

ALGONA MUNICIPAL UTILITIES

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

December 31, 2006

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

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**OFFICIALS
ALGONA MUNICIPAL UTILITIES**

December 31, 2006

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	James Modrell	May 2007
Chairman Pro Tem	Jay Geving	May 2009
Trustee	Allan Bonde	May 2012
Trustee	Karen Schaaf	May 2008
Trustee	Walter Krahenbuhl	May 2011
General Manager	John Bilsten	
Comptroller	Brien Rindone	

T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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HUMBOLDT, IOWA 50548

515-332-3466

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Algona Municipal Utilities
Algona, Iowa

We have audited the accompanying financial statements of the business type activities and each major fund of Algona Municipal Utilities, (a component unit of the City of Algona) as of and for the years ended December 31, 2006 and 2005, which collectively comprise the Utilities' basic financial statements listed as exhibits in the table of contents. These financial statements are the responsibility of Algona Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and each major fund of Algona Municipal Utilities at December 31, 2006 and 2005, and the changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2007 on our consideration of Algona Municipal Utilities's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming opinions on the financial statements that collectively comprise Algona Municipal Utilities' basic financial statements. The Comparative Summaries of Electricity Distributed and Billed and the Comparative Summaries of Water Pumped and Billed and the Comparative Summaries of Cable, Internet, and Telephone Service Provided included on pages 34 through 36 is presented for additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion on it.

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

July 5, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona Municipal Utilities (AMU) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2006. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- ◆ AMU's revenues increased 16%, or approximately \$1.5 million, from fiscal 2005 to fiscal 2006.
- ◆ Expenses decreased by 4%, or approximately \$500,000, in 2006 from 2005.
- ◆ AMU's net assets increased 1.4%, or approximately \$350,000 during 2006.

USING THIS ANNUAL REPORT

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

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

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

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

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

The Other Supplementary Information in Schedules 1 through 3 is unaudited and provides detailed information about the usage levels of each utility.

REPORTING THE UTILITIES FINANCIAL ACTIVITIES

Fund Financial Statements

AMU utilizes one kind of fund:

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

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

The condensed statement of net assets, shown below, shows how assets and liabilities have changed from 2005 to 2006. Capital assets, net of depreciation, decreased from 2005 to 2006. This decrease is due to depreciation exceeding capital asset purchases during 2006. Total assets decreased by approximately \$1,800,000 and liabilities decreased by 2,200,000 resulting in the increase in net assets of approximately \$350,000 dollars during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Current and other assets	\$ 10,849	\$ 12,349
Capital assets (net of depreciation)	26,240	26,567
Total assets	37,089	38,916
Long-term debt outstanding	8,499	9,010
Other liabilities	2,270	3,943
Total liabilities	10,769	12,953
Net assets:		
Invested in capital assets	19,209	19,189
Restricted	500	500
Unrestricted	6,610	6,274
Total net assets	\$ 26,319	\$ 25,962

INDIVIDUAL MAJOR FUND ANALYSIS

As AMU completed the year, its enterprise funds reported a combined fund balance of \$26.3 million, an increase of approximately \$350,000 under last year's total of \$26.0 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- Electric Fund revenues showed an increase of \$1,100,000 due to increased sales to customers due to a rate increase in February and increased usage. The Electric Fund expenses decreased \$800,000 attributable to less purchased power and decreases in NEAL 4 operating and maintenance expenses. The ending fund balance was \$24,837,000, an increase of \$502,000 from 2005.
- Water Fund revenues increased during 2006 due to expanded customer sales of \$75,000 due to a rate increase in March and increases in usage, while expenses increase only \$41,000. The ending fund balance as a result increased \$28,000 from the prior year to \$2,399,000.
- Communications fund revenues increased approximately 16% due to continued growth in cable, internet, and telephone sales; along with receiving interest revenue in 2006 and a rate increase in July. The Communication's fund expenses increased 5% mainly as a result of the continued growth of the cable, internet, and telephone customers. Increased interest expense on long term debt was also a factor in the increased expenses. The results of the activities resulted in a reduction in fund balance of \$184,000.

The following analysis focuses on the change in net assets for the combined divisions of AMU.

Changes in Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2006	2005
Revenues:		
Program revenues:		
Charges for service	\$ 10,669	\$ 9,202
General revenues:		
Unrestricted investment earnings	395	329
Other general revenues	93	94
Total revenues	11,157	9,625
Program expenses:		
Business type activities	10,801	11,297
Total expenses	10,801	11,297
Increase (Decrease) in net assets	356	(1,672)
Net assets beginning of year	25,963	27,635
Net assets end of year	\$ 26,319	\$ 25,963

BUDGETARY HIGHLIGHTS

AMU did not amend their budget during 2006. AMU's disbursements for business type activities exceeded the budgeted limit for 2006.

CAPTIAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2005, AMU had approximately \$26 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net decrease (including additions and deletions net of depreciation) of approximately \$350,000 or 1 percent under last year.

