          | 751,670           | 457,578          |
| 19,354         | 12,737         | -                | -                | 39,138            | 26,723           |
| -              | -              | 12,707           | 14,705           | 159,380           | 163,625          |
| <u>604,223</u> | <u>463,674</u> | <u>2,027,435</u> | <u>1,559,742</u> | <u>9,201,604</u>  | <u>7,782,083</u> |
| -              | -              | -                | -                | 4,134,246         | 2,729,192        |
| -              | -              | -                | -                | 459,575           | 353,398          |
| -              | -              | -                | -                | 152,685           | 146,129          |
| -              | -              | -                | -                | 54,673            | 60,979           |
| -              | -              | -                | -                | 568,202           | 507,777          |
| 181,301        | 174,826        | 464,739          | 456,084          | 925,654           | 889,184          |
| -              | -              | -                | -                | 40,565            | 37,399           |
| 4,784          | 4,256          | 104,381          | 88,931           | 115,586           | 93,187           |
| -              | -              | 120,593          | 44,529           | 315,982           | 166,604          |
| 96,672         | 88,235         | 302,985          | 274,234          | 1,919,830         | 1,874,934        |
| -              | -              | 4,962            | 3,628            | 4,962             | 3,628            |
| 154,953        | 159,389        | -                | -                | 154,953           | 159,389          |
| 130,648        | 116,362        | -                | -                | 130,648           | 116,362          |
| -              | -              | 107,677          | 264,000          | 107,677           | 264,000          |
| -              | -              | 1,213,641        | 947,614          | 1,213,641         | 947,614          |
| 43,605         | 46,400         | 65,671           | 69,108           | 109,276           | 115,508          |
| <u>611,963</u> | <u>589,468</u> | <u>2,384,649</u> | <u>2,148,128</u> | <u>10,408,155</u> | <u>8,465,284</u> |
| \$ (7,740)     | \$ (125,794)   | \$ (357,214)     | \$ (588,386)     | \$(1,206,551)     | \$ (683,201)     |

**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             |                      |
|                                              | 2005                 | 2004                 |
| Non-operating income (expense) and transfers |                      |                      |
| Interest income                              | \$ 325,396           | \$ 326,471           |
| Interest expense                             | (223,666)            | (238,470)            |
| Miscellaneous                                | 66,533               | 98,080               |
| Donations                                    | (22,000)             | (23,233)             |
| Transfers to City - in lieu of property tax  | (330,215)            | (281,568)            |
| Gain (Loss) on disposition of assets         | -                    | (15,990)             |
| Total other income (expense)                 | <u>(183,952)</u>     | <u>(134,710)</u>     |
| (Loss) before transfers                      | (1,025,549)          | (103,731)            |
| Transfers in (out)                           | <u>-</u>             | <u>(2,100,000)</u>   |
| Change in Net Assets                         | (1,025,549)          | (2,203,731)          |
| Total net assets, beginning                  | <u>25,361,304</u>    | <u>27,565,035</u>    |
| Total net assets, ending                     | <u>\$ 24,335,755</u> | <u>\$ 25,361,304</u> |

| FUNDS               |                     |                     |                    |                      |                      |
|---------------------|---------------------|---------------------|--------------------|----------------------|----------------------|
| WATER               |                     | COMMUNICATIONS      |                    | TOTAL                |                      |
| 2005                | 2004                | 2005                | 2004               | 2005                 | 2004                 |
| \$ 3,269            | \$ 4,997            | \$ -                | \$ -               | \$ 328,665           | \$ 331,468           |
| -                   | -                   | (190,959)           | (254,576)          | (414,625)            | (493,046)            |
| 23,003              | 18,775              | 4,258               | 8,179              | 93,794               | 125,034              |
| -                   | -                   | -                   | -                  | (22,000)             | (23,233)             |
| (29,746)            | (27,643)            | (91,256)            | (75,519)           | (451,217)            | (384,730)            |
| -                   | (845)               | -                   | (1,867)            | -                    | (18,702)             |
| <u>(3,474)</u>      | <u>(4,716)</u>      | <u>(277,957)</u>    | <u>(323,783)</u>   | <u>(465,383)</u>     | <u>(463,209)</u>     |
| (11,214)            | (130,510)           | (635,171)           | (912,169)          | (1,671,934)          | (1,146,410)          |
| -                   | -                   | -                   | 2,100,000          | -                    | -                    |
| (11,214)            | (130,510)           | (635,171)           | 1,187,831          | (1,671,934)          | (1,146,410)          |
| <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>    |
| <u>\$ 2,360,663</u> | <u>\$ 2,371,877</u> | <u>\$ (733,750)</u> | <u>\$ (98,579)</u> | <u>\$ 25,962,668</u> | <u>\$ 27,634,602</u> |

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

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

|                                                          | <u>ENTERPRISE</u>  |                    |
|----------------------------------------------------------|--------------------|--------------------|
|                                                          | <u>ELECTRIC</u>    |                    |
|                                                          | <u>2005</u>        | <u>2004</u>        |
| Cash flows from operating activities:                    |                    |                    |
| Cash receipts from customers                             | \$ 6,488,984       | \$ 5,623,295       |
| Cash receipts from interfund services                    | -                  | 48,653             |
| Other operating cash receipts                            | 18,051             | 20,298             |
| <br>                                                     |                    |                    |
| Cash payments to suppliers                               | (4,214,207)        | (3,492,432)        |
| Cash payments to employees                               | (783,541)          | (851,013)          |
|                                                          | <u>1,509,287</u>   | <u>1,348,801</u>   |
| <br>                                                     |                    |                    |
| Cash flows from noncapital financing activities          |                    |                    |
| Transfer to the City of Algona in-lieu of property tax   | (275,519)          | (281,568)          |
| Donations                                                | (22,000)           | (23,233)           |
|                                                          | <u>(297,519)</u>   | <u>(304,801)</u>   |
| <br>                                                     |                    |                    |
| Cash flows from capital and related financing activities |                    |                    |
| Deferred compensation payments                           | (53,511)           | (50,217)           |
| Deferred compensation deposits                           | 88,398             | 21,015             |
| Acquisition and construction of capital assets           | (971,638)          | (742,360)          |
| Repayment of revenue bonds                               | (315,000)          | (300,000)          |
| Proceeds from bond issuances                             | -                  | -                  |
| Interest expense                                         | (231,068)          | (238,470)          |
|                                                          | <u>(1,482,819)</u> | <u>(1,310,032)</u> |
| <br>                                                     |                    |                    |
| Cash flows from investing activities:                    |                    |                    |
| Interest received                                        | 118,576            | 62,852             |
| Advances received(made) interfund loan                   | -                  | (540,000)          |
| Principal received on economic development loan          | -                  | 10,000             |
| Proceeds from redemption of investments                  | 5,000,000          | 2,690,000          |
| Purchase of investments                                  | (5,207,613)        | (1,760,798)        |
| Miscellaneous income                                     | 66,533             | 98,080             |
|                                                          | <u>66,533</u>      | <u>98,080</u>      |
| <br>                                                     |                    |                    |
| Net cash provided by investing activities                | \$ (22,504)        | \$ 560,134         |

