

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

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

YEARS ENDED DECEMBER 31, 2006 AND 2005

ATLANTIC MUNICIPAL UTILITIES

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ATLANTIC MUNICIPAL UTILITIES
Officials
December 31, 2006

Trustees

Frank W. Greiner, Chairperson

Term Expires

April, 2009

Keith C. Stork, Vice-Chairperson

April, 2009

Sharon L. Winchell

April, 2011

Bernard L. Elming

April, 2011

Lawrence E. Turner

April, 2007

Management Personnel

General Manager

Allen J. Bonderman

Comptroller

Steve J. Tjepkes

Director of Water Operations

Jon H. Martens

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited the accompanying statements of net assets of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of December 31, 2006 and 2005, and the related statements of income, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Municipal Utilities (Electric Department and Water Department) as of December 31, 2006 and 2005, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 26, 2007 on our consideration of Atlantic Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Trustees
Atlantic Municipal Utilities

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

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The other supplementary information (shown on pages 31 through 41) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronewold Bell, Kuhn + Co. P.C.
Atlantic, Iowa
February 26, 2007



Atlantic Municipal Utilities

Management's Discussion and Analysis Audited Financial Statements Years Ended December 31, 2006 and 2005

This section of the Utilities' annual Financial Statements presents an analysis of AMU's overall financial performance during the calendar year ended December 31, 2006. This information is presented in conjunction with the audited basic financial statements, which follow this section. AMU is responsible for operation of two distinct utilities, electric and water, referred to in the audit report as "departments". This discussion and analysis not only points out the highlights of each department, but also reports and discusses highlights in combined form.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2006

AMU's combined net assets increased by \$778,504, or 3.46%, from \$22.52 million to \$23.30 million. The Electric Utility's net assets increased by \$622,038, or 3.28%, from \$18.94 million to \$19.56 million. The Water Utility's net assets increased by \$156,637, or 4.38%, from \$3.58 million to \$3.74 million.

Combined operating revenues decreased by \$575,005, or -6.87%. Electric operating revenues decreased by \$535,252, or -7.29%, from \$7.34 million to \$6.81 million. Water operating revenues decreased by \$39,753, or -3.88%, from \$1.023 million to \$983,860.

Long-term debt (see Table 1) of the two departments was reduced by \$778,504, with the Electric Department debt being reduced by \$605,000, and the Water Department debt reduced by \$173,504.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The *Statements of Income* provide information about each Department's revenues and expenses. This report

measures the success of the Department's operations. It can be used to determine whether or not the Department has successfully recovered all its costs through its rates, fees and other forms of revenues. It also provides a measure of the Utility's profitability and creditworthiness. Details of each Department's revenues and expenses are included in the "Other Supplementary Information" section of the report.

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

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

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

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

FINANCIAL ANALYSIS OF THE UTILITY

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

| (In thousands of dollars) | Electric Utility | | | | Water Utility | | | | Combined | | | |
|---|--------------------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|------------------|----------------|
| | 2006 | 2005 | Dollar Change | Percent Change | 2006 | 2005 | Dollar Change | Percent Change | 2006 | 2005 | Dollar Change | Percent Change |
| | Current and Other Assets | 6,810.4 | 8,340.0 | (1,529.6) | -18.34% | 1,341.0 | 1,500.0 | (159.0) | 10.60% | 8,151.4 | 9,840.0 | (1,688.6) |
| Capital Assets | 15,300.8 | 14,112.2 | 1,188.6 | 8.42% | 4,343.7 | 4,185.5 | 158.2 | 3.78% | 19,644.5 | 18,297.7 | 1,346.8 | 7.36% |
| Total Assets | 22,111.2 | 22,452.2 | (341.0) | -1.52% | 5,684.7 | 5,685.5 | (0.8) | -0.01% | 27,795.9 | 28,137.7 | (341.8) | -1.22% |
| Long-Term Debt | 1,295.0 | 1,900.0 | (605.0) | -31.84% | 1,517.0 | 1,690.5 | (173.5) | -10.05% | 2,812.0 | 3,590.5 | (778.5) | -21.68% |
| Other Liabilities | 1,251.3 | 1,609.7 | (358.4) | -22.27% | 431.6 | 415.6 | 16.0 | 3.86% | 1,682.9 | 2,025.3 | (342.4) | -16.91% |
| Total Liabilities | 2,546.3 | 3,509.7 | (963.4) | -27.45% | 1,948.6 | 2,106.1 | (157.5) | -7.48% | 4,494.9 | 5,615.8 | (1,120.9) | -19.96% |
| Total Net Assets | 19,564.9 | 18,942.5 | 622.4 | 3.28% | 3,736.1 | 3,579.4 | 156.7 | 4.38% | 23,301.0 | 22,521.9 | 779.1 | 3.46% |
| Total Liabilities & Net Assets | 22,111.2 | 22,452.2 | (341.0) | -1.52% | 5,684.7 | 5,685.5 | (0.8) | -0.01% | 27,795.9 | 28,137.7 | (341.8) | -1.22% |

Electric Utility

A total of \$2,233,409 was invested in new capital assets, but after accounting for depreciation, there was only an increase of \$1,188,542 in Capital Assets. Capital additions included additions at Council Bluffs Unit No. 3, new equipment, and routine additions to distribution facilities. AMU continues to focus on replacement of aging rural electric lines. All capital asset additions were funded from cash on hand.

Special Purpose Funds, Current and Other Assets decreased by \$1,529,950, or -18.34%, as cash was utilized for operating expenses, debt reduction, and the aforementioned capital additions. Total Assets decreased from \$22.45 million to \$22.11 million, or -1.52%.

Total long-term debt of the Electric Department was reduced from \$1,900,000 to \$1,295,000, a total of \$605,000. Current and Other Liabilities decreased from \$1,609,739 to \$1,251,293, a change of \$358,446, or -22.27%. This change was mostly attributable to decreases in Accounts Payable, which was high at the close of the prior year, because of costs related to generation maintenance and improvements.

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

Operating Revenue for the Electric Department decreased by \$535,252, or 7.29%, for several reasons. Energy sales to retail customers were lower, due primarily to more typical summer (2005 was one of the warmest summers on record). Wholesale sales to other utilities decreased dramatically, due to an extended planned maintenance outage at Council Bluffs Unit 3, which meant less surplus energy available to sell.

Operating Expenses for the Electric Utility increased, from \$5,928,214 the prior year, to \$6,055,825 in 2006. Most of the increased expenses were related to having to purchase energy during the aforementioned maintenance outage at Council Bluffs Unit 3. Labor, insurance, fuel and other costs continue to add to the overall expense of operating the utility

Net Income decreased from \$1,434,840 to \$896,602, a decrease of \$538,238. Virtually all of this change in net income was related to increased costs, and reduced revenues, related to the CB3 maintenance outage.

Net Assets of the electric utility increased by \$622,038 to \$19.565 million. Equity transfers to the City of Atlantic totaled \$274,564, an increase of \$40,747.

Water Utility

A total of \$384,628 was invested in new capital assets. After accounting for depreciation, there was an increase of \$158,247 in Capital Assets. Capital additions consisted of new water mains, and water meter replacements. All capital asset additions, other than those related to contributions in aid of construction, were funded from cash on hand.

Special Purpose Funds, Current and Other Assets and Deferred Costs decreased by \$159,072, to \$1,340,977, due to use of cash invested in new assets. Total Assets decreased very slightly (\$825) from \$5.6855 million to \$5.6847 million, or -0.01%.

Total long-term debt of the Water Department was reduced from \$1,690,487 to \$1,516,983, a total of \$173,504. Current and Other Liabilities increased from \$415,552 to \$431,594, a change of \$16,042, or 3.86%.

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

Operating Revenue for the Water Department decreased (7.29%) from 2005, with revenues totaling \$983,860 in 2006, as compared to \$1,023,613 in 2005. Sales of water declined by approximately 15.3 million gallons (5.41%), presumably due to weather and precipitation being more normal.

Net Income for the year decreased from \$100,045 in 2005, to \$35,826 in 2006. The change was due to lower sales revenues, as well as increases in expenses.

Net Assets of the water utility increased by \$156,637 to \$3.74 million (Note: Includes Contributions In Aid Of Construction, and amortizations of said contributions). Equity transfers to the City of Atlantic totaled \$72,437.