Capital Assets of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2006	2005
Land	\$ 319	\$ 319
Construction in progress	154	355
Buildings and improvements	2,139	2,187
Equipment and vehicles	902	1,016
Infrastructure	22,726	22,690
Total	\$ 26,240	\$ 26,567

The largest addition to capital assets was the AKA Substation and its related transformers.

AMU had depreciation expense of \$1,982,590 in FY06 and total accumulated depreciation of \$29,065,454 at December 31, 2006.

LONG TERM DEBT/LIABILITIES

At December 31, 2006, AMU had approximately \$5,571,000 in revenue bonds outstanding compared to \$6,043,000 at December 31, 2005, as shown below. AMU's liability for deferred compensation also decreased from approximately \$178,000 to \$176,000.

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

	Outstanding debt of Business Type Activities at Year End (Expressed in Thousands)	
	Year ended December 31,	
	2006	2005
Revenue Bonds	\$ 5,571	\$ 6,043
Deferred compensation	176	178
Total	\$ 5,747	\$ 6,221

At December 31, 2006 and 2005 the Communications Fund owed the Electric Fund \$3,440,000 under an interfund loan agreement established to finance the AMU broadband telecommunications network. The loan agreement calls for interest to accrue at 5% per year and to be repaid within 180 months.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

AMU's appointed officials considered many factors when setting the calendar year 2007 budget including fees that will be charged for the services AMU provides.

These factors were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$12.6 million, an increase of 15 percent over the 2006 budget. The budget is likely to closer reflect the actual cash receipts received as estimated based on 2006 results and increased usage from new businesses. Budgeted disbursements are expected to increase also by approximately \$1.3 million. Again, the 2007 budget was set to more closely reflect the actual results as estimated based on 2006 actual results, and increased expenditures on improvements to the electric system.

If these estimates are realized, AMU's budgetary operating balance is expected to decrease by the close of 2007.

AMU remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery fo the utmost in reliable products and services. In 2007, AMU's Electric department has planned an extensive reconstruction project that will involve several parts of town. The construction project involves the removal of all the old 2400 volt electric facilities, and installing new underground electric wires and associated equipment.

Consistent with the need to invest for the future, AMU has joined with other Iowa cities and utilities to take the lead in making alternative energy sources commercially viable. Under the direction of the Iowa Stored Energy Park Agency, of which AMU is founding member, one of Iowa's greatest energy resources, abundant wind, will be transformed into on-demand electricity for Iowa consumers. A site just outside Dallas Center, Iowa has all the necessary geologic features to allow development of the project. The Iowa Stored Energy Park is expected to be fully operational and providing electricity to Iowa and surrounding states by 2012. The goal is simple: use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

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

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

**PROPRIETARY FUNDS
STATEMENTS OF NET ASSETS
DECEMBER 31:**

	ENTERPRISE	
	ELECTRIC	
	2006	2005
Utility plant:		
Property and equipment	\$ 45,199,198	\$ 43,739,636
Less accumulated depreciation	(25,342,037)	(23,802,494)
	<u>19,857,161</u>	<u>19,937,142</u>
Construction in progress	149,773	203,789
Utility Plant - Net	<u>20,006,934</u>	<u>20,140,931</u>
Restricted funds		
Cash and cash equivalents	459,218	472,127
Temporary cash investments	651,765	636,395
	<u>1,110,983</u>	<u>1,108,522</u>
Current Assets:		
Cash and cash equivalents	995,179	474,374
Accounts receivable (net of allowance for doubtful accounts)	644,012	399,129
Unbilled usage	132,322	110,885
Accounts receivable -interfund	128,622	528,937
Investments	2,410,000	2,935,000
Inventory	423,611	382,814
Prepaid insurance	20,783	18,191
Accrued Interest receivable	44,051	53,254
Accrued interest receivable - interfund loan	172,000	644,412
	<u>4,970,580</u>	<u>5,546,996</u>
Other assets:		
Interfund loan receivable	3,440,000	3,440,000
Economic development loans receivable	307,500	317,500
	<u>3,747,500</u>	<u>3,757,500</u>
Total assets	<u>\$ 29,835,997</u>	<u>\$ 30,553,949</u>