| FUNDS      |            |                |              |              |              |
|------------|------------|----------------|--------------|--------------|--------------|
| WATER      |            | COMMUNICATIONS |              | TOTAL        |              |
| 2005       | 2004       | 2005           | 2004         | 2005         | 2004         |
| \$ 585,381 | \$ 459,896 | \$ 1,993,342   | \$ 1,465,465 | \$ 9,067,707 | \$ 7,548,656 |
| -          | 652        | -              | 7,800        | -            | 57,105       |
| -          | -          | 12,707         | 14,705       | 30,758       | 35,003       |
| (286,876)  | (331,351)  | (1,404,324)    | (1,541,042)  | (5,905,407)  | (5,364,825)  |
| (266,184)  | (102,026)  | (477,580)      | (275,062)    | (1,527,305)  | (1,228,101)  |
| 32,321     | 27,171     | 124,145        | (328,134)    | 1,665,753    | 1,047,838    |
| (24,473)   | (27,643)   | (75,597)       | (75,519)     | (375,589)    | (384,730)    |
| -          | -          | -              | -            | (22,000)     | (23,233)     |
| (24,473)   | (27,643)   | (75,597)       | (75,519)     | (397,589)    | (407,963)    |
| -          | -          | -              | -            | (53,511)     | (50,217)     |
| 670        | 673        | 6,149          | 4,822        | 95,217       | 26,510       |
| (112,710)  | (284,347)  | (257,418)      | (235,137)    | (1,341,766)  | (1,261,844)  |
| -          | -          | (91,897)       | -            | (406,897)    | (300,000)    |
| -          | -          | 1,750,000      | 540,000      | 1,750,000    | 540,000      |
| -          | -          | (18,959)       | -            | (250,027)    | (238,470)    |
| (112,040)  | (283,674)  | 1,387,875      | 309,685      | (206,984)    | (1,284,021)  |
| 1,059      | \$ 4,243   | -              | -            | 119,635      | 67,095       |
| -          | -          | -              | -            | -            | (540,000)    |
| -          | -          | -              | -            | -            | 10,000       |
| 120,000    | 259,327    | -              | -            | 5,120,000    | 2,949,327    |
| (20,670)   | (110,000)  | (6,149)        | (4,822)      | (5,234,432)  | (1,875,620)  |
| 23,003     | 18,775     | 4,258          | 8,179        | 93,794       | 125,034      |
| \$ 123,392 | \$ 172,345 | \$ (1,891)     | \$ 3,357     | \$ 98,997    | \$ 735,836   |

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

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

|                                                                                                | ENTERPRISE          |                     |
|------------------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                                | ELECTRIC            |                     |
|                                                                                                | 2005                | 2004                |
| Net increase (decrease) in cash and cash equivalents                                           | \$ (293,555)        | \$ 294,102          |
| Cash and cash equivalents-beginning of year                                                    | 1,240,056           | 945,954             |
| Cash and cash equivalents-end of year                                                          | <u>946,501</u>      | <u>1,240,056</u>    |
| Restricted funds                                                                               | 472,127             | 469,794             |
| Current assets                                                                                 | <u>474,374</u>      | <u>770,262</u>      |
|                                                                                                | <u>946,501</u>      | <u>1,240,056</u>    |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: |                     |                     |
| Income (Loss) from operations                                                                  | (841,597)           | 30,979              |
| Adjustments to reconcile operating income to Net cash provided by operating activities:        |                     |                     |
| Depreciation                                                                                   | 1,520,173           | 1,512,465           |
| Change in accounts receivable                                                                  | (58,389)            | 57,150              |
| Change in unbilled usage                                                                       | (8,566)             | 5,051               |
| Change in accounts receivable - interfund                                                      | (128,622)           | (128,622)           |
| Change in prepaid expenses                                                                     | 3,134               | (21,325)            |
| Change in inventory                                                                            | 52,247              | 14,351              |
| Change in accounts payable and retainages payable                                              | 944,305             | (82,732)            |
| Change in checks in excess of bank balance                                                     | -                   | -                   |
| Change in accrued taxes                                                                        | 10,383              | (7,249)             |
| Change in accrued wages and compensated absences                                               | 16,219              | (24,292)            |
| Change in accrued payroll tax and withholding                                                  | -                   | -                   |
| Change in accrued interest expense                                                             | -                   | (6,975)             |
| Change in deferred revenue                                                                     | -                   | -                   |
|                                                                                                | <u>\$ 1,509,287</u> | <u>\$ 1,348,801</u> |