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

| (In thousands of dollars) | Electric Utility | | | | Water Utility | | | | Combined | | | |
|--------------------------------|--------------------|----------------|----------------|----------------|---------------|--------------|---------------|----------------|----------------|----------------|----------------|----------------|
| | 2006 | 2005 | Dollar Change | Percent Change | 2006 | 2005 | Dollar Change | Percent Change | 2006 | 2005 | Dollar Change | Percent Change |
| | Operating Revenues | 6,806.6 | 7,341.9 | (535.3) | -7.29% | 983.8 | 1,023.6 | (39.8) | -3.88% | 7,790.4 | 8,365.5 | (575.1) |
| Other Income (Deductions) | 145.8 | 21.2 | 124.6 | 588.19% | (36.8) | (51.0) | 14.2 | -27.86% | 109.0 | (29.8) | 138.8 | -465.3% |
| Total Operating Income | 6,952.4 | 7,363.1 | (410.7) | -5.58% | 947.0 | 972.6 | (25.6) | -2.63% | 7,899.4 | 8,335.7 | (436.3) | -5.23% |
| Depreciation | 1,041.3 | 1,033.7 | 7.6 | 0.74% | 222.9 | 230.3 | (7.4) | -3.20% | 1,264.2 | 1,264.0 | 0.2 | 0.02% |
| Other Operating Expenses | 5,014.5 | 4,894.6 | 119.9 | 2.45% | 688.3 | 642.2 | 46.1 | 7.17% | 5,702.8 | 5,536.8 | 166.0 | 3.00% |
| Total Operating Expense | 6,055.8 | 5,928.3 | 127.5 | 2.15% | 911.2 | 872.5 | 38.7 | 4.43% | 6,967.0 | 6,800.8 | 166.2 | 2.45% |
| Net Income | 896.6 | 1,434.8 | (538.2) | -37.51% | 35.8 | 100.1 | (64.3) | -64.19% | 932.4 | 1,534.9 | (602.5) | -39.25% |
| Net Assets | | | | | | | | | | | | |
| Beginning Balance | 18,942.9 | 17,741.9 | | | 3,579.5 | 3,547.1 | | | 22,522.4 | 21,289.0 | 1,233.4 | 5.79% |
| Net income | 896.6 | 1,434.8 | (538.2) | -37.51% | 35.8 | 100.1 | (64.3) | -64.19% | 932.4 | 1,534.9 | (602.5) | -39.25% |
| Less: Distribution to the City | 274.6 | 233.8 | 40.8 | 17.43% | 72.4 | 76.2 | (3.8) | -4.92% | 347.0 | 310.0 | 37.0 | 11.94% |
| Plus: *Adjustments | | | | | 193.2 | 8.5 | 184.7 | | 193.2 | 8.5 | 184.7 | |
| Ending Balance | 19,564.9 | 18,942.9 | 622.0 | 3.28% | 3,736.1 | 3,579.5 | 156.6 | 4.38% | 23,301.0 | 22,522.4 | 778.6 | 3.46% |

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

OUTLOOK FOR THE FUTURE

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

Projected Revenues from operations for the electric department appear to be adequate to meet budgeted and forecast expenditures for 2007, so no increase in rates is planned for the coming year, with the exception of an adjustment to the Industrial rate, which may take place before the end of 2007. AMU's analysis of costs related to providing service to this rate class indicates that some upward adjustment is required.

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

Costs for both coal and rail transportation continue to increase, and are expected to continue to increase consistently throughout the foreseeable future. A number of capital improvements are needed at the Council Bluffs Unit No. 3, due to age of the facilities, as well as changes in environmental requirements. Operating expenses at CB3 are also projected to increase, due not only to inflation, but also costs related to pollution control expenses and the disposal of waste products such as fly ash, boiler slag, and in the future, mercury.

Western Area Power Administration has continued to experience the worst drought conditions in the history of the federal hydropower system, and continue to increase rates. 2006 marked the second double-digit increase in WAPA rates in the past three years, and WAPA has notified customers of the need to increase rates by approximately 25% beginning in 2008. A mechanism is being proposed which will allow WAPA to recover drought-related debt over a period of ten years, rather than in a permanent increase in the base rates.

Fuel costs for local generation have remained fairly stable, but at fairly high levels which make this resource very expensive to use.

On the positive side, AMU's power supply mix remains a low-cost set of resources. Despite the dramatic increases in rates, Federal hydropower remains a relatively low-cost option. CB3 continues to be one of the cheapest power supply sources in the region. Local generation, required primarily to meet reliability requirements established by the MidContinent Area Power Pool (MAPP), is used only sparingly, yet provides a hedge against volatile pricing of energy and/or transmission.

During 2006, a company called CassCo Amazing Energy made public their plans to construct a new ethanol production facility in AMU's service area. This facility, which will go into production in the fall of 2008, will produce 100 million gallons of ethanol per year, and will become AMU's largest customer. A short 69 KV transmission line and new substation will be added, to provide service for the new load. AMU has applied for network service transmission, and is making arrangements for power supply, to serve not only the ethanol facility, but to provide energy for other load growth in our service area.

AMU continues to have a great deal of success in promoting the use of high efficiency electric heat pumps, as well as electric space and water heating. Rebates of \$34,320 during 2006 brought the total number of heat pumps installed to 206, with a total of 667 tons of compressors, since the program's inception in 2001. The program has also resulted in the installation of 198 electric water heaters, and some 265 installations of electric space heating, totaling over 2,366 kilowatts of load. Annual revenues resulting from the program are currently estimated to be about \$82,000.

A number of major capital expenditures are currently in progress. Major environmental equipment is being added to CB Unit 3, a 3.5 year project begun in late 2006. AMU's share of capital additions during 2007 and 2008 will total almost \$5.6 million. Here in Atlantic, AMU is retiring some obsolete facilities, including portions of our power plant building which were constructed between 1890 and 1940. Two boilers and steam turbines are being removed, as well as plumbing, pumps and electrical equipment. A new metal building shell will be constructed over the existing floor space. A new cooling tower for the existing diesel generator was also included in the project. Significant quantities of asbestos materials were identified for abatement, which added a great deal of expense. Contracts for this project totaled over \$1.5 million.

Although details have not been completely worked out, costs to extend service to the Amaizing Energy facility are estimated to be between \$2 and 2.5 million.

The Board intends to issue up to \$8 million worth of electric revenue bonds, to finance the majority of the cost of the aforementioned projects, and will utilize a portion of AMU's cash reserves for the remainder. Debt service will be structured to minimize the impact on electric rates, but until plans for the financing are finalized, it is uncertain whether increases in rates will be required.

Generally, the financial position of the electric utility is excellent. Income has been and will be maintained at levels adequate to meet the cash requirements of the utility. Reserves exist to provide for emergency and other unanticipated needs.

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

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

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

Distribution system infrastructure is very important, as the utility attempts to provide adequate fire protection in the community. The utility intends to systematically replace deteriorating small mains, a few blocks every few years, using cash flow as opposed to issuing debt for these routine replacements, until existing water system debt is retired and a larger project undertaken.

Sales of water are expected to remain fairly flat in the next several years, as far as the existing user base is concerned. There is a possibility that the Amaizing Energy ethanol facility may utilize AMU to meet some, but not all, of its water needs. A new large water user would have a positive impact on the water utility margins.

Financial needs for the water utility are projected using the same financial model mentioned earlier in this narrative. A 6.00% rate increase went into effect with billings issued on or after January 1, 2007, due to increasing operating and maintenance expenses.

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

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

Contacting Financial Management

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

Allen J. Bonderman
General Manager

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

ASSETS

| | <u>2006</u> | <u>2005</u> |
|---|----------------------|----------------------|
| Utility Plant : | | |
| Depreciable capital assets | \$ 12,950,303 | \$ 12,996,501 |
| Non-depreciable capital assets | <u>2,350,450</u> | <u>1,115,710</u> |
| Total utility plant | 15,300,753 | 14,112,211 |
| Special Purpose Funds: | | |
| Revenue bond funds | 1,266,138 | 1,253,338 |
| Board designated funds | <u>2,213,728</u> | <u>2,215,499</u> |
| Total special purpose funds | 3,479,866 | 3,468,837 |
| Current Assets: | | |
| Cash | 690,117 | 503,750 |
| Operating and capital reserves | 1,153,348 | 2,986,585 |
| Receivables, less allowance for doubtful accounts (\$32,000 in 2006, \$25,000 in 2005) | 318,946 | 401,776 |
| Inventory | 608,194 | 434,586 |
| Prepaid expenses | <u>57,692</u> | <u>37,161</u> |
| Total current assets | 2,828,297 | 4,363,858 |
| Other Assets: | | |
| Note receivable | 495,855 | 495,855 |
| Deferred costs | <u>6,437</u> | <u>11,855</u> |
| Total other assets | <u>502,292</u> | <u>507,710</u> |
| | <u>\$ 22,111,208</u> | <u>\$ 22,452,616</u> |

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

| | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| Long-Term Debt, less current maturities | \$ 1,295,000 | \$ 1,900,000 |
| Current Liabilities: | | |
| Current maturities of long-term debt | 605,000 | 580,000 |
| Accounts payable | 220,077 | 648,571 |
| Accrued employee compensation | 109,546 | 104,872 |
| Accrued property taxes | 126,000 | 116,000 |
| Other accrued taxes | 10,108 | 11,840 |
| Accrued interest | 19,206 | 25,006 |
| Accrued payroll taxes and withholdings | 20,899 | 19,765 |
| Total current liabilities | <u>1,110,836</u> | <u>1,506,054</u> |
| Other Liabilities: | | |
| Consumer deposits | 62,457 | 22,685 |
| Reserve for employees' retirement | 78,000 | 81,000 |
| Total other liabilities | <u>140,457</u> | <u>103,685</u> |
| Total liabilities | 2,546,293 | 3,509,739 |
| Net Assets: | | |
| Restricted - expendable | 1,266,138 | 1,253,338 |
| Invested in capital assets net of related debt | 13,400,753 | 11,632,211 |
| Unrestricted | 4,898,024 | 6,057,328 |
| Total net assets | <u>19,564,915</u> | <u>18,942,877</u> |
| | <u>\$ 22,111,208</u> | <u>\$ 22,452,616</u> |

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

| | <u>2006</u> | <u>2005</u> |
|----------------------------------|-------------------|---------------------|
| Operating Revenue: | | |
| Retail electricity sales | \$ 4,891,632 | \$ 5,018,923 |
| Services provided to the City | 275,577 | 282,321 |
| Sales to other utilities | <u>1,561,195</u> | <u>1,965,856</u> |
| Total sale of electricity | 6,728,404 | 7,267,100 |
| Other operating revenue | <u>78,210</u> | <u>74,766</u> |
| Total operating revenue | 6,806,614 | 7,341,866 |
| Operating Expenses: | | |
| Electric production | 1,841,375 | 2,142,133 |
| Purchased power | 1,195,995 | 758,728 |
| Transmission | 420,408 | 388,763 |
| Distribution | 494,193 | 558,377 |
| Administrative and accounting | 1,062,562 | 1,046,534 |
| Provision for depreciation | <u>1,041,292</u> | <u>1,033,679</u> |
| Total operating expenses | <u>6,055,825</u> | <u>5,928,214</u> |
| Income from Operations | 750,789 | 1,413,652 |
| Other Income and (Deductions): | | |
| Income from investments | 240,614 | 142,979 |
| Interest on revenue bonds | (82,625) | (105,575) |
| Loss on disposal of equipment | (3,575) | (8,269) |
| Other interest expense | (3,183) | (1,010) |
| Amortization of bond issue costs | <u>(5,418)</u> | <u>(6,937)</u> |
| Other income (deductions), net | <u>145,813</u> | <u>21,188</u> |
| Net Income | <u>\$ 896,602</u> | <u>\$ 1,434,840</u> |

The accompanying notes are an integral part of these statements.