Exhibit A

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ 4,714,150	\$ 4,664,325	\$ 5,237,729	\$ 4,907,256	\$ 55,151,077	\$ 53,311,217
(2,579,867)	(2,492,776)	(1,143,550)	(804,033)	(29,065,454)	(27,099,303)
2,134,283	2,171,549	4,094,179	4,103,223	26,085,623	26,211,914
2,881	-	1,122	151,554	153,776	355,343
2,137,164	2,171,549	4,095,301	4,254,777	26,239,399	26,567,257
-	-	-	-	459,218	472,127
2,830	2,074	21,486	14,854	676,081	653,323
2,830	2,074	21,486	14,854	1,135,299	1,125,450
62,650	43,450	440,759	1,434,532	1,498,588	1,952,356
103,931	39,106	177,111	206,730	925,054	644,965
19,606	22,993	-	-	151,928	133,878
-	-	-	-	128,622	528,937
90,000	90,000	-	-	2,500,000	3,025,000
49,489	43,552	27,260	13,821	500,360	440,187
9,017	6,064	14,803	14,797	44,603	39,052
1,130	3,272	-	-	45,181	56,526
-	-	-	-	172,000	644,412
335,823	248,437	659,933	1,669,880	5,966,336	7,465,313
-	-	-	-	3,440,000	3,440,000
-	-	-	-	307,500	317,500
-	-	-	-	3,747,500	3,757,500
\$ 2,475,817	\$ 2,422,060	\$ 4,776,720	\$ 5,939,511	\$ 37,088,534	\$ 38,915,520

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

**PROPRIETARY FUNDS
STATEMENTS OF NET ASSETS - continued
DECEMBER 31:**

	ENTERPRISE	
	ELECTRIC	
	2006	2005
Liabilities:		
Current liabilities:		
Accounts payable	\$ 242,203	\$ 1,172,544
Accounts payable - City of Algona	189,336	150,875
Accounts payable - interfund	-	-
Checks in excess of bank balance	-	-
Retainage and contracts payable	-	-
Accrued taxes	137,770	128,024
Accrued wages and compensated absences	123,426	108,523
Accrued interest payable	103,876	111,833
Deferred revenue	-	-
Revenue bonds payable	355,000	335,000
	<u>1,151,611</u>	<u>2,006,799</u>
Noncurrent liabilities		
Revenue bonds payable - net of current portion	3,695,000	4,050,000
Interfund loan - payable	-	-
	<u>3,695,000</u>	<u>4,050,000</u>
Other liabilities		
Deferred compensation liability	151,765	161,395
	<u>151,765</u>	<u>161,395</u>
Total liabilities	<u>4,998,376</u>	<u>6,218,194</u>
Fund Net Assets		
Invested in capital assets, net of related debt	16,416,154	16,203,058
Restricted - Bond Covenant	500,000	500,000
Unrestricted (deficit)	7,921,467	7,632,697
Total Net Assets	<u>\$ 24,837,621</u>	<u>\$ 24,335,755</u>

See Notes to Financial Statements

Exhibit A - continued

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2006	2005	2006	2005	2005	2004
\$ 12,792	\$ 2,028	\$ 74,880	\$ 65,558	\$ 329,875	\$ 1,240,130
3,977	-	92,472	88,534	285,785	239,409
-	-	128,622	528,937	128,622	528,937
14,746	19,690	-	-	14,746	19,690
3,529	3,529	-	-	3,529	3,529
5,546	1,978	63,773	66,545	207,089	196,547
33,552	32,098	36,610	35,863	193,588	176,484
-	-	172,000	644,412	275,876	756,245
-	-	143,360	130,455	143,360	130,455
-	-	156,620	137,665	511,620	472,665
<u>74,142</u>	<u>59,323</u>	<u>868,337</u>	<u>1,697,969</u>	<u>2,094,090</u>	<u>3,764,091</u>
-	-	1,364,301	1,520,438	5,059,301	5,570,438
-	-	3,440,000	3,440,000	3,440,000	3,440,000
-	-	4,804,301	4,960,438	8,499,301	9,010,438
<u>2,830</u>	<u>2,074</u>	<u>21,486</u>	<u>14,854</u>	<u>176,081</u>	<u>178,323</u>
<u>76,972</u>	<u>61,397</u>	<u>5,694,124</u>	<u>6,673,261</u>	<u>10,769,472</u>	<u>12,952,852</u>
2,137,164	2,171,549	655,301	814,777	19,208,619	19,189,384
-	-	-	-	500,000	500,000
261,681	189,114	(1,572,705)	(1,548,527)	6,610,443	6,273,284
<u>\$ 2,398,845</u>	<u>\$ 2,360,663</u>	<u>\$ (917,404)</u>	<u>\$ (733,750)</u>	<u>\$ 26,319,062</u>	<u>\$ 25,962,668</u>

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

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

DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2006	2005
Operating revenues:		
Sale of electricity:		
Residential and commercial	\$ 6,405,054	\$5,202,549
Neal 4	839,579	1,041,948
Service provided to City of Algona	73,046	71,325
Sales to other utilities	106,280	87,667
Sale of water	-	-
Cable TV fees	-	-
Internet fees	-	-
Telephone Service	-	-
Merchandising	52,566	19,784
Miscellaneous	166,256	146,673
Total operating revenue	7,642,781	6,569,946
Operating expenses		
Generation and power purchased	3,387,968	4,134,246
Transmission-distribution maintenance	519,892	459,575
Meter reading supplies and labor	175,955	152,685
Sales	60,691	54,673
General and other	541,897	568,202
Administration and general	217,416	279,614
Rebates and other expenses	46,974	40,565
Merchandise, jobbing and construction	12,748	6,421
Property tax and insurance	171,988	195,389
Depreciation	1,539,543	1,520,173
Sales and use tax	839	-
Source of supply	-	-
Maintenance of mains, services and meters	-	-
Maintenance of distribution and equipment	-	-
Headend programming	-	-
Customer accounts	-	-
Total operating expenses	6,675,911	7,411,543
Income (loss) from operations	\$ 966,870	\$ (841,597)