See Notes to Financial Statements

| FUNDS            |                  |                   |                     |                     |                     |
|------------------|------------------|-------------------|---------------------|---------------------|---------------------|
| WATER            |                  | COMMUNICATIONS    |                     | TOTAL               |                     |
| 2005             | 2004             | 2005              | 2004                | 2005                | 2004                |
| \$ 19,200        | \$ (111,801)     | \$ 1,434,532      | \$ (90,611)         | \$ 91,690           | \$ 91,690           |
| 24,250           | 136,051          | -                 | 90,611              | 1,264,306           | 1,264,306           |
| <u>43,450</u>    | <u>24,250</u>    | <u>1,434,532</u>  | <u>-</u>            | <u>2,424,483</u>    | <u>1,264,306</u>    |
| -                | -                | -                 | -                   | 472,127             | 469,794             |
| <u>43,450</u>    | <u>24,250</u>    | <u>1,434,532</u>  | <u>-</u>            | <u>1,952,356</u>    | <u>794,512</u>      |
| <u>43,450</u>    | <u>24,250</u>    | <u>1,434,532</u>  | <u>-</u>            | <u>2,424,483</u>    | <u>1,264,306</u>    |
| (7,740)          | (125,794)        | (357,214)         | (588,386)           | (1,206,551)         | (683,201)           |
| 96,672           | 88,235           | 302,985           | 274,234             | 1,919,830           | 1,874,934           |
| (11,020)         | (16,281)         | (42,341)          | (96,123)            | (111,750)           | (55,254)            |
| (7,822)          | 13,155           | -                 | -                   | (16,388)            | 18,206              |
| -                | -                | 128,622           | 128,622             | -                   | -                   |
| (1,290)          | (4,774)          | (9,309)           | (5,488)             | (7,465)             | (31,587)            |
| 6,163            | 30,611           | (5,684)           | 24,871              | 52,726              | 69,833              |
| (16,483)         | (7,228)          | 37,084            | (126,056)           | 964,906             | (216,016)           |
| (30,313)         | 50,003           | (20,863)          | 20,863              | (51,176)            | 70,866              |
| 478              | 845              | 65,487            | 565                 | 76,348              | (5,839)             |
| 3,676            | (1,601)          | 4,423             | 14,413              | 24,318              | (11,480)            |
| -                | -                | -                 | -                   | -                   | -                   |
| -                | -                | -                 | -                   | -                   | (6,975)             |
| -                | -                | 20,955            | 24,351              | 20,955              | 24,351              |
| <u>\$ 32,321</u> | <u>\$ 27,171</u> | <u>\$ 124,145</u> | <u>\$ (328,134)</u> | <u>\$ 1,665,753</u> | <u>\$ 1,047,838</u> |

**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.

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

Algona Municipal Utilities reports the following major proprietary funds:

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.

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

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

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.

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. The principle operating revenues of the Algona Municipal Utilities is charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2005, disbursements did not exceed the amounts budgeted.

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

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 cable t.v., internet, telephone, and data services that had not yet been delivered at the end of the year.

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, 2005 and 2004, the Utility's interest in this plant represents a total investment of \$10,481,377 and \$10,031,811 included in property and equipment respectively. Accumulated depreciation associated with the Utility's ownership in this plant totaled \$(8,215,662) and \$(7,884,702) at December 31, 2005 and 2004 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, 2005 and 2004, 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 \$(325,755) and \$(312,679) at December 31, 2005 and 2004 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

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.

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 \$3,500,000 and \$2,500,000 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - CASH AND INVESTMENTS-continued**

The Utility had investments in the Iowa Public Agency Investments Trust at December 31, 2005 and 2004, which are valued at and amortized cost of \$0 and \$1,000,000 respectively pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk – The Utility’s 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 Utility.

Reconciliation of the Utility’s cash and cash equivalents and temporary cash and investments for the years ended December 31, 2005 and 2004 is as follows:

|                                                 | December 31, 2005 |         |                |              |
|-------------------------------------------------|-------------------|---------|----------------|--------------|
|                                                 | Electric          | Water   | Communications | Total        |
|                                                 | Utility           | Utility | Utility        |              |
| Cash and Cash Equivalents                       |                   |         |                |              |
| Restricted                                      | \$ 472,127        | -       | -              | \$ 472,127   |
| Current Assets                                  | 474,374           | 43,450  | 1,434,532      | 1,952,356    |
|                                                 | 946,501           | 43,450  | 1,434,532      | 2,424,483    |
| Investments                                     |                   |         |                |              |
| Restricted                                      | 636,395           | 2,074   | 14,854         | 653,323      |
| Unrestricted                                    | 2,935,000         | 90,000  | -              | 3,025,000    |
|                                                 | 3,566,395         | 92,074  | 14,854         | 3,678,323    |
| Total Cash and Cash Equivalents and Investments | \$ 4,512,896      | 135,524 | 1,449,386      | \$ 6,420,306 |

|                                                 | December 31, 2004 |         |                |              |
|-------------------------------------------------|-------------------|---------|----------------|--------------|
|                                                 | Electric          | Water   | Communications | Total        |
|                                                 | Utility           | Utility | Utility        |              |
| Cash and Cash Equivalents                       |                   |         |                |              |
| Restricted                                      | \$ 469,794        | -       | -              | \$ 469,794   |
| Current Assets                                  | 770,262           | 24,250  | -              | 794,512      |
|                                                 | 1,240,056         | 24,250  | -              | 1,264,306    |
| Investments                                     |                   |         |                |              |
| Restricted                                      | 671,282           | 1,404   | 8,705          | 681,391      |
| Unrestricted                                    | 2,835,000         | 190,000 | -              | 3,025,000    |
|                                                 | 3,506,282         | 191,404 | 8,705          | 3,705,391    |
| Total Cash and Cash Equivalents and Investments | \$ 4,746,338      | 215,654 | 8,705          | \$ 4,970,697 |

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – BOARD DESIGNATED FUNDS**

The board designates funds for certain purposes from time to time in order to earmark funds for special purposes and not for regular operations. The board-designated funds are included on the balance sheet as current assets and are available given board approval for any and all expenditures incurred by AMU if necessary. The designations as of December 31, 2005 and 2004 are summarized below.

The Board of Trustees of the Utility has designated the following funds:

Transmission Reserve – for future expansion and maintenance of transmission facilities.

Improvement Reserve – for future expansion and maintenance of Utility facilities.