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

| | 2006 | 2005 |
|--------------------------|----------------------|----------------------|
| Balance, Beginning | \$ 18,942,877 | \$ 17,741,854 |
| Net Income | 896,602 | 1,434,840 |
| Distribution to the City | <u>(274,564)</u> | <u>(233,817)</u> |
| Balance, Ending | <u>\$ 19,564,915</u> | <u>\$ 18,942,877</u> |

The accompanying notes are an integral part of these statements.

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

| | <u>2006</u> | <u>2005</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from consumers | \$ 6,518,750 | \$ 6,920,587 |
| Cash paid to suppliers | (4,581,845) | (3,647,694) |
| Cash paid to employees | (918,542) | (875,947) |
| Other operating revenue | <u>77,253</u> | <u>73,328</u> |
| Net cash provided by operating activities | 1,095,616 | 2,470,274 |
| Cash flows from noncapital financing activities: | | |
| Consumer deposits, net | 39,772 | 1,770 |
| Interest paid | <u>(3,183)</u> | <u>(1,010)</u> |
| Net cash provided by noncapital financing activities | 36,589 | 760 |
| Cash flows from capital and related financing activities: | | |
| Principal payments | (580,000) | (555,000) |
| Interest paid on revenue bonds | (88,425) | (111,125) |
| Capital expenditures | <u>(2,340,235)</u> | <u>(981,741)</u> |
| Net cash used in capital and related financing activities | (3,008,660) | (1,647,866) |
| Cash flows from investing activities: | | |
| Special purpose fund investments | | |
| Acquisitions | (548,449) | (429,128) |
| Proceeds | 520,370 | 444,990 |
| Operating and capital reserves | | |
| Acquisitions | (1,194,946) | (2,850,588) |
| Proceeds | 3,028,183 | 1,817,362 |
| Income from investments | <u>240,614</u> | <u>142,979</u> |
| Net cash provided by (used in) investing activities | <u>2,045,772</u> | <u>(874,385)</u> |
| Net increase (decrease) in cash | 169,317 | (51,217) |
| Cash at beginning of year | <u>1,015,489</u> | <u>1,066,706</u> |
| Cash at end of year | <u>\$ 1,184,806</u> | <u>\$ 1,015,489</u> |

(continued next page)

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

| | 2006 | 2005 |
|--|--------------|--------------|
| Reconciliation of cash to the statements of net assets: | | |
| Cash in current assets | \$ 690,117 | \$ 503,750 |
| Cash in special purpose funds | 494,689 | 511,739 |
| Total cash | \$ 1,184,806 | \$ 1,015,489 |
| Reconciliation of income from operations to net cash provided by operating activities: | | |
| Income from operations | \$ 750,789 | \$ 1,413,652 |
| Adjustments to reconcile income from operations to net cash provided by operating activities | | |
| Depreciation | 1,041,292 | 1,033,679 |
| Materials returned to stock | -- | 527 |
| Uncollectible accounts | 17,864 | 11,926 |
| Reserve for employees' retirement | (3,000) | (2,000) |
| Distribution to City | (274,564) | (233,817) |
| Change in assets and liabilities | | |
| Receivables | 64,966 | (65,630) |
| Inventory | (173,608) | (21,209) |
| Prepaid expenses | (20,531) | (320) |
| Accounts payable | (321,668) | 339,469 |
| Accrued employee compensation | 4,674 | (12,128) |
| Accrued property taxes | 10,000 | (9,000) |
| Other accrued taxes | (1,732) | 4,226 |
| Accrued payroll taxes and withholdings | 1,134 | 10,899 |
| Total adjustments | 344,827 | 1,056,622 |
| Net cash provided by operating activities | \$ 1,095,616 | \$ 2,470,274 |

The accompanying notes are an integral part of these statements.

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

ASSETS

| | 2006 | 2005 |
|---|---------------------|---------------------|
| Utility Plant: | | |
| Depreciable capital assets | \$ 4,217,899 | \$ 3,971,295 |
| Non-depreciable capital assets | 125,818 | 214,175 |
| Total utility plant | 4,343,717 | 4,185,470 |
| Special Purpose Funds: | | |
| Revenue bond funds | 750,000 | 750,000 |
| Board designated funds | 201,633 | 203,673 |
| Memorial fund | 3,664 | 3,636 |
| Total special purpose funds | 955,297 | 957,309 |
| Current Assets: | | |
| Cash | 146,596 | 299,419 |
| Receivables, less allowance for doubtful accounts (\$7,000 in 2006, \$6,000 in 2005) | 138,911 | 146,322 |
| Materials and supplies inventory | 82,039 | 75,200 |
| Prepaid expenses | 7,614 | 7,926 |
| Total current assets | 375,160 | 528,867 |
| Deferred Costs | 10,520 | 13,873 |
| | <u>\$ 5,684,694</u> | <u>\$ 5,685,519</u> |

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

| | 2006 | 2005 |
|--|--------------|--------------|
| Long-Term Debt, less current maturities and deferred refunding costs | \$ 1,516,983 | \$ 1,690,487 |
| Current Liabilities: | | |
| Current maturities of long-term debt | 173,504 | 168,289 |
| Accounts payable: | | |
| Trade | 15,419 | 12,953 |
| City sewer | 144,602 | 143,147 |
| Accrued employee compensation | 42,483 | 39,911 |
| Other accrued taxes | 2,784 | 3,137 |
| Accrued interest | 4,725 | 5,363 |
| Accrued payroll taxes and withholdings | 5,282 | 5,057 |
| Total current liabilities | 388,799 | 377,857 |
| Other Liabilities: | | |
| Consumer deposits | 13,795 | 11,695 |
| Reserve for employees' retirement | 29,000 | 26,000 |
| Total other liabilities | 42,795 | 37,695 |
| Total liabilities | 1,948,577 | 2,106,039 |
| Net Assets: | | |
| Contributions in aid of construction | 840,191 | 661,455 |
| Restricted - expendable | 753,664 | 753,636 |
| Invested in capital assets, net of related debt | 2,653,230 | 2,326,694 |
| Unrestricted | (510,968) | (162,305) |
| Total net assets | 3,736,117 | 3,579,480 |
| | \$ 5,684,694 | \$ 5,685,519 |

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

| | 2006 | 2005 |
|----------------------------------|------------|------------|
| Operating Revenue: | | |
| Sale of water: | | |
| Residential | \$ 572,944 | \$ 598,292 |
| Commercial | 325,744 | 334,780 |
| Services provided to the City | 73,462 | 76,797 |
| Total sale of water | 972,150 | 1,009,869 |
| Other operating revenue | 11,710 | 13,744 |
| Total operating revenue | 983,860 | 1,023,613 |
| Operating Expenses: | | |
| Source of supply | 44,505 | 31,455 |
| Pumping | 41,572 | 35,431 |
| Water treatment | 100,002 | 96,315 |
| Distribution | 193,216 | 182,869 |
| Administrative and accounting | 309,001 | 296,172 |
| Provision for depreciation | 222,926 | 230,298 |
| Total operating expenses | 911,222 | 872,540 |
| Income from Operations | 72,638 | 151,073 |
| Other Income and (Deductions): | | |
| Income from investments | 35,424 | 25,965 |
| Interest on revenue bonds | (65,428) | (72,795) |
| Other interest expense | -- | (448) |
| Amortization of bond issue costs | (3,353) | (3,750) |
| Loss on disposal of equipment | (3,455) | -- |
| Other income (deductions), net | (36,812) | (51,028) |
| Net Income | \$ 35,826 | \$ 100,045 |

The accompanying notes are an integral part of these statements.

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

| | 2006 | 2005 |
|--------------------------------------|---------------------|---------------------|
| Balance, Beginning | \$ 3,579,480 | \$ 3,547,073 |
| Net Income | 35,826 | 100,045 |
| Contributions in Aid of Construction | 193,248 | 8,545 |
| Distribution to the City | <u>(72,437)</u> | <u>(76,183)</u> |
| Balance, Ending | <u>\$ 3,736,117</u> | <u>\$ 3,579,480</u> |

The accompanying notes are an integral part of these statements.