See Notes to Financial Statements

Exhibit B

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ -	\$ -	\$ -	\$ -	\$ 6,405,054	\$ 5,202,549
-	-	-	-	839,579	1,041,948
-	-	-	-	73,046	71,325
-	-	-	-	106,280	87,667
659,072	584,869	-	-	659,072	584,869
-	-	937,696	735,363	937,696	735,363
-	-	589,008	527,695	589,008	527,695
-	-	804,618	751,670	804,618	751,670
30,323	19,354	-	-	82,889	39,138
-	-	5,492	12,707	171,748	159,380
<u>689,395</u>	<u>604,223</u>	<u>2,336,814</u>	<u>2,027,435</u>	<u>10,668,990</u>	<u>9,201,604</u>
-	-	-	-	3,387,968	4,134,246
-	-	-	-	519,892	459,575
-	-	-	-	175,955	152,685
-	-	-	-	60,691	54,673
-	-	-	-	541,897	568,202
207,491	181,301	466,798	464,739	891,705	925,654
-	-	-	-	46,974	40,565
14,309	4,784	92,236	104,381	119,293	115,586
-	-	84,784	120,593	256,772	315,982
103,530	96,672	339,517	302,985	1,982,590	1,919,830
-	-	767	4,962	1,606	4,962
161,927	154,953	-	-	161,927	154,953
119,127	130,648	-	-	119,127	130,648
-	-	153,718	107,677	153,718	107,677
-	-	1,238,892	1,213,641	1,238,892	1,213,641
50,411	43,605	64,742	65,671	115,153	109,276
<u>656,795</u>	<u>611,963</u>	<u>2,441,454</u>	<u>2,384,649</u>	<u>9,774,160</u>	<u>10,408,155</u>
\$ 32,600	\$ (7,740)	\$ (104,640)	\$ (357,214)	\$ 894,830	\$ (1,206,551)

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

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

DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2006	2005
Non-operating income (expense) and transfers		
Interest income	\$ 378,714	\$ 325,396
Interest expense	(208,085)	(223,666)
Miscellaneous	64,303	66,533
Donations	(39,000)	(22,000)
Transfers to City - in lieu of property tax	(400,936)	(330,215)
Gain (Loss) on disposition of assets	-	-
Total other income (expense)	<u>(205,004)</u>	<u>(183,952)</u>
(Loss) before transfers	761,866	(1,025,549)
Transfers in (out)	<u>(260,000)</u>	<u>-</u>
Change in Net Assets	501,866	(1,025,549)
Total net assets, beginning	<u>24,335,755</u>	<u>25,361,304</u>
Total net assets, ending	<u><u>\$ 24,837,621</u></u>	<u><u>\$ 24,335,755</u></u>

Exhibit B - continued

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ 5,890	\$ 3,269	\$ 10,667	\$ -	\$ 395,271	\$ 328,665
-	-	(248,903)	(190,959)	(456,988)	(414,625)
22,129	23,003	5,125	4,258	91,557	93,794
-	-	-	-	(39,000)	(22,000)
(33,791)	(29,746)	(95,903)	(91,256)	(530,630)	(451,217)
1,354	-	-	-	1,354	-
(4,418)	(3,474)	(329,014)	(277,957)	(538,436)	(465,383)
28,182	(11,214)	(433,654)	(635,171)	356,394	(1,671,934)
10,000	-	250,000	-	-	-
38,182	(11,214)	(183,654)	(635,171)	356,394	(1,671,934)
2,360,663	2,371,877	(733,750)	(98,579)	25,962,668	27,634,602
<u>\$ 2,398,845</u>	<u>\$ 2,360,663</u>	<u>\$ (917,404)</u>	<u>\$ (733,750)</u>	<u>\$ 26,319,062</u>	<u>\$ 25,962,668</u>