Contingency Reserve – for future contingencies such as a natural disaster.

Medical self-insured Reserve – for paying a portion of employees’ medical claims.

Self-insured Reserve – to cover expenses over and above those covered by AMU’s commercial insurance.

Capacity Reserve – for future expansion of electric capacity.

Economic Loan Fund Reserve – for low interest loans to encourage new business and economic growth in the Algona area.

|                             | December 31, 2005   |                  |                           |                  |
|-----------------------------|---------------------|------------------|---------------------------|------------------|
|                             | Electric<br>Utility | Water<br>Utility | Communications<br>Utility | Total<br>Utility |
| <b>Transmission Reserve</b> |                     |                  |                           |                  |
| Cash and Cash Equivalents   | \$ 160,000          | -                | -                         | \$ 160,000       |
| Investments                 | 2,335,000           | -                | -                         | 2,335,000        |
|                             | <u>2,495,000</u>    | <u>-</u>         | <u>-</u>                  | <u>2,495,000</u> |
| <b>Improvement Reserve</b>  |                     |                  |                           |                  |
| Cash and Cash Equivalents   | 120,000             | 36,250           | -                         | 156,250          |
| Investments                 | -                   | 10,000           | -                         | 10,000           |
|                             | <u>120,000</u>      | <u>46,250</u>    | <u>-</u>                  | <u>166,250</u>   |
| <b>Medical Self-Insured</b> |                     |                  |                           |                  |
| Cash and Cash Equivalents   | 31,492              | -                | -                         | 31,492           |
| Investments                 | -                   | -                | -                         | -                |
|                             | <u>31,492</u>       | <u>-</u>         | <u>-</u>                  | <u>31,492</u>    |

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – BOARD DESIGNATED FUNDS - continued**

|                                                        | December 31, 2005 – continued |                  |                           |                     |
|--------------------------------------------------------|-------------------------------|------------------|---------------------------|---------------------|
|                                                        | Electric<br>Utility           | Water<br>Utility | Communications<br>Utility | Total<br>Utility    |
| <b>Self-Insured Reserve</b>                            |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | -                             | 7,200            | -                         | 7,200               |
| Investments                                            | 150,000                       | 80,000           | -                         | 230,000             |
|                                                        | <u>150,000</u>                | <u>87,000</u>    | <u>-</u>                  | <u>237,200</u>      |
| <b>Capacity Reserve</b>                                |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | 107,000                       | -                | -                         | 107,000             |
| Investments                                            | 450,000                       | -                | -                         | 450,000             |
|                                                        | <u>557,000</u>                | <u>-</u>         | <u>-</u>                  | <u>557,000</u>      |
| <b>Economic Development Loan Fund</b>                  |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | 12,500                        | -                | -                         | 12,500              |
| Loans receivable                                       | 317,500                       | -                | -                         | 317,500             |
|                                                        | <u>330,000</u>                | <u>-</u>         | <u>-</u>                  | <u>330,000</u>      |
| <b>Total Unrestricted funds designated by trustees</b> |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | 430,992                       | 43,450           | -                         | 474,442             |
| Investments                                            | 3,252,500                     | 90,000           | -                         | 3,342,500           |
|                                                        | <u>\$ 3,683,492</u>           | <u>133,450</u>   | <u>-</u>                  | <u>\$ 3,816,942</u> |
| <br>                                                   |                               |                  |                           |                     |
|                                                        | December 31, 2004             |                  |                           |                     |
|                                                        | Electric<br>Utility           | Water<br>Utility | Communications<br>Utility | Total<br>Utility    |
| <b>Transmission Reserve</b>                            |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | \$ 260,000                    | -                | -                         | \$ 260,000          |
| Investments                                            | 2,235,000                     | -                | -                         | 2,235,000           |
|                                                        | <u>2,495,000</u>              | <u>-</u>         | <u>-</u>                  | <u>2,495,000</u>    |
| <b>Contingency Reserve</b>                             |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | -                             | -                | -                         | -                   |
| Investments                                            | -                             | 100,000          | -                         | 100,000             |
|                                                        | <u>-</u>                      | <u>100,000</u>   | <u>-</u>                  | <u>100,000</u>      |
| <b>Improvement Reserve</b>                             |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | -                             | 18,250           | -                         | 18,250              |
| Investments                                            | -                             | 10,000           | -                         | 10,000              |
|                                                        | <u>-</u>                      | <u>28,250</u>    | <u>-</u>                  | <u>28,250</u>       |

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – BOARD DESIGNATED FUNDS - continued**

|                                                        | December 31, 2004 – continued |                  |                           |                     |
|--------------------------------------------------------|-------------------------------|------------------|---------------------------|---------------------|
|                                                        | Electric<br>Utility           | Water<br>Utility | Communications<br>Utility | Total<br>Utility    |
| <b>Medical Self-Insured</b>                            |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | 42,303                        | -                | -                         | 42,303              |
| Investments                                            | -                             | -                | -                         | -                   |
|                                                        | 42,303                        | -                | -                         | 42,303              |
| <b>Self-Insured Reserve</b>                            |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | -                             | 6,000            | -                         | 6,000               |
| Investments                                            | 150,000                       | 80,000           | -                         | 230,000             |
|                                                        | 150,000                       | 86,000           | -                         | 236,000             |
| <b>Capacity Reserve</b>                                |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | 107,000                       | -                | -                         | 107,000             |
| Investments                                            | 450,000                       | -                | -                         | 450,000             |
|                                                        | 557,000                       | -                | -                         | 557,000             |
| <b>Economic Development Loan Fund</b>                  |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | 155,000                       | -                | -                         | 155,000             |
| Loans receivable                                       | 175,000                       | -                | -                         | 175,000             |
|                                                        | 330,000                       | -                | -                         | 330,000             |
| <b>Total Unrestricted funds designated by trustees</b> |                               |                  |                           |                     |
| Cash and Cash Equivalents                              | 564,303                       | 24,250           | -                         | 588,553             |
| Investments                                            | 3,010,000                     | 190,000          | -                         | 3,200,000           |
|                                                        | <u>\$ 3,574,303</u>           | <u>214,250</u>   | <u>-</u>                  | <u>\$ 3,788,553</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.