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

| | 2006 | 2005 |
|---|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Cash received from consumers | \$ 902,629 | \$ 921,385 |
| Cash paid to suppliers | (327,397) | (282,962) |
| Cash paid to employees | (352,999) | (348,031) |
| Other operating revenue | <u>11,143</u> | <u>13,051</u> |
| Net cash provided by operating activities | 233,376 | 303,443 |
| Cash flows from noncapital financing activities: | | |
| Consumer deposits, net | 2,100 | 560 |
| Interest paid | <u>--</u> | <u>(448)</u> |
| Net cash provided by noncapital financing activities | 2,100 | 112 |
| Cash flows from capital and related financing activities: | | |
| Principal payments | (170,000) | (160,000) |
| Interest paid on revenue bonds | (64,355) | (71,474) |
| Capital expenditures | (384,628) | (126,796) |
| Contributions in aid of construction | <u>193,248</u> | <u>8,545</u> |
| Net cash used in capital and related financing activities | (425,735) | (349,725) |
| Cash flows from investing activities: | | |
| Special purpose fund investments: | | |
| Acquisitions | (520,239) | (223,527) |
| Proceeds | 519,132 | 362,402 |
| Temporary investments: | | |
| Acquisitions | -- | (135,000) |
| Proceeds | -- | 199,460 |
| Income from investments | <u>35,424</u> | <u>25,965</u> |
| Net cash provided by investing activities | <u>34,317</u> | <u>229,300</u> |
| Net increase (decrease) in cash | (155,942) | 183,130 |
| Cash at beginning of year | <u>505,931</u> | <u>322,801</u> |
| Cash at end of year | <u>\$ 349,989</u> | <u>\$ 505,931</u> |
| Reconciliation of cash to the statements of net assets: | | |
| Cash in current assets | \$ 146,596 | \$ 299,419 |
| Cash in special purpose funds | <u>203,393</u> | <u>206,512</u> |
| Total cash | <u>\$ 349,989</u> | <u>\$ 505,931</u> |

(continued next page)

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

| | 2006 | 2005 |
|--|------------|------------|
| Reconciliation of income from operations to net cash provided by operating activities: | | |
| Income from operations | \$ 72,638 | \$ 151,073 |
| Adjustments to reconcile income from operations to net cash provided by operating activities | | |
| Depreciation | 222,926 | 230,298 |
| Uncollectible accounts | 4,037 | 3,415 |
| Reserve for employees' retirement | 3,000 | 2,000 |
| Distribution to City | (72,437) | (76,183) |
| Change in assets and liabilities | | |
| Receivables | 3,374 | (12,380) |
| Materials and supplies inventory | (6,839) | (3,536) |
| Prepaid expenses | 312 | (284) |
| Accounts payable: | | |
| Trade | 2,466 | (12,798) |
| City sewer | 1,455 | 19,391 |
| Accrued employee compensation | 2,572 | (589) |
| Accrued payroll taxes and withholdings | 225 | 2,387 |
| Other accrued taxes | (353) | 649 |
| Total adjustments | 160,738 | 152,370 |
| Net cash provided by operating activities | \$ 233,376 | \$ 303,443 |

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

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

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

2. Measurement Focus and Basis of Accounting

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses for the Utilities include the cost of sales and services, administrative expense and depreciation on capital assets.

3. Use of Estimates

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

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

4. Utility Plant and Depreciation

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

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

5. Accounts Receivable and Revenue Recognition

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

6. Inventory Valuation

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

7. Investments

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

8. Deferred Costs

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

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

9. Purpose of Special Funds

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

10. Compensated Absences

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

11. Property Taxes

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

12. Cash Equivalents

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

13. Debt Costs During Periods of Construction

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

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

14. Net Assets

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

NOTE B - TRANSACTIONS WITH CITY OF ATLANTIC, IOWA

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

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

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

| <u>Electric Department</u> | <u>2006</u> | <u>2005</u> |
|---|-----------------|------------------|
| Fees for Services Provided to City | \$ 275,577 | \$ 282,321 |
| Payment From and Part of Distribution to City | <u>274,563</u> | <u>233,817</u> |
| Franchise Requirement | <u>\$ 1,014</u> | <u>\$ 48,504</u> |

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

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

| <u>Water Department</u> | <u>2006</u> | <u>2005</u> |
|--|-------------------|-------------------|
| Fees for Services Provided to City | \$ 73,462 | \$ 76,797 |
| Payment From and Distribution to City | <u>72,437</u> | <u>76,183</u> |
| Franchise Requirement | <u>\$ 1,025</u> | <u>\$ 614</u> |
| Sewer Fees Collected for City | <u>\$ 683,820</u> | <u>\$ 653,052</u> |
| Charge to City for Sewer Billing Service | <u>\$ 2,680</u> | <u>\$ 2,674</u> |
| Account Payable to City | <u>\$ 144,602</u> | <u>\$ 143,147</u> |

NOTE C - SPECIAL PURPOSE FUNDS

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

| <u>Electric Department</u> | <u>2006</u> | <u>2005</u> |
|---|---------------------|---------------------|
| Restricted by Bond Resolution for: | | |
| Payment of principal and interest | \$ 966,138 | \$ 953,338 |
| Capital improvements | <u>300,000</u> | <u>300,000</u> |
| Total restricted | <u>\$ 1,266,138</u> | <u>\$ 1,253,338</u> |
| Board Designated for: | | |
| Unforeseen disasters | \$ 350,000 | \$ 350,000 |
| Production plant repairs and capital expenditures | 1,000,000 | 1,000,000 |
| Atlantic power plant retirement | 500,000 | 500,000 |
| Equipment replacement | 150,000 | 150,000 |
| Employee retirement | 151,321 | 150,424 |
| Funding of bond requirements | <u>62,407</u> | <u>65,075</u> |
| Total board designated | <u>\$ 2,213,728</u> | <u>\$ 2,215,499</u> |

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

NOTE C - SPECIAL PURPOSE FUNDS - Continued

Water Department

| | 2006 | 2005 |
|---|------------|------------|
| Restricted by Bond Resolution for: | | |
| Payment of principal and interest | \$ 250,000 | \$ 250,000 |
| Capital improvements | 500,000 | 500,000 |
| Bond funds | 750,000 | 750,000 |
| Restricted by donor for well field improvements | 3,664 | 3,636 |
| Total restricted | \$ 753,664 | \$ 753,636 |
| Board Designated for: | | |
| System improvements | \$ 135,000 | \$ 135,000 |
| Employee retirement | 40,000 | 40,000 |
| Funding of bond requirements | 26,633 | 28,673 |
| Total board designated | \$ 201,633 | \$ 203,673 |

During the year ended December 31, 2006 and 2005, no restricted funds were expended.

NOTE D - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2006 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

The Utilities are authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

NOTE D - DEPOSITS AND INVESTMENTS - Continued

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

| | 2006 | 2005 |
|---------------------------------|--------------|--------------|
| Invested Funds: | | |
| U.S. Treasury Securities | \$ 1,049,999 | \$ 1,913,726 |
| Government Agencies | 3,057,375 | 3,980,114 |
| Other Interest Bearing Accounts | 494,689 | 511,739 |
| Interest Receivable | 31,151 | 49,843 |
| Total Investments | \$ 4,633,214 | \$ 6,455,422 |
| Special Purpose Funds: | | |
| Restricted | \$ 1,266,138 | \$ 1,253,338 |
| Board Designated | 2,213,728 | 2,215,499 |
| Total Special Purpose Funds | 3,479,866 | 3,468,837 |
| Operating and Capital Reserves | 1,153,348 | 2,986,585 |
| Total Investments | \$ 4,633,214 | \$ 6,455,422 |

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

| | 2006 | 2005 |
|---------------------------------|------------|------------|
| Invested Funds: | | |
| U.S. Treasury Securities | \$ 224,469 | \$ 73,496 |
| Government Agencies | 520,904 | 674,949 |
| Other Interest Bearing Accounts | 203,393 | 206,512 |
| Interest Receivable | 6,531 | 2,352 |
| Total Investments | \$ 955,297 | \$ 957,309 |
| Special Purpose Funds: | | |
| Restricted | \$ 753,664 | \$ 753,636 |
| Board Designated | 201,633 | 203,673 |
| Total Special Purpose Funds | \$ 955,297 | \$ 957,309 |

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

NOTE E - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2006 and 2005 were as follows:

| | <u>Balance 2005</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2006</u> |
|------------------------------------|-------------------------|---------------------|-------------------|-------------------------|
| <u>Electric Department</u> | | | | |
| Plant and Equipment | \$ 35,435,085 | \$ 998,669 | \$ 107,778 | \$ 36,325,976 |
| Depreciation | <u>22,438,584</u> | <u>1,041,292</u> | <u>104,203</u> | <u>23,375,673</u> |
| Depreciable Capital Assets, Net | <u>\$ 12,996,501</u> | <u>\$(42,623)</u> | <u>\$ 3,575</u> | <u>\$ 12,950,303</u> |
| Construction in Progress | \$ 546,633 | \$ 2,233,409 | \$ 998,669 | \$ 1,781,373 |
| Land and Land Rights | <u>569,077</u> | <u>--</u> | <u>--</u> | <u>569,077</u> |
| Non-Depreciable Capital Assets | <u>\$ 1,115,710</u> | <u>\$ 2,233,409</u> | <u>\$ 998,669</u> | <u>\$ 2,350,450</u> |
| | <u>Balance 2004</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2005</u> |
| <u>Electric Department</u> | | | | |
| Plant and Equipment | \$ 34,700,539 | \$ 863,812 | \$ 129,266 | \$ 35,435,085 |
| Depreciation | <u>21,525,375</u> | <u>1,033,679</u> | <u>120,470</u> | <u>22,438,584</u> |
| Depreciable Capital Assets, Net | <u>\$ 13,175,164</u> | <u>\$(169,867)</u> | <u>\$ 8,796</u> | <u>\$ 12,996,501</u> |
| Construction in Progress | \$ 321,878 | \$ 1,088,567 | \$ 863,812 | \$ 546,633 |
| Land and Land Rights | <u>569,077</u> | <u>--</u> | <u>--</u> | <u>569,077</u> |
| Non-Depreciable Capital Assets | <u>\$ 890,955</u> | <u>\$ 1,088,567</u> | <u>\$ 863,812</u> | <u>\$ 1,115,710</u> |