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

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

	<u>ENTERPRISE</u>	
	<u>ELECTRIC</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 6,809,890	\$ 6,488,984
Cash receipts from interfund services	528,622	-
Other operating cash receipts	37,634	18,051
Cash payments to suppliers	(4,847,845)	(4,214,207)
Cash payments to employees	(836,974)	(783,541)
Cash payments for interfund services	-	-
	<u>1,691,327</u>	<u>1,509,287</u>
Cash flows from noncapital financing activities		
Transfer to the City of Algona in-lieu of property tax	(362,475)	(275,519)
Donations	(39,000)	(22,000)
Intercompany Transfers	(260,000)	-
	<u>(661,475)</u>	<u>(297,519)</u>
Cash flows from capital and related financing activities		
Deferred compensation payments	(30,843)	(53,511)
Deferred compensation deposits	21,213	88,398
Acquisition and construction of capital assets	(1,405,546)	(971,638)
Repayment of revenue bonds	(335,000)	(315,000)
Proceeds from bond issuances	-	-
Cash payments for interest	(216,042)	(231,068)
	<u>(1,966,218)</u>	<u>(1,482,819)</u>
Cash flows from investing activities:		
Interest received during the year	860,329	118,576
Principal received on economic development loan	10,000	-
Proceeds from redemption of investments	7,000,000	5,000,000
Purchase of investments	(6,490,370)	(5,207,613)
Proceeds from sale of fixed asset	-	-
Miscellaneous income	64,303	66,533
	<u>64,303</u>	<u>66,533</u>
Net cash provided by investing activities	<u>\$ 1,444,262</u>	<u>\$ (22,504)</u>

See Notes to Financial Statements

Exhibit C

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ 627,957	\$ 585,381	\$ 2,373,846	\$ 1,993,342	\$ 9,811,693	\$ 9,067,707
-	-	-	-	528,622	-
-	-	5,492	12,707	43,126	30,758
(255,649)	(286,876)	(1,514,457)	(1,404,324)	(6,617,951)	(5,905,407)
(295,664)	(266,184)	(465,321)	(477,580)	(1,597,959)	(1,527,305)
-	-	(528,622)	-	(528,622)	-
<u>76,644</u>	<u>32,321</u>	<u>(129,062)</u>	<u>124,145</u>	<u>1,638,909</u>	<u>1,665,753</u>
(29,814)	(24,473)	(91,965)	(75,597)	(484,254)	(375,589)
-	-	-	-	(39,000)	(22,000)
<u>10,000</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(19,814)</u>	<u>(24,473)</u>	<u>158,035</u>	<u>(75,597)</u>	<u>(523,254)</u>	<u>(397,589)</u>
-	-	-	-	(30,843)	(53,511)
756	670	6,632	6,149	28,601	95,217
(73,291)	(112,710)	(180,041)	(257,418)	(1,658,878)	(1,341,766)
-	-	(137,182)	(91,897)	(472,182)	(406,897)
-	-	-	1,750,000	-	1,750,000
-	-	(721,315)	(18,959)	(937,357)	(250,027)
<u>(72,535)</u>	<u>(112,040)</u>	<u>(1,031,906)</u>	<u>1,387,875</u>	<u>(3,070,659)</u>	<u>(206,984)</u>
8,032	\$ 1,059	10,667	-	879,028	119,635
-	-	-	-	10,000	-
180,000	120,000	-	-	7,180,000	5,120,000
(180,756)	(20,670)	(6,632)	(6,149)	(6,677,758)	(5,234,432)
5,500	-	-	-	5,500	-
<u>22,129</u>	<u>23,003</u>	<u>5,125</u>	<u>4,258</u>	<u>91,557</u>	<u>93,794</u>
<u>\$ 34,905</u>	<u>\$ 123,392</u>	<u>\$ 9,160</u>	<u>\$ (1,891)</u>	<u>\$ 1,488,327</u>	<u>\$ 98,997</u>

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

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

	ENTERPRISE	
	ELECTRIC	
	2006	2005
Net increase (decrease) in cash and cash equivalents	\$ 507,896	\$ (293,555)
Cash and cash equivalents-beginning of year	946,501	1,240,056
Cash and cash equivalents-end of year	<u>1,454,397</u>	<u>946,501</u>
Restricted funds	459,218	472,127
Current assets	<u>995,179</u>	<u>474,374</u>
	<u>1,454,397</u>	<u>946,501</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Income (Loss) from operations	966,870	(841,597)
Adjustments to reconcile operating income to Net cash provided by operating activities:		
Depreciation	1,539,543	1,520,173
Change in accounts receivable	(244,883)	(58,389)
Change in unbilled usage	(21,437)	(8,566)
Change in accounts receivable - interfund	400,315	(128,622)
Change in prepaid expenses	(2,592)	3,134
Change in inventory	(40,797)	52,247
Change in accounts payable and retainages payable	(930,341)	944,305
Change in checks in excess of bank balance	-	-
Change in accrued taxes	9,746	10,383
Change in accrued wages and compensated absences	14,903	16,219
Change in deferred revenue	-	-
	<u>\$ 1,691,327</u>	<u>\$ 1,509,287</u>