**ALGONA MUNICIPAL UTILITIES  
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**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – INTERFUND LOAN - continued**

The resolution decreased the interest rate on the interfund loan from 5.5% to 5.0%. As of December 31, 2005 and 2004 the outstanding balance on the interfund loan was \$3,440,000.

This interfund loan is reflected on the Electric Department Balance Sheet as an Other Asset. It is reflected on the Communication Department's Balance Sheets as an Other Liability. Accrued interest as of December 31, 2005 and 2004 of \$644,412 and \$472,412 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. To date \$330,000 has been lent to the City of Algona to fund the program. From these funds, money was lent by the City of Algona for various economic development projects. This money is to be repaid by the City of Algona as they receive payments from the various borrowers. As of December 31, 2005 and 2004 the balance due AMU under the program was \$317,500 and \$175,000 respectively.

**NOTE 6 – REVENUE BONDS PAYABLE**

The following is a summary of changes in long-term debt for the year ended December 31, 2005 and 2004.

**Electric Utility:**

|                                        | Bal. 1/1/05  | Issued | Repaid  | Bal. 12/31/05 |
|----------------------------------------|--------------|--------|---------|---------------|
| Business type activities:              |              |        |         |               |
| Revenue Bonds – issued August 24, 2000 | \$ 4,700,000 | -      | 315,000 | \$ 4,385,000  |
| <hr/>                                  |              |        |         |               |
|                                        | Bal. 1/1/04  | Issued | Repaid  | Bal. 12/31/04 |
| Business type activities:              |              |        |         |               |
| Revenue Bonds – issued August 24, 2000 | \$ 5,000,000 | -      | 300,000 | \$ 4,700,000  |

**Communications Utility:**

|                                          | Bal. 1/1/05 | Issued    | Repaid | Bal. 12/31/05 |
|------------------------------------------|-------------|-----------|--------|---------------|
| Business type activities:                |             |           |        |               |
| Revenue Bonds – issued January 12, 2005  | \$ -        | 500,000   | 85,292 | \$ 414,708    |
| Revenue Bonds – issued November 30, 2005 | -           | 750,000   | 3,976  | 746,024       |
| Revenue Bonds – issued December 13, 2005 | -           | 500,000   | 2,629  | 497,371       |
|                                          | \$ -        | 1,750,000 | 91,897 | \$ 1,658,103  |

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 – REVENUE BONDS PAYABLE - continued**

The communication utility had no debt activity in 2004 except for the interfund loan (Note 4).

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

| Year Ending<br>December 31, | Electric<br>Series 2000<br>Interest 4.75-5.35% |                  | Communications<br>Jan 12., 2005<br>Interest 3.74% |               | Communications<br>Nov. 30, 2005<br>Interest 6.0% |                | Communications<br>Dec 13, 2005<br>Interest 5.09% |                | Total            |                    |
|-----------------------------|------------------------------------------------|------------------|---------------------------------------------------|---------------|--------------------------------------------------|----------------|--------------------------------------------------|----------------|------------------|--------------------|
|                             | Principal                                      | Interest         | Principal                                         | Interest      | Principal                                        | Interest       | Principal                                        | Interest       | Principal        | Interest           |
| 2006                        | \$ 335,000                                     | 215,709          | 87,672                                            | 14,176        | 29,073                                           | 43,169         | 20,920                                           | 24,110         | 472,665          | \$ 297,164         |
| 2007                        | 355,000                                        | 199,144          | 99,128                                            | 10,543        | 33,531                                           | 42,687         | 23,961                                           | 23,697         | 511,620          | 276,071            |
| 2008                        | 375,000                                        | 181,347          | 102,900                                           | 6,772         | 35,510                                           | 40,708         | 25,210                                           | 22,449         | 538,620          | 251,276            |
| 2009                        | 395,000                                        | 162,285          | 106,815                                           | 2,857         | 37,850                                           | 38,368         | 26,524                                           | 21,135         | 566,189          | 224,645            |
| 2010                        | 420,000                                        | 141,805          | 18,193                                            | 85            | 610,060                                          | 36,000         | 27,906                                           | 19,753         | 1,076,159        | 197,643            |
| 2011                        | 445,000                                        | 119,853          | -                                                 | -             | -                                                | -              | 29,360                                           | 18,299         | 474,360          | 138,152            |
| 2012                        | 470,000                                        | 96,402           | -                                                 | -             | -                                                | -              | 30,889                                           | 16,770         | 500,889          | 113,172            |
| 2013                        | 500,000                                        | 71,175           | -                                                 | -             | -                                                | -              | 32,499                                           | 15,160         | 532,499          | 86,335             |
| 2014                        | 530,000                                        | 44,005           | -                                                 | -             | -                                                | -              | 34,192                                           | 13,467         | 564,192          | 57,472             |
| 2015                        | 560,000                                        | 14,980           | -                                                 | -             | -                                                | -              | 35,974                                           | 11,685         | 595,974          | 26,665             |
| 2016                        | -                                              | -                | -                                                 | -             | -                                                | -              | 37,848                                           | 9,811          | 37,848           | 9,811              |
| 2017                        | -                                              | -                | -                                                 | -             | -                                                | -              | 39,820                                           | 7,839          | 39,820           | 7,839              |
| 2018                        | -                                              | -                | -                                                 | -             | -                                                | -              | 41,895                                           | 5,764          | 41,895           | 5,764              |
| 2019                        | -                                              | -                | -                                                 | -             | -                                                | -              | 44,078                                           | 3,581          | 44,078           | 3,581              |
| 2020                        | -                                              | -                | -                                                 | -             | -                                                | -              | 46,295                                           | 1,285          | 46,295           | 1,285              |
|                             | <u>\$4,700,000</u>                             | <u>1,246,705</u> | <u>414,708</u>                                    | <u>34,433</u> | <u>746,024</u>                                   | <u>200,932</u> | <u>497,371</u>                                   | <u>214,805</u> | <u>6,043,103</u> | <u>\$1,696,875</u> |

The resolutions providing for the issuance of the Series 2000 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.