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

NOTE E - CAPITAL ASSETS - Continued

| | <u>Balance 2005</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2006</u> |
|------------------------------------|-------------------------|----------------------|-------------------|-------------------------|
| <u>Water Department</u> | | | | |
| Plant and Equipment | \$ 7,938,185 | \$ 472,985 | \$ 63,632 | \$ 8,347,538 |
| Depreciation | <u>3,966,890</u> | <u>222,926</u> | <u>60,177</u> | <u>4,129,639</u> |
| Depreciable Capital Assets, Net | <u>\$ 3,971,295</u> | <u>\$ 250,059</u> | <u>\$ 3,455</u> | <u>\$ 4,217,899</u> |
| Construction in Progress | \$ 88,357 | \$ 195,088 | \$ 283,445 | \$ -- |
| Land and Land Rights | <u>125,818</u> | <u>--</u> | <u>--</u> | <u>125,818</u> |
| Non-Depreciable Capital Assets | <u>\$ 214,175</u> | <u>\$ 195,088</u> | <u>\$ 283,445</u> | <u>\$ 125,818</u> |
| | <u>Balance 2004</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2005</u> |
| <u>Water Department</u> | | | | |
| Plant and Equipment | \$ 7,901,524 | \$ 38,439 | \$ 1,778 | \$ 7,938,185 |
| Depreciation | <u>3,738,370</u> | <u>230,298</u> | <u>1,778</u> | <u>3,966,890</u> |
| Depreciable Capital Assets, Net | <u>\$ 4,163,154</u> | <u>\$ (191,859)</u> | <u>\$ --</u> | <u>\$ 3,971,295</u> |
| Construction in Progress | \$ -- | \$ 126,796 | \$ 38,439 | \$ 88,357 |
| Land and Land Rights | <u>125,818</u> | <u>--</u> | <u>--</u> | <u>125,818</u> |
| Non-Depreciable Capital Assets | <u>\$ 125,818</u> | <u>\$ 126,796</u> | <u>\$ 38,439</u> | <u>\$ 214,175</u> |

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

NOTE F - ELECTRIC DEPARTMENT NOTE RECEIVABLE

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

| | 2006 | 2005 |
|------------------------------------|------------|------------|
| Note Receivable - Water Department | \$ 495,855 | \$ 495,855 |

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

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended December 31, 2006 and 2005 follows:

| | Balance 2005 | Additions | Reductions | Balance 2006 |
|---------------------------------|-----------------|--------------|------------|-----------------|
| 1999 Revenue Bonds | \$ 2,480,000 | \$ -- | \$ 580,000 | \$ 1,900,000 |
| Less Current Portion | (580,000) | (605,000) | (580,000) | (605,000) |
| Total Long-Term Debt | 1,900,000 | (605,000) | -- | 1,295,000 |
| Consumer Deposits | 22,685 | 39,772 | -- | 62,457 |
| Reserve for Employee Retirement | 81,000 | -- | 3,000 | 78,000 |
| Total Non-Current Liabilities | \$ 2,003,685 | \$(565,228) | \$ 3,000 | \$ 1,435,457 |

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

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

The 1999 Series Revenue Bonds constitute a lien on the net income of the Electric Department. They are not general obligations of the City of Atlantic. The bonds mature in increasing amounts ranging from \$580,000 in 2005 to \$660,000 in 2009. Interest rates range from 4.00% to 4.125%. The part of these bonds maturing on and after April 1, 2006 are subject to early redemption on or after that date.

The resolutions of the Board of Trustees authorizing the issuance of the 1999 electric revenue bonds specify the creation and maintenance of a bond sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements for bond funds have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Electric Department long-term debt during each of the three years ending December 31, 2007 through 2009 are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------|---------------------|-------------------|---------------------|
| 2007 | \$ 605,000 | \$ 64,725 | \$ 669,725 |
| 2008 | 635,000 | 39,925 | 674,925 |
| 2009 | <u>660,000</u> | <u>13,613</u> | <u>673,613</u> |
| | <u>\$ 1,900,000</u> | <u>\$ 118,263</u> | <u>\$ 2,018,263</u> |

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

NOTE H - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended December 31, 2006 and 2005 follows:

| | <u>Balance 2005</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 2006</u> |
|--------------------------------------|-------------------------|---------------------|-------------------|-------------------------|
| 1998 Capital Loan Notes | \$ 1,370,000 | \$ -- | \$ 170,000 | \$ 1,200,000 |
| Deferred Refunding Costs | (7,079) | -- | (1,711) | (5,368) |
| | 1,362,921 | -- | 168,289 | 1,194,632 |
| Less Current Portion | (168,289) | (173,504) | (168,289) | (173,504) |
| | 1,194,632 | (173,504) | -- | 1,021,128 |
| Note Payable - Electric | 495,855 | -- | -- | 495,855 |
| Total Long-Term Debt | <u>1,690,487</u> | <u>(173,504)</u> | <u>--</u> | <u>1,516,983</u> |
| Consumer Deposits | 11,695 | 2,100 | -- | 13,795 |
| Reserve for Employees' Retirement | <u>26,000</u> | <u>3,000</u> | <u>--</u> | <u>29,000</u> |
| Total Non-Current Liabilities | <u>\$ 1,728,182</u> | <u>\$(168,404)</u> | <u>\$ --</u> | <u>\$ 1,559,778</u> |
| | <u>Balance 2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 2005</u> |
| 1998 Capital Loan Notes | \$ 1,530,000 | \$ -- | \$ 160,000 | \$ 1,370,000 |
| Deferred Refunding Costs | (8,993) | -- | (1,914) | (7,079) |
| | 1,521,007 | -- | 158,086 | 1,362,921 |
| Less Current Portion | (158,086) | (168,289) | (158,086) | (168,289) |
| | 1,362,921 | (168,289) | -- | 1,194,632 |
| Note Payable - Electric | 495,855 | -- | -- | 495,855 |
| Total Long-Term Debt | <u>1,858,776</u> | <u>(168,289)</u> | <u>--</u> | <u>1,690,487</u> |
| Consumer Deposits | 11,135 | 560 | -- | 11,695 |
| Reserve for Employees' Retirement | <u>24,000</u> | <u>2,000</u> | <u>--</u> | <u>26,000</u> |
| Total Non-Current Liabilities | <u>\$ 1,893,911</u> | <u>\$(165,729)</u> | <u>\$ --</u> | <u>\$ 1,728,182</u> |

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

NOTE H - WATER DEPARTMENT NON-CURRENT LIABILITIES - Continued

The 1998 Series Refunding Capital Loan Notes constitute a lien on the net income of the Water Department. They are not general obligations of the City of Atlantic. The bonds mature in increasing amounts ranging from \$170,000 in 2005 to \$215,000 in 2012. Interest rates range from 4.50% to 4.90%. The part of these bonds maturing on and after December 1, 2006 are subject to early redemption on or after that date.

The resolution of the Board of Trustees authorizing the issuance of the 1998 capital loan notes specifies the creation and maintenance of a bond sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements for bond funds have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Water Department long-term debt during each of the five years ending December 31, 2007 through 2011 and succeeding years are as follows:

| | Principal | Interest | Total |
|------|--------------|------------|--------------|
| 2007 | \$ 175,000 | \$ 56,705 | \$ 231,705 |
| 2008 | 185,000 | 48,743 | 233,743 |
| 2009 | 200,000 | 40,232 | 240,232 |
| 2010 | 205,000 | 30,833 | 235,833 |
| 2011 | 220,000 | 21,095 | 241,095 |
| 2012 | 710,855 | 10,535 | 721,390 |
| | \$ 1,695,855 | \$ 208,143 | \$ 1,903,998 |

NOTE I - EMPLOYEE RETIREMENT AND DEFINED BENEFIT PENSION PLAN

Reserve For Employees' Retirement

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

Iowa Public Employees Retirement System

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

Plan members are required to contribute 3.70% of their annual salary and the Utilities are required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended December 31, 2006, 2005, and 2004, were approximately \$87,600, \$86,600, and \$82,300, respectively, equal to the required contributions for each year.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

NOTE J - DEFERRED COMPENSATION PLAN

The Utilities sponsor a deferred compensation plan which is administered by two trustees (the General Manager and Comptroller of the Utilities) and independent contractors under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Utilities are responsible for:

- a. The accounting, reconciliations and recordkeeping associated with employees' enrollment.
- b. Withholding employee contributions through payroll deductions.
- c. Timely transfer of withheld funds to the contractor designated by the participant, for investment.
- d. Payout of the deferred compensation to qualified participants after receiving proceeds from the administrators.
- e. Withholding payroll taxes from plan payouts.
- f. Preparation of W-2's resulting from plan payouts.