See Notes to Financial Statements

Exhibit C - continued

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2006	2005	2006	2005	2006	2005
\$ 19,200	\$ 19,200	\$ (993,773)	\$ 1,434,532	\$ (466,677)	\$ 91,690
43,450	24,250	1,434,532	-	2,424,483	1,264,306
<u>62,650</u>	<u>43,450</u>	<u>440,759</u>	<u>1,434,532</u>	<u>1,957,806</u>	<u>2,424,483</u>
-	-	-	-	459,218	472,127
<u>62,650</u>	<u>43,450</u>	<u>440,759</u>	<u>1,434,532</u>	<u>1,498,588</u>	<u>1,952,356</u>
<u>62,650</u>	<u>43,450</u>	<u>440,759</u>	<u>1,434,532</u>	<u>1,957,806</u>	<u>2,424,483</u>
32,600	(7,740)	(104,640)	(357,214)	894,830	(1,206,551)
103,530	96,672	339,517	302,985	1,982,590	1,919,830
(64,825)	(11,020)	29,619	(42,341)	(280,089)	(111,750)
3,387	(7,822)	-	-	(18,050)	(16,388)
-	-	(400,315)	128,622	-	-
(2,953)	(1,290)	(6)	(9,309)	(5,551)	(7,465)
(5,937)	6,163	(13,439)	(5,684)	(60,173)	52,726
10,764	(16,483)	9,322	37,084	(910,255)	964,906
(4,944)	(30,313)	-	(20,863)	(4,944)	(51,176)
3,568	478	(2,772)	65,487	10,542	76,348
1,454	3,676	747	4,423	17,104	24,318
-	-	12,905	20,955	12,905	20,955
<u>\$ 76,644</u>	<u>\$ 32,321</u>	<u>\$ (129,062)</u>	<u>\$ 124,145</u>	<u>\$ 1,638,909</u>	<u>\$ 1,665,753</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Presentation

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

AMU reports the following major proprietary funds:

Enterprise:

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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

C. Measurement Focus and Basis of Accounting

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of AMU are charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2006, disbursements exceeded the amounts budgeted.

E. Utility Plant and Depreciation

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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

F. Revenue, Unbilled Usage, and Deferred Revenue

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

G. Inventory

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

H. Joint Plant Ownership

Under a joint ownership agreement with other utilities, AMU has a 2.937% undivided interest in a 640 MW electric generation station known as George Neal Generating Station Unit No. 4. As of December 31, 2006 and 2005, AMU's interest in this plant represents a total investment of \$10,515,369 and \$10,481,377 included in property and equipment respectively. Accumulated depreciation associated with the Utility's ownership in this plant totaled \$(8,562,607) and \$(8,215,662) at December 31, 2006 and 2005 respectively. Operating costs and depreciation associated with this plant are reflected in the statement of income.

AMU also has a 4.18% undivided interest in the Lehigh-Webster Transmission System. As of December 31, 2006 and 2005, AMU's interest in the system represents a total investment of \$364,770 included in property and equipment. Accumulated depreciation associated with the AMU's ownership in this plant totaled \$(338,831) and \$(325,755) at December 31, 2006 and 2005 respectively. Operating costs and depreciation associated with this system are reflected in the statement of income.

I. Interest Capitalization

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

J. Rate Matters

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

K. Use of Estimates

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

L. Cash and Cash Equivalents

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

NOTE 2 - CASH AND INVESTMENTS

AMU's deposits at December 31, 2006 and 2005 (which include certificates of deposit totaling \$3,000,000 and \$3,500,000 respectively) were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS-continued

AMU had investments in the Iowa Public Agency Investments Trust at December 31, 2006 and 2005, which are valued at and amortized cost of \$530,086 and \$0 respectively pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

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

Reconciliation of the Utility’s cash and cash equivalents and temporary cash and investments for the years ended December 31, 2006 and 2005 is as follows:

	December 31, 2006			
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Restricted	\$ 459,218	-	-	\$ 459,218
Current assets	995,179	62,650	440,759	1,498,588
	<u>1,454,397</u>	<u>62,650</u>	<u>440,759</u>	<u>1,957,806</u>
Investments				
Restricted	651,765	2,830	21,486	676,081
Unrestricted	2,410,000	90,000	-	2,500,000
	<u>3,061,765</u>	<u>92,830</u>	<u>21,486</u>	<u>3,176,081</u>
Total cash and cash equivalents and investments	<u>\$ 4,516,162</u>	<u>155,480</u>	<u>462,245</u>	<u>\$ 5,133,887</u>
	December 31, 2005			
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Restricted	\$ 472,127	-	-	\$ 472,127
Current assets	474,374	43,450	1,434,532	1,952,356
	<u>946,501</u>	<u>43,450</u>	<u>1,434,532</u>	<u>2,424,483</u>
Investments				
Restricted	636,395	2,074	14,854	653,323
Unrestricted	2,935,000	90,000	-	3,025,000
	<u>3,571,395</u>	<u>92,074</u>	<u>14,854</u>	<u>3,678,323</u>
Total cash and cash equivalents and investments	<u>\$ 4,517,896</u>	<u>135,524</u>	<u>1,449,386</u>	<u>\$ 6,102,806</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – BOARD DESIGNATED FUNDS

AMU’s Board of Trustees designates funds for certain purposes from time to time in order to earmark funds for special purposes and not for regular operations. The board-designated funds are included on the balance sheet as current assets and are available given board approval for any and all expenditures incurred by AMU if necessary. The designations as of December 31, 2006 and 2005 are summarized below.