**NOTE 7 – INTEREST COSTS**

During the years ended December 31, 2005 and 2004, the interest incurred and expensed by the Electric Fund was \$223,666 and \$238,470 respectively.

During the years ended December 31, 2005 and 2004, the interest incurred by the Communication Fund was \$190,959 and \$254,576 respectively. The Electric Fund recognized interest income of \$172,000 and \$254,576 from the interfund loan during 2005 and 2004.

**ALGONA MUNICIPAL UTILITIES  
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**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 – RESTRICTED FUNDS**

As of December 31, 2005 and 2004 Restricted Funds related to the Electric Department consisted of the following.

|                             | December 31, 2005 |                   |                     |
|-----------------------------|-------------------|-------------------|---------------------|
|                             | Cash and Cash     |                   |                     |
|                             | Equivalents       | Investments       | Total               |
| Bond Sinking Fund           | \$ 447,127        | \$ -              | \$ 447,127          |
| Bond Reserve Fund           | <u>25,000</u>     | <u>475,000</u>    | <u>500,000</u>      |
| Total Restricted Bond Funds | \$ 472,127        | \$ 475,000        | \$ 947,127          |
| <br>                        |                   |                   |                     |
| Deferred Compensation Fund  | <u>-</u>          | <u>161,395</u>    | <u>161,395</u>      |
|                             | <u>\$ 472,127</u> | <u>\$ 636,395</u> | <u>\$ 1,108,522</u> |

|                             | December 31, 2004 |                   |                     |
|-----------------------------|-------------------|-------------------|---------------------|
|                             | Cash and Cash     |                   |                     |
|                             | Equivalents       | Investments       | Total               |
| Bond Sinking Fund           | \$ 444,794        | \$ -              | \$ 444,794          |
| Bond Reserve Fund           | <u>25,000</u>     | <u>475,000</u>    | <u>500,000</u>      |
| Total Restricted Bond Funds | \$ 469,794        | \$ 475,000        | \$ 944,794          |
| <br>                        |                   |                   |                     |
| Deferred Compensation Fund  | <u>-</u>          | <u>196,282</u>    | <u>196,282</u>      |
|                             | <u>\$ 469,794</u> | <u>\$ 696,282</u> | <u>\$ 1,141,076</u> |

The bond funds are restricted as stated in Note 6.

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 \$128,974 and \$154,131 at December 31, 2005 and 2004 respectively. The remaining deferred compensation fund assets are maintained in a 457(b) plan.

The water and communications utilities had restricted funds of \$2,074 and \$14,854 as of December 31, 2005 and \$1,404 and \$8,705 as of December 31, 2004. These funds were all held in the 457(b) deferred compensation plan offered AMU employees.

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

**NOTES TO FINANCIAL STATEMENTS**

**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, 2005, 2004 and 2003 were \$86,969, \$81,896 and \$81,794 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, 2005 and 2004, 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.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 – 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, 2005 and 2004 is as follows:

| Type of Benefit    | Electric  | Water  | Communication | Total     |
|--------------------|-----------|--------|---------------|-----------|
| December 31, 2005  |           |        |               |           |
| Vacation           | \$ 44,346 | 10,691 | 17,243        | \$ 72,280 |
| December 31, 2004: |           |        |               |           |
| Vacation           | \$ 39,100 | 9,766  | 17,098        | \$ 65,964 |

**NOTE 14 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2005 and 2004 was as follows:

December 31, 2005:

| Proprietary Activities                       | Balance<br>Beginning<br>of Year | Increases | Decreases | Balance<br>End<br>of Year |
|----------------------------------------------|---------------------------------|-----------|-----------|---------------------------|
| Capital Assets not being depreciated:        |                                 |           |           |                           |
| Land                                         | \$ 412,301                      | -         |           | \$ 412,301                |
| Construction in progress                     | 368,377                         | 363,018   | 376,052   | 355,343                   |
|                                              | \$ 780,678                      | 363,018   | 376,052   | \$ 767,644                |
| Capital Assets being depreciated:            |                                 |           |           |                           |
| Buildings and improvements                   | \$ 2,445,509                    | 55,944    | -         | \$ 2,501,453              |
| Equipment and vehicles                       | 2,554,792                       | 108,353   | 57,497    | 2,605,648                 |
| Infrastructure                               | 46,672,069                      | 1,189,414 | 69,668    | 47,791,815                |
| Total capital assets being depreciated       | 51,672,370                      | 1,357,797 | 127,165   | 52,898,916                |
| Less accumulated depreciation for:           |                                 |           |           |                           |
| Buildings and improvements                   | 425,704                         | 59,943    | -         | 485,647                   |
| Equipment and vehicles                       | 1,435,130                       | 211,593   | 57,497    | 1,589,226                 |
| Infrastructure, road network                 | 23,376,136                      | 1,648,294 | -         | 25,024,430                |
| Total accumulated depreciation               | 25,236,970                      | 1,919,830 | 57,497    | 27,099,303                |
| Total capital assets being depreciated, net  | 26,435,400                      |           |           | 25,799,613                |
| Business type activities capital assets, net | \$ 27,216,078                   |           |           | \$ 26,567,257             |

**ALGONA MUNICIPAL UTILITIES  
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**NOTES TO FINANCIAL STATEMENTS**

**NOTE 14 – CAPITAL ASSETS - continued**

December 31, 2004:

**Proprietary Activities**

Capital Assets not being depreciated:

|                          | Balance<br>Beginning<br>of Year | Increases      | Decreases      | Balance<br>End<br>of Year |
|--------------------------|---------------------------------|----------------|----------------|---------------------------|
| 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> |
|--|-------------------|--|--|-------------------|

Business type activities capital assets, net

|  |                      |  |  |                      |
|--|----------------------|--|--|----------------------|
|  | <u>\$ 27,847,870</u> |  |  | <u>\$ 27,216,078</u> |
|--|----------------------|--|--|----------------------|

Depreciation expense was charged to the following functions:

| Proprietary activities: | December 31, 2005   | December 31, 2004   |
|-------------------------|---------------------|---------------------|
| Utilities               | <u>\$ 1,919,830</u> | <u>\$ 1,874,934</u> |

**NOTE 15 – DEFICIT FUND BALANCE**

The Communications Fund has a deficit balance of \$733,750 and \$98,579 as of December 31, 2005 and 2004 respectively.