The Utilities' fiduciary responsibilities include due care in selecting administrators, and indemnification of the trustees.

The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The contractors are required to submit monthly reports on participants' accounts to the Utilities. The Utilities are liable to a participant only for mishandled employee contributions or payouts, and the related loss of income to the participants. The market values of the exclusive benefit plan assets at December 31, 2006 were approximately \$308,600.

NOTE K - COMMITMENTS AND CONTINGENCIES

Power Supply

The Electric Utility participates with several other utility companies in the operation of the Council Bluffs Power Station Unit No. 3 (CB #3) to supply power. The project represents an ongoing commitment to provide operating and construction funds as they are needed to maintain and update the facility. The share applicable to Atlantic is approximately 2.5% of the total costs. Periodically CB #3 shuts down production for several weeks for major maintenance and repairs. The last shutdown occurred during 2006 and the next is currently scheduled for 2009. During the alternate years when no shutdown occurs, the Electric Utility accrues an estimate (\$300,000 during 2005 included in accounts payable) of the pro rata annual expense it will incur related to this shutdown. During the shutdown, the Electric Utility purchases replacement electricity on the open market.

Of the Electric Department's construction in progress, approximately \$1,360,000 represents the Utility's share of ongoing construction projects at CB #3. The Utility regularly finances costs of these and other projects through funds generated internally (see Pending Matters).

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2006 and 2005

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Old Facility Removal

The Utility has begun to demolish portions of the power plant building and equipment which served the community prior to CB #3. As a part of the project, a new metal building will be constructed over existing floor space. The total project is expected to cost approximately \$1.5 million including \$420,000 which has been expended and is included in construction in progress at December 31. Costs of the project will be paid from funds generated internally.

Pending Matters

Atlantic Municipal Utilities (AMU) has several projects in the planning stages, with no signed commitments by the date of this report. The major projects are discussed below:

- A. Ethanol Plant in Cass County - The process is underway to construct an ethanol plant in the AMU service area. When completed, it is expected that the plant will use eight to nine megawatts of electrical power at peak, and may obtain some of its water from AMU. Management is in the process of securing additional sources of electricity to supply this anticipated new load. The ethanol plant is expected to be completed in 2008.
- B. CB #3 Generating Station - Environmental regulations and age of plant will require various remodeling and additional construction projects over the next five to ten years. Current estimates indicate that AMU's share of the project costs will exceed \$6,000,000. AMU plans to fund their share of the cost from these projects through the use of reserve funds, the issue of bonds during 2007, and future earnings from operations.
- C. Economic Development Project - AMU is cooperating with Cass and Audubon Counties in the development of land to be available for industry located in its electrical service area. AMU has applied for a no interest loan through the USDA Rural Development Program, and will act as a conduit agency, transferring the proceeds to the Counties if the application is approved. The Counties will use the proceeds to acquire the land for the project. It is anticipated that the Counties will sign a secondary pass through loan agreement with AMU, assuming all the loan obligations and holding AMU harmless.

Risk Management

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

Environmental Regulations

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

* * *

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
 Budgetary Comparison Schedule
 Year Ended December 31, 2006

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

| | <u>Per Financial Statements</u> | | <u>Budget Adjustments</u> | <u>Combined Utilities</u> |
|---------------------------|---------------------------------|---------------------|-------------------------------|-------------------------------|
| | <u>Electric</u> | <u>Water</u> | | |
| Revenues | \$ 7,047,228 | \$ 1,019,284 | \$ 193,248 | \$ 8,259,760 |
| Contributions | -- | 193,248 | (193,248) | -- |
| Expenses | <u>6,150,626</u> | <u>983,458</u> | <u>750,000</u> | <u>7,884,084</u> |
| Net | 896,602 | 229,074 | (750,000) | 375,676 |
| Balance beginning of year | 18,942,877 | 3,579,480 | (15,427,970) | 7,094,387 |
| Transfers to the City | <u>(274,564)</u> | <u>(72,437)</u> | <u>--</u> | <u>(347,001)</u> |
| Balance end of year | <u>\$ 19,564,915</u> | <u>\$ 3,736,117</u> | <u>\$(16,177,970)</u> | <u>\$ 7,123,062</u> |

| | <u>Budget Basis</u> | | <u>Budget</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------|-------------------------|---------------------|-------------------|---|
| | Revenues | \$ 8,259,760 | | |
| Expenses | <u>7,884,084</u> | <u>8,549,000</u> | <u>664,916</u> | |
| Net | 375,676 | (68,000) | 443,676 | |
| Balance beginning of year | 7,094,387 | 7,402,743 | (308,356) | |
| Transfers to the City | <u>(347,001)</u> | <u>(362,000)</u> | <u>14,999</u> | |
| Balance end of year | <u>\$ 7,123,062</u> | <u>\$ 6,972,743</u> | <u>\$ 150,319</u> | |

See Independent Auditor's Report.

OTHER SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
Revenue Bonds/Notes
December 31,

ELECTRIC DEPARTMENT:

| <u>Due Date</u> | <u>Optional Call Date</u> | <u>Interest Rate</u> | <u>2006</u> | <u>2005</u> |
|--------------------|-------------------------------|--------------------------|---------------------|---------------------|
| <u>1999 Series</u> | | | | |
| April 1, 2006 | -- | 4.000% | \$ -- | \$ 580,000 |
| April 1, 2007 | April 1, 2006 | 4.000 | 605,000 | 605,000 |
| April 1, 2008 | April 1, 2006 | 4.000 | 635,000 | 635,000 |
| April 1, 2009 | April 1, 2006 | 4.125 | <u>660,000</u> | <u>660,000</u> |
| | | | <u>\$ 1,900,000</u> | <u>\$ 2,480,000</u> |

WATER DEPARTMENT:

| | | | | |
|--------------------|--------------|-------|---------------------|---------------------|
| <u>1998 Series</u> | | | | |
| Dec. 1, 2006 | -- | 4.50% | \$ -- | \$ 170,000 |
| Dec. 1, 2007 | Dec. 1, 2006 | 4.55 | 175,000 | 175,000 |
| Dec. 1, 2008 | Dec. 1, 2006 | 4.60 | 185,000 | 185,000 |
| Dec. 1, 2009 | Dec. 1, 2006 | 4.70 | 200,000 | 200,000 |
| Dec. 1, 2010 | Dec. 1, 2006 | 4.75 | 205,000 | 205,000 |
| Dec. 1, 2011 | Dec. 1, 2006 | 4.80 | 220,000 | 220,000 |
| Dec. 1, 2012 | Dec. 1, 2006 | 4.90 | <u>215,000</u> | <u>215,000</u> |
| | | | <u>\$ 1,200,000</u> | <u>\$ 1,370,000</u> |

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
 Operating Revenue
 Year ended December 31,

| | 2006 | 2005 |
|-------------------------------------|--------------|--------------|
| <u>ELECTRIC DEPARTMENT</u> | | |
| Retail Electricity Sales: | | |
| Residential | \$ 1,612,711 | \$ 1,642,032 |
| Commercial | 2,442,978 | 2,496,907 |
| Rural resident and rural commercial | 810,155 | 854,121 |
| Interdepartmental sales | 25,788 | 25,863 |
| | \$ 4,891,632 | \$ 5,018,923 |
| Other Operating Revenue: | | |
| Customer late payment charges | \$ 12,020 | \$ 12,015 |
| Service charges | 10,170 | 10,965 |
| Rent from electric properties | 13,953 | 19,641 |
| Net contract work | 6,878 | 4,693 |
| Transmission service | 16,571 | 10,598 |
| Internet wireless services, net | 11,265 | 11,704 |
| Scrap sales | 5,597 | 2,790 |
| Bad debts recovered | 957 | 1,438 |
| Miscellaneous | 799 | 922 |
| | \$ 78,210 | \$ 74,766 |
| <u>WATER DEPARTMENT</u> | | |
| Other Operating Revenue: | | |
| Service charges | \$ 5,945 | \$ 6,280 |
| Net contract work | 5,089 | 6,440 |
| Scrap sales | 109 | 331 |
| Bad debts recovered | 567 | 693 |
| | \$ 11,710 | \$ 13,744 |

See Independent Auditor's Report.