Money has been designated to the following funds:

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

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

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

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

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

Capacity Reserve – for future expansion of electric capacity.

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

	December 31, 2006			
	Electric Utility	Water Utility	Communications Utility	Total Utility
Transmission reserve				
Cash and cash equivalents	\$ 375,000	-	-	\$ 375,000
Investments	1,585,000	-	-	1,585,000
	<u>1,960,000</u>	-	-	<u>1,960,000</u>
Improvement reserve				
Cash and cash equivalents	115,000	54,250	-	169,250
Investments	125,000	10,000	-	135,000
	<u>\$ 240,000</u>	<u>64,250</u>	-	<u>\$ 304,250</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – BOARD DESIGNATED FUNDS – continued

	December 31, 2006 – continued			
	Electric Utility	Water Utility	Communications Utility	Total Utility
Medical self-insured				
Cash and cash equivalents	\$ 39,032	-	-	\$ 39,032
Investments	-	-	-	-
	39,032	-	-	39,032
Self-insured reserve				
Cash and cash equivalents	-	8,400	-	8,400
Investments	150,000	80,000	-	230,000
	150,000	88,400	-	238,400
Capacity Reserve				
Cash and cash equivalents	7,000	-	-	7,000
Investments	550,000	-	-	550,000
	557,000	-	-	557,000
Economic development loan fund				
Cash and cash equivalents	22,500	-	-	22,500
Economic development loans receivable	307,500	-	-	307,500
	330,000	-	-	330,000
Total unrestricted funds designated by trustees				
Cash and cash equivalents	558,532	62,650	-	621,182
Investments	2,717,500	90,000	-	2,807,500
	\$ 3,276,032	152,650	-	\$ 3,428,682

	December 31, 2005			
	Electric Utility	Water Utility	Communications Utility	Total Utility
Transmission Reserve				
Cash and cash equivalents	\$ 160,000	-	-	\$ 160,000
Investments	2,335,000	-	-	2,335,000
	2,495,000	-	-	2,495,000
Improvement Reserve				
Cash and cash equivalents	120,000	36,250	-	156,250
Investments	-	10,000	-	10,000
	\$ 120,000	46,250	-	\$ 166,250

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – BOARD DESIGNATED FUNDS – continued

	December 31, 2005 – continued			
	Electric Utility	Water Utility	Communications Utility	Total Utility
Medical self-insured				
Cash and cash equivalents	\$ 31,492	-	-	\$ 31,492
Investments	-	-	-	-
	31,492	-	-	31,492
Self-insured reserve				
Cash and cash equivalents	-	7,200	-	7,200
Investments	150,000	80,000	-	230,000
	150,000	87,200	-	237,200
Capacity Reserve				
Cash and cash equivalents	107,000	-	-	107,000
Investments	450,000	-	-	450,000
	557,000	-	-	557,000
Economic development loan fund				
Cash and cash equivalents	12,500	-	-	12,500
Economic development loans receivable	317,500	-	-	317,500
	330,000	-	-	330,000
Total unrestricted funds designated by trustees				
Cash and cash equivalents	430,992	43,450	-	474,442
Investments	3,252,500	90,000	-	3,342,500
	\$ 3,683,492	133,450	-	\$ 3,816,942

NOTE 4 – INTERFUND LOAN

The Board of Trustees passed resolutions creating an interfund loan account dedicated to the financing and operation of the AMU broadband telecommunications network. Management authorized interfund loans not to exceed \$5,540,000. All monies transferred shall be repaid to the originating account within 180 months with interest at the rate of 5.0% per annum. In accordance with Iowa Senate file 224, Sec. 3, AMU passed a resolution effective June 30, 2004 forgiving \$2,100,000 of the previously authorized interfund loans.

The resolution decreased the interest rate on the interfund loan from 5.5% to 5.0%. As of December 31, 2006 and 2005 the outstanding balance on the interfund loan was \$3,440,000.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – INTERFUND LOAN - continued

This interfund loan is reflected on the Electric Department Balance Sheet as an Other Asset. It is reflected on the Communication Department's Balance Sheets as an Other Liability. Accrued interest as of December 31, 2006 and 2005 of \$172,000 and \$644,412 respectively is also reflected on the Electric Department's Balance Sheet as Accrued Interest Receivable – Interfund Loan and the Communication Department's Balance Sheet as Accrued Interest Payable - Interfund Loan.

NOTE 5 – ECONOMIC DEVELOPMENT LOAN FUND

AMU has established through board designation a revolving loan fund in conjunction with the City of Algona. To date \$330,000 has been lent to the City of Algona to fund the program. From these funds, money was lent by the City of Algona for various economic development projects. This money is to be repaid by the City of Algona as they receive payments from the various borrowers. As of December 31, 2006 and 2005 the balance due AMU under the program was \$307,500 and \$317,500 respectively.