**NOTE 16 – INTERFUND TRANSFERS**

No interfund transfers were made during the year ended December 31, 2005. For the year ended December 31, 2004, interfund transfers were as detailed below.

| Transferred from: | Transferred to:     | Amount              |
|-------------------|---------------------|---------------------|
| Electric Fund     | Communications Fund | <u>\$ 2,100,000</u> |

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 17 – JOINT LEASE AGREEMENT**

Algona Municipal Utilities constructed a distribution system to facilitate the implementation of the data services offered to area residents and businesses. Portions of this system and the office facilities maintained by the Electric utility are leased under a forty-year operating lease, requiring annual payments of \$128,622. At December 31, 2005 and 2004, \$257,244 and \$128,622 in lease payments due under this agreement were included in accounts payable. The future minimum lease payments are as follows:

| Year Ending<br>December 31, | Payments     |
|-----------------------------|--------------|
| 2006                        | \$ 128,622   |
| 2007                        | 128,622      |
| 2008                        | 128,622      |
| 2009                        | 128,622      |
| 2010                        | 128,622      |
| 2011-2015                   | 643,110      |
| 2016-2020                   | 643,110      |
| 2021-2025                   | 643,110      |
| 2026-2030                   | 643,110      |
| 2031-2035                   | 643,110      |
| 2036-2040                   | 643,110      |
| 2041-2043                   | 385,866      |
| Total                       | \$ 4,887,636 |

## **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, 2005

|                           | Proprietary<br>Funds<br>Actual | <u>Budgeted Amounts</u><br>Original | Final<br>to Net<br>Variance |
|---------------------------|--------------------------------|-------------------------------------|-----------------------------|
|                           | Receipts:                      |                                     |                             |
| Charges for service       | \$ 9,098,465                   | 9,998,000                           | (899,535)                   |
| Interest earnings         | 119,635                        | -                                   | 119,635                     |
| Miscellaneous             | 1,843,794                      | 201,500                             | 1,642,294                   |
|                           | <u>11,061,894</u>              | <u>10,199,500</u>                   | <u>862,394</u>              |
| Disbursements:            |                                |                                     |                             |
| Program                   |                                |                                     |                             |
| Business type activities  | 9,787,285                      | 10,365,800                          | 578,515                     |
|                           | <u>9,787,285</u>               | <u>10,365,800</u>                   | <u>578,515</u>              |
| Net (loss)                | 1,274,609                      | (166,300)                           | 1,440,909                   |
| Balance beginning of year | <u>5,145,697</u>               | <u>7,748,745</u>                    | -                           |
| Balance end of year       | <u><u>\$ 6,420,306</u></u>     | <u><u>7,582,445</u></u>             | <u><u>(1,162,139)</u></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<br>Statements      | Adjustments                | Budget                     |
|------------------|------------------------------|----------------------------|----------------------------|
| Revenues         | \$ 9,624,063                 | \$ 1,437,831               | \$ 11,061,894              |
| Disbursements    | <u>(11,295,997)</u>          | <u>1,508,712</u>           | <u>(9,787,285)</u>         |
| Net income(Loss) | <u><u>\$ (1,671,934)</u></u> | <u><u>\$ 2,946,543</u></u> | <u><u>\$ 1,274,609</u></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, 2005

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.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. 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>2005</u>                  | <u>2004</u>                 | <u>2003</u>                 |
|------------------------------------------------------|------------------------------|-----------------------------|-----------------------------|
| Sale of electricity:                                 |                              |                             |                             |
| Sales to consumers                                   | \$ 5,202,549                 | \$ 4,878,853                | \$ 4,998,738                |
| Sales to other utilities                             | 158,992                      | 156,065                     | 180,099                     |
| Sales for resale                                     | <u>1,041,948</u>             | <u>560,843</u>              | <u>661,209</u>              |
| Total electricity sales                              | <u><u>6,403,489</u></u>      | <u><u>5,595,761</u></u>     | <u><u>5,840,046</u></u>     |
| Kilowatt hours:                                      |                              |                             |                             |
| Wind generation                                      | 5,397,000                    | 5,615,400                   | 5,054,708                   |
| Generated                                            | 112,310,030                  | 126,640,440                 | 111,388,560                 |
| Purchases                                            | <u>20,044,000</u>            | <u>3,798,000</u>            | <u>17,039,160</u>           |
| Energy available                                     | 137,751,030                  | 136,053,840                 | 133,482,428                 |
| Station power/transmission loss                      | <u>1,333,790</u>             | <u>1,313,460</u>            | <u>897,530</u>              |
| Available for sale                                   | 136,417,240                  | 134,740,380                 | 132,584,898                 |
| Billed to consumers                                  | 98,446,687                   | 90,798,264                  | 92,420,813                  |
| Sales to other utilities                             | 3,209,611                    | 2,887,794                   | 3,162,897                   |
| Sales for resale                                     | 31,638,000                   | 36,070,000                  | 33,329                      |
| Distribution loss                                    | 3,122,942                    | 4,984,322                   | 3,672,188                   |
| Distribution loss percent                            | 2.29%                        | 5.05%                       | 3.70%                       |
| Revenue billed per KWH to consumers                  | 0.0528                       | 0.0537                      | 0.0541                      |
| Peak hour demand in KW                               | 21,960                       | 20,400                      | 22,200                      |
| Services provided to the City                        |                              |                             |                             |
| Street lighting:                                     |                              |                             |                             |
| Energy                                               | 61,112                       | 55,628                      | 70,607                      |
| Operation and Maintenance                            | <u>10,213</u>                | <u>16,482</u>               | <u>18,636</u>               |
|                                                      | 71,325                       | 72,110                      | 89,243                      |
| Energy for Public Buildings, Parks<br>and Other uses | <u>87,667</u>                | <u>83,955</u>               | <u>90,856</u>               |
|                                                      | <u><u>158,992</u></u>        | <u><u>156,065</u></u>       | <u><u>180,099</u></u>       |
| Year to date KWH sales                               |                              |                             |                             |
| Residential                                          | 31,206,879                   | 28,796,142                  | 29,367,476                  |
| Commercial                                           | 67,614,142                   | 62,002,122                  | 63,053,337                  |
| Area Lighting                                        | 1,452,389                    | 1,308,394                   | 1,534,942                   |
| City                                                 | <u>1,382,888</u>             | <u>1,920,622</u>            | <u>1,627,955</u>            |
| Total number of KWH sales                            | <u><u>\$ 101,656,298</u></u> | <u><u>\$ 94,027,280</u></u> | <u><u>\$ 95,583,710</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>2005</u>       | <u>2004</u>       | <u>2003</u>       |
|---------------------------------------------------------|-------------------|-------------------|-------------------|
| Total Revenue billed                                    | <u>\$ 584,869</u> | <u>\$ 450,937</u> | <u>\$ 499,357</u> |
| Cubic Foot                                              |                   |                   |                   |
| Pumped                                                  | 39,391,507        | 39,978,040        | 39,122,667        |
| Billed                                                  | 33,345,719        | 33,628,795        | 37,913,128        |
| City of Algona                                          | 958,672           | 1,720,317         | 1,752,072         |
| System loss                                             | 5,087,116         | 4,628,928         | 361,807           |
| Percent loss                                            | 12.91%            | 11.58%            | 0.92%             |
| Revenue billed per cubic foot                           | 0.0175            | 0.0134            | 0.0132            |
| Peak day-cubic footage pumped                           | 174,960           | 171,773           | 197,893           |
| Services provided to City                               |                   |                   |                   |
| Water for parks, disposal plant and<br>public buildings | 13,056            | 15,010            | 15,108            |
| Public fire protection                                  | 17,700            | 12,318            | 12,306            |
|                                                         | <u>\$ 30,756</u>  | <u>\$ 27,328</u>  | <u>\$ 27,414</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,**