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

| | 2006 | 2005 |
|---|------------|-----------|
| Electric Production: | | |
| CB #3 Production: | | |
| Operating supervision and labor | \$ 115,643 | \$ 92,887 |
| Fuel | 978,659 | 1,100,903 |
| Operating supplies and expense | 208,673 | 181,840 |
| Maintenance of production plant | 342,352 | 572,244 |
| Total CB #3 production | 1,645,327 | 1,947,874 |
| Atlantic Production: | | |
| Operating supervision and labor | 10,756 | 11,315 |
| Fuel | 66,856 | 62,603 |
| Operating supplies and expense | 5,008 | 2,579 |
| Maintenance of production plant | 113,428 | 117,762 |
| Total Atlantic production | 196,048 | 194,259 |
| Total electric production | 1,841,375 | 2,142,133 |
| Purchased Power | 1,195,995 | 758,728 |
| Transmission Expense: | | |
| Maintenance of transmission line and other | 420,408 | 388,763 |
| Distribution Expense: | | |
| City: | | |
| Operating supervision and labor | 47,591 | 55,645 |
| Line and station supplies and expense | 74,048 | 68,252 |
| Meter expense | 34,497 | 32,797 |
| Miscellaneous distribution expense | 66,160 | 59,454 |
| Maintenance of structures and equipment | 10,870 | 7,648 |
| Maintenance of lines | 111,638 | 143,028 |
| Maintenance of line transformers | 6,769 | 4,295 |
| Maintenance of street lighting and signal systems | 26,347 | 21,163 |
| Maintenance of meters | 6,602 | 16,747 |
| Total city distribution expense | 384,522 | 409,029 |
| Rural: | | |
| Operating supervision and labor | 28,960 | 32,902 |
| Line and station supplies and expense | 3,204 | 1,159 |
| Meter expense | 252 | 237 |
| Miscellaneous distribution expense | 14,480 | 15,130 |
| Maintenance of structures and equipment | 11,020 | 6,042 |

(continued next page)

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

| | 2006 | 2005 |
|--|--------------|--------------|
| Distribution Expense (Continued): | | |
| Rural (Continued): | | |
| Maintenance of lines | \$ 50,408 | \$ 83,921 |
| Maintenance of line transformers | -- | 7,105 |
| Maintenance of meters | 1,347 | 2,852 |
| Total rural distribution expense | 109,671 | 149,348 |
| Total distribution expense | 494,193 | 558,377 |
| Administrative and Accounting Expense: | | |
| Customer accounting: | | |
| Meter reading labor | 21,253 | 16,662 |
| Accounting and collecting costs | 97,251 | 93,080 |
| Supplies and expense | 1,661 | 1,516 |
| Uncollectible accounts | 17,864 | 11,926 |
| Total customer accounting | 138,029 | 123,184 |
| Administrative and general: | | |
| Administrative and general salaries | 54,486 | 51,373 |
| Office supplies and expense | 41,030 | 39,953 |
| Outside service employed | 15,970 | 25,608 |
| Property insurance | 58,194 | 51,317 |
| Liability insurance and safety program costs | 51,628 | 51,263 |
| Employees' pension and benefits | 250,726 | 258,520 |
| Franchise requirement | 20,683 | 48,504 |
| Regulatory commission expense | 8,450 | 10,096 |
| Internet | 12,180 | 11,521 |
| Energy efficiency grant/rebate program | 36,271 | 27,926 |
| Miscellaneous general expense | 94,848 | 83,006 |
| Maintenance of general plant | 38,231 | 35,166 |
| Payroll taxes | 165,943 | 158,526 |
| Property taxes | 130,825 | 111,404 |
| Total administrative and general | 979,465 | 964,183 |
| Administrative adjustments | 27,255 | 31,236 |
| Less administrative expense transferred | (82,187) | (72,069) |
| Net administrative and general | 924,533 | 923,350 |
| Total administrative and accounting expense | 1,062,562 | 1,046,534 |
| Provision for Depreciation | 1,041,292 | 1,033,679 |
| Total operating expenses | \$ 6,055,825 | \$ 5,928,214 |

See Independent Auditor's Report.

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

| | 2006 | 2005 |
|---|----------|----------|
| Source of Supply Expense: | | |
| Operating supplies and expense | \$ 7,964 | \$ 7,656 |
| Maintenance of water source | 36,541 | 23,799 |
| Total source of supply expense | 44,505 | 31,455 |
| Pumping Expense: | | |
| Operating labor | 15,204 | 17,327 |
| Fuel and power pumping | 15,671 | 16,009 |
| Maintenance of pumping station | 10,697 | 2,095 |
| Total pumping expense | 41,572 | 35,431 |
| Water Treatment Expense: | | |
| Operating labor | 48,569 | 47,828 |
| Chemicals | 30,301 | 25,570 |
| Operating supplies and expense | 12,203 | 9,739 |
| Maintenance of water treatment plant | 8,929 | 13,178 |
| Total water treatment expense | 100,002 | 96,315 |
| Distribution Expense: | | |
| Operating labor | 115,365 | 109,204 |
| Operating supplies and expense | 12,992 | 14,475 |
| Maintenance of distribution reservoirs and standpipes | 5,957 | 5,616 |
| Maintenance of mains | 49,215 | 44,868 |
| Maintenance of services | 745 | 1,609 |
| Maintenance of meters | 5,063 | 1,212 |
| Maintenance of hydrants | 3,879 | 5,885 |
| Total distribution expense | 193,216 | 182,869 |
| Administrative and Accounting Expense: | | |
| Customer Accounting: | | |
| Meter reading labor | 12,980 | 11,059 |
| Accounting and collecting labor | 41,787 | 38,970 |
| Supplies and expense | 7,539 | 7,006 |
| Uncollectible accounts | 4,037 | 3,415 |
| Total customer accounting | 66,343 | 60,450 |

(continued next page)

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

| | 2006 | 2005 |
|--|-------------------|-------------------|
| Administrative and Accounting Expense (Continued): | | |
| Administrative and General: | | |
| Administrative and general salaries | \$ 33,273 | \$ 31,865 |
| Office supplies and other expense | 21,628 | 20,139 |
| Outside service employed | 10,561 | 11,792 |
| Property insurance | 7,513 | 6,570 |
| Liability insurance costs | 21,066 | 23,984 |
| Employees' pensions and benefits | 90,199 | 91,428 |
| Franchise requirement | 1,025 | 614 |
| Regulatory Commission expense | 1,008 | 1,096 |
| Miscellaneous general expense | 23,488 | 17,802 |
| Transportation expense | 11,377 | 9,768 |
| Maintenance of general plant | 3,044 | 2,977 |
| Payroll taxes | <u>34,352</u> | <u>32,008</u> |
| Total administrative and general | 258,534 | 250,043 |
| Administrative adjustments | (1,160) | (2,626) |
| Less administrative expense transferred | <u>(14,716)</u> | <u>(11,695)</u> |
| Net administrative and general | <u>242,658</u> | <u>235,722</u> |
| Total administrative and accounting expense | 309,001 | 296,172 |
| Provision for Depreciation | <u>222,926</u> | <u>230,298</u> |
| Total operating expenses | <u>\$ 911,222</u> | <u>\$ 872,540</u> |

See Independent Auditor's Report.

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

| | <u>2006</u> | <u>2005</u> |
|--|-------------------|---------------------|
| Operating Revenue: | | |
| Sale of electricity | \$ 6,728,404 | \$ 7,267,100 |
| Other operating revenue | <u>78,210</u> | <u>74,766</u> |
| Total operating revenue | 6,806,614 | 7,341,866 |
| Operating Expenses (Not Including Depreciation) | <u>5,014,533</u> | <u>4,894,535</u> |
| Operating Income Before Depreciation | 1,792,081 | 2,447,331 |
| Provision for Depreciation | <u>1,041,292</u> | <u>1,033,679</u> |
| Income From Operations | 750,789 | 1,413,652 |
| Other Income and (Deductions), Net | <u>145,813</u> | <u>21,188</u> |
| Net Income | <u>\$ 896,602</u> | <u>\$ 1,434,840</u> |
| Net Income as a Percent of Total Operating Revenue | <u>13.17%</u> | <u>19.54%</u> |

See Independent Auditor's Report.

| <u>2004</u> | <u>2003</u> | <u>2002</u> |
|-------------------|-------------------|-------------------|
| \$ 6,259,144 | \$ 5,426,887 | \$ 5,338,122 |
| <u>73,861</u> | <u>84,264</u> | <u>87,635</u> |
| 6,333,005 | 5,511,151 | 5,425,757 |
| <u>4,587,467</u> | <u>4,116,338</u> | <u>4,005,293</u> |
| 1,745,538 | 1,394,813 | 1,420,464 |
| <u>1,007,783</u> | <u>1,004,746</u> | <u>992,974</u> |
| 737,755 | 390,067 | 427,490 |
| <u>(72,078)</u> | <u>(35,170)</u> | <u>55,333</u> |
| <u>\$ 665,677</u> | <u>\$ 354,897</u> | <u>\$ 482,823</u> |
| <u>10.51%</u> | <u>6.44%</u> | <u>8.89%</u> |

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

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Sale of Electricity: | | |
| Sales to consumers | \$ 5,167,209 | \$ 5,301,244 |
| Sales to other utilities | <u>1,561,195</u> | <u>1,965,856</u> |
| Total Electricity Sales | <u>\$ 6,728,404</u> | <u>\$ 7,267,100</u> |
| Kilowatt Hours: | | |
| Generated | 108,976,400 | 133,382,000 |
| Purchased | 45,926,151 | 36,780,027 |
| Energy available | 154,902,551 | 170,162,027 |
| Station power/transmission loss | 4,414,598 | 5,110,260 |
| Available for sale | 150,487,953 | 165,051,767 |
| Sales and transfers to other utilities | 44,177,753 | 57,490,867 |
| Output to the system | 106,310,200 | 107,560,900 |
| Billed to consumers | 101,302,223 | 104,106,914 |
| Distribution loss | 5,007,977 | 3,453,986 |
| Distribution loss percent | 4.7% | 3.2% |
| Revenue Billed Per KWH to Consumers | 5.10¢ | 5.09¢ |
| Peak Hour Demand in KW | 25,435 | 25,211 |
| Services Provided to the City: | | |
| Street Lighting: | | |
| Energy | \$ 67,314 | \$ 71,494 |
| Operation and maintenance | 26,849 | 21,374 |
| Depreciation | <u>35,036</u> | <u>33,625</u> |
| | 129,199 | 126,493 |
| Energy for public buildings, parks and other uses | 146,378 | 155,828 |
| Other City projects | <u>19,670</u> | <u>--</u> |
| | <u>\$ 295,247</u> | <u>\$ 282,321</u> |
| <u>Consumer Classifications</u> | | |
| Residential | 3,233 | 3,226 |
| Small Commercial | 583 | 578 |
| Large Commercial | 43 | 44 |
| Rural Residential | 566 | 565 |
| Rural Commercial | 91 | 99 |
| Area Lighting | 285 | 279 |
| City and Water Department | <u>89</u> | <u>89</u> |
| Total number of consumers | <u>4,890</u> | <u>4,880</u> |

See Independent Auditor's Report.

| <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---------------------|---------------------|---------------------|
| \$ 4,951,958 | \$ 4,670,904 | \$ 4,751,773 |
| <u>1,307,186</u> | <u>755,983</u> | <u>586,349</u> |
| <u>\$ 6,259,144</u> | <u>\$ 5,426,887</u> | <u>\$ 5,338,122</u> |
| 118,826,300 | 134,511,300 | 126,703,200 |
| 43,609,516 | 33,743,706 | 40,422,832 |
| 162,435,816 | 168,255,006 | 167,126,032 |
| 4,982,221 | 4,956,759 | 5,192,452 |
| 157,453,595 | 163,298,247 | 161,933,580 |
| 56,774,495 | 62,512,447 | 59,274,280 |
| 100,679,100 | 100,785,800 | 102,659,300 |
| 95,640,186 | 96,008,126 | 97,840,705 |
| 5,038,914 | 4,777,674 | 4,818,595 |
| 5.0% | 4.7% | 4.7% |
| 5.18¢ | 4.87¢ | 4.86¢ |
| 24,465 | 25,445 | 25,496 |
| \$ 70,832 | \$ 71,189 | \$ 72,549 |
| 18,049 | 20,525 | 21,322 |
| <u>32,538</u> | <u>31,432</u> | <u>30,238</u> |
| 121,419 | 123,146 | 124,109 |
| 129,111 | 82,330 | 81,757 |
| <u>--</u> | <u>--</u> | <u>--</u> |
| <u>\$ 250,530</u> | <u>\$ 205,476</u> | <u>\$ 205,866</u> |
| 3,197 | 3,194 | 3,168 |
| 584 | 584 | 574 |
| 45 | 51 | 50 |
| 559 | 558 | 554 |
| 97 | 94 | 92 |
| 272 | 276 | 274 |
| 87 | 84 | 81 |
| <u>4,841</u> | <u>4,841</u> | <u>4,793</u> |

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

| | <u>2006</u> | <u>2005</u> |
|--|------------------|-------------------|
| Operating Revenue: | | |
| Sale of water | \$ 972,150 | \$ 1,009,869 |
| Other operating revenue | <u>11,710</u> | <u>13,744</u> |
| Total operating revenue | 983,860 | 1,023,613 |
| | | |
| Operating Expenses (Not Including Depreciation) | <u>688,296</u> | <u>642,242</u> |
| | | |
| Operating Income Before Depreciation | 295,564 | 381,371 |
| | | |
| Provision for Depreciation | <u>222,926</u> | <u>230,298</u> |
| | | |
| Income From Operations | 72,638 | 151,073 |
| | | |
| Other Income (Deductions), Net | <u>(36,812)</u> | <u>(51,028)</u> |
| | | |
| Net Income | <u>\$ 35,826</u> | <u>\$ 100,045</u> |
| | | |
| Net Income as a Percent of Total Operating Revenue | <u>3.64%</u> | <u>9.77%</u> |

See Independent Auditor's Report.

| <u>2004</u> | <u>2003</u> | <u>2002</u> |
|------------------|-------------------|-------------------|
| \$ 1,008,825 | \$ 993,815 | \$ 1,011,758 |
| <u>11,218</u> | <u>15,773</u> | <u>14,497</u> |
| 1,020,043 | 1,009,588 | 1,026,255 |
| <u>648,767</u> | <u>621,973</u> | <u>585,211</u> |
| 371,276 | 387,615 | 441,044 |
| <u>225,008</u> | <u>223,696</u> | <u>222,130</u> |
| 146,268 | 163,919 | 218,914 |
| <u>(62,095)</u> | <u>(56,809)</u> | <u>(48,350)</u> |
| <u>\$ 84,173</u> | <u>\$ 107,110</u> | <u>\$ 170,564</u> |
| <u>8.25%</u> | <u>10.61%</u> | <u>16.62%</u> |

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

| | <u>2006</u> | <u>2005</u> |
|---|-------------------|---------------------|
| Total Revenue Billed | <u>\$ 972,150</u> | <u>\$ 1,009,869</u> |
| Gallonge: | | |
| Pumped | 329,229,000 | 326,127,000 |
| Billed | 267,999,725 | 283,333,025 |
| Total system maintenance and loss | 61,229,275 | 42,793,975 |
| Accounted for losses* | 22,201,896 | 13,617,295 |
| Unaccounted for losses | 39,027,379 | 29,176,680 |
| Percent unaccounted for | 11.85% | 8.95% |
| Revenue Billed Per 100 Gallons | 36.3¢ | 35.6¢ |
| Number of Consumers | 3,309 | 3,310 |
| Peak Day - Gallons Pumped | 1,543,000 | 1,540,000 |
| Services Provided to the City: | | |
| Water for parks, disposal plant and public buildings | \$ 10,860 | \$ 8,966 |
| Operation and maintenance | 27,061 | 29,501 |
| Depreciation | <u>35,541</u> | <u>38,330</u> |
| | <u>\$ 73,462</u> | <u>\$ 76,797</u> |

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

See Independent Auditor's Report.

| <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---------------------|-------------------|---------------------|
| <u>\$ 1,008,825</u> | <u>\$ 993,815</u> | <u>\$ 1,011,758</u> |
| 340,930,000 | 374,556,000 | 372,986,000 |
| 290,892,000 | 302,849,000 | 315,630,500 |
| 50,038,000 | 71,707,000 | 57,355,500 |
| 12,874,480 | 28,911,935 | 20,770,641 |
| 37,163,520 | 42,795,065 | 36,584,859 |
| 10.90% | 11.43% | 9.81% |
| 34.7¢ | 32.8¢ | 32.1¢ |
| 3,294 | 3,295 | 3,277 |
| 1,930,000 | 1,771,000 | 2,041,000 |
| \$ 7,600 | \$ 5,354 | \$ 4,631 |
| 35,305 | 36,552 | 32,662 |
| <u>36,347</u> | <u>35,817</u> | <u>37,151</u> |
| <u>\$ 79,252</u> | <u>\$ 77,723</u> | <u>\$ 74,444</u> |

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

| | <u>2006</u> | <u>2005</u> |
|---|---------------------|---------------------|
| <u>ELECTRIC DEPARTMENT</u> | | |
| Net Income Per Financial Statements | \$ 896,602 | \$ 1,434,840 |
| Add: | | |
| Depreciation | 1,041,292 | 1,033,679 |
| Interest on revenue bonds | 82,625 | 105,575 |
| Loss on disposal of equipment | 3,575 | 8,269 |
| Amortization | <u>5,418</u> | <u>6,937</u> |
| Available For Debt Service | <u>\$ 2,029,512</u> | <u>\$ 2,589,300</u> |
| Maximum Debt Service in Any Year | <u>\$ 674,900</u> | <u>\$ 674,900</u> |
| Actual Coverage | <u>301%</u> | <u>384%</u> |
| Minimum Coverage Required | <u>125%</u> | <u>125%</u> |
| <u>WATER DEPARTMENT</u> | | |
| Net Income Per Financial Statements | \$ 35,826 | \$ 100,045 |
| Add: | | |
| Depreciation | 222,926 | 230,298 |
| Interest on revenue bonds | 65,428 | 72,795 |
| Loss on disposal of equipment | 3,455 | -- |
| Amortization | <u>3,353</u> | <u>3,750</u> |
| Available For Debt Service | <u>\$ 330,988</u> | <u>\$ 406,888</u> |
| Maximum Debt Service on Bonds in Any Year | <u>\$ 252,000</u> | <u>\$ 252,000</u> |
| Actual Coverage | <u>131%</u> | <u>161%</u> |
| Minimum Coverage Required | <u>125%</u> | <u>125%</u> |

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

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

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

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited the financial statements of Atlantic Municipal Utilities (Electric Department and Water Department) (a component of the City of Atlantic, Iowa) as of and for the year ended December 31, 2006, and have issued our report thereon dated February 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 06-I-A is a material weakness.

To the Board of Trustees
Atlantic Municipal Utilities

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Atlantic Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald, Bell, Kuhlman + Co. P.C.
Atlantic, Iowa
February 26, 2007

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2006

PART I - REPORTABLE CONDITIONS

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

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

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

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

06-II-A Certified Budget: The Utilities' expenditures during the year ended December 31, 2006 did not exceed amounts budgeted.

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

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

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

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

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

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings - Continued
Year ended December 31, 2006

PART II - REQUIRED STATUTORY REPORTING (Continued)

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

06-II-H Revenue Bonds: No violations of revenue bond resolution requirements were noted.

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

* * *