NOTE 6 – REVENUE BONDS PAYABLE

The following is a summary of changes in long-term debt for the year ended December 31, 2006 and 2005.

Electric Utility:

	Bal. 1/1/06	Issued	Repaid	Bal. 12/31/06
Business type activities:				
Revenue Bonds – issued August 24, 2000	\$4,385,000		335,000	\$ 4,050,000

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

Communications Utility:

	Bal. 1/1/06	Issued	Repaid	Bal. 12/31/06
Business type activities:				
Revenue Bonds – issued January 12, 2005	\$ 414,708	-	87,672	\$ 327,036
Revenue Bonds – issued November 30, 2005	746,024	-	28,590	717,434
Revenue Bonds – issued December 13, 2005	497,371	-	20,920	476,451
	<u>\$ 1,658,103</u>	<u>-</u>	<u>137,182</u>	<u>\$ 1,520,921</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – REVENUE BONDS PAYABLE - continued

Communications Utility - continued:

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

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

Year Ending December 31,	Electric Series 2000 Interest 4.75-5.35%		Communications Jan 12., 2005 Interest 3.74%		Communications Nov. 30, 2005 Interest 6.0%		Communications Dec 13, 2005 Interest 5.09%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	355,000	199,144	99,128	10,543	33,531	42,687	23,961	23,697	511,620	276,071
2008	375,000	181,347	102,900	6,772	35,510	40,708	25,210	22,449	538,620	251,276
2009	395,000	162,285	106,815	2,857	37,850	38,368	26,524	21,135	566,189	224,645
2010	420,000	141,805	18,193	85	610,543	36,000	27,906	19,753	1,076,642	197,643
2011	445,000	119,853	-	-	-	-	29,360	18,299	474,360	138,152
2012	470,000	96,402	-	-	-	-	30,889	16,770	500,889	113,172
2013	500,000	71,175	-	-	-	-	32,499	15,160	532,499	86,335
2014	530,000	44,005	-	-	-	-	34,192	13,467	564,192	57,472
2015	560,000	14,980	-	-	-	-	35,974	11,685	595,974	26,665
2016	-	-	-	-	-	-	37,848	9,811	37,848	9,811
2017	-	-	-	-	-	-	39,820	7,839	39,820	7,839
2018	-	-	-	-	-	-	41,895	5,764	41,895	5,764
2019	-	-	-	-	-	-	44,078	3,581	44,078	3,581
2020	-	-	-	-	-	-	46,295	1,285	46,295	1,285
	<u>\$4,050,000</u>	<u>1,030,996</u>	<u>327,036</u>	<u>20,257</u>	<u>717,434</u>	<u>157,763</u>	<u>476,451</u>	<u>190,695</u>	<u>5,570,921</u>	<u>\$1,399,711</u>

The resolutions providing for the issuance of the Series 2000 revenue bonds include the following provisions:

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – INTEREST COSTS

During the years ended December 31, 2006 and 2005, the interest incurred and expensed by the Electric Fund was \$208,085 and \$223,666 respectively.

During the years ended December 31, 2006 and 2005, the interest incurred by the Communication Fund was \$248,903 and \$190,959 respectively. The Electric Fund recognized interest income of \$172,000 each year from the interfund loan during 2006 and 2005.

NOTE 8 – RESTRICTED FUNDS

As of December 31, 2006 and 2005 Restricted Funds related to the Electric Department consisted of the following.

	December 31, 2006		
	Cash and Cash		
	Equivalents	Investments	Total
Bond sinking fund	\$ 459,218	\$ -	\$ 459,218
Bond reserve fund	-	500,000	500,000
Total restricted bond funds	459,218	500,000	959,218
Deferred compensation fund	-	151,765	151,765
	\$ 459,218	\$ 651,765	\$1,110,983

	December 31, 2005		
	Cash and Cash		
	Equivalents	Investments	Total
Bond sinking fund	\$ 447,127	\$ -	\$ 447,127
Bond reserve fund	25,000	475,000	500,000
Total restricted bond funds	472,127	475,000	947,127
Deferred compensation fund	-	161,395	161,395
	\$ 472,127	\$ 636,395	\$1,108,522

The bond funds are restricted as stated in Note 6.

AMU previously entered into an unfunded deferred compensation plan with a former general manager. The former general manager retired in 2000 and began receiving distributions from this fund.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – RESTRICTED FUNDS - continued

AMU has a fiduciary responsibility over this restricted fund and the fund assets remain the property of AMU until paid. The restricted funds set aside for this program were \$101,715 and \$128,974 at December 31, 2006 and 2005 respectively. The remaining deferred compensation fund assets are maintained in a 457(b) plan.

The Water and Communications funds had restricted funds of \$2,830 and \$21,486 as of December 31, 2006 and \$2,074 and \$14,854 as of December 31, 2005. These funds were all held in the 457(b) deferred compensation plan offered AMU employees.

NOTE 9 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and AMU is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. AMU