|                                      | <u>2005</u>             | <u>2004</u>             | <u>2003</u>            |
|--------------------------------------|-------------------------|-------------------------|------------------------|
| Operating revenue:                   |                         |                         |                        |
| Cable TV                             | \$ 735,363              | \$ 599,659              | \$ 514,898             |
| Internet                             | 527,695                 | 487,800                 | 423,338                |
| Telephone                            | 751,670                 | 457,578                 | 13,781                 |
| Miscellaneous                        | <u>12,707</u>           | <u>14,705</u>           | <u>11,079</u>          |
| Total operating revenue              | <u><u>2,027,435</u></u> | <u><u>1,559,742</u></u> | <u><u>963,096</u></u>  |
| Customers                            |                         |                         |                        |
| Cable TV                             | 1,802                   | 1,713                   | 1,572                  |
| Internet                             | 1,305                   | 1,150                   | 1,038                  |
| Telephone                            | 1,384                   | 1,096                   | 610                    |
| Average monthly revenue per customer |                         |                         |                        |
| Cable TV                             | 34.01                   | 29.17                   | 27.30                  |
| Internet                             | 33.70                   | 35.35                   | 33.99                  |
| Telephone                            | 45.26                   | 34.79                   | 22.59                  |
| Services Provided to City            |                         |                         |                        |
| Cable TV                             | 1,118                   | 923                     | 587                    |
| Internet                             | 3,486                   | 3,576                   | 3,045                  |
| Telephone                            | <u>530</u>              | <u>381</u>              | <u>149</u>             |
|                                      | <u><u>\$ 5,134</u></u>  | <u><u>\$ 4,880</u></u>  | <u><u>\$ 3,781</u></u> |

Unaudited - See Accompanying Independent Auditor's Report

# **T.P. ANDERSON & COMPANY P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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HUMBOLDT, IOWA 50548

515-332-3466

## **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, 2005, and have issued our report thereon dated April 19, 2006. 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.

### 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an 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*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's 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 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. 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.

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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be 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.*

April 19, 2006

**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:**

No matters were noted.

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

**SCHEDULE OF FINDINGS**

**Part III: Other Findings Related to Statutory Reporting:**

III-A-05     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, 2005.

III-B-05     Certified Budget - Disbursements during the year ended December 31, 2005 were within the budgeted limits. We noted that the disbursements on the budget certified summary exceeded the total disbursements published with the notice for the public hearing

Recommendation - Chapter 384 of the Code of Iowa sets forth the process for setting the Utilities budget. Prior to increasing budgeted disbursements, proper public notice needs to be published in accordance with Code Section 384 of the Code of Iowa.

Response - Prior to increasing budgeted disbursements in the future, we will follow the proper process as set out in the Code of Iowa.

Conclusion - Response accepted.

III-C-05     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-05     Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employee’s were noted.

III-E-05     Business Transactions – Business transactions between the Utilities and Utility officials or employees are detailed as follows:

| <u>Name, Title, and<br/>Business Connection</u>       | <u>Transaction Description</u> | <u>Amount</u> |
|-------------------------------------------------------|--------------------------------|---------------|
| Audrey Rindone, wife<br>of Brien Rindone, Comptroller | Contracted Cleaner             | \$ 6,600      |
| Allen Bonde, Trustee<br>Owner at Al’s Repair          | Minor Repair work              | \$ 314        |

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.

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

**SCHEDULE OF FINDINGS**

**Part III: Other Findings Related to Statutory Reporting: continued**

- III-F-05     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-05     Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.
- III-H-05     Revenue Bonds – No violations of revenue bond resolution requirements were noted.
- III-I-05     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-05     Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.
- III-K-05     Financial Condition – The Communication fund had a deficit fund balance of \$733,750 at December 31, 2005.

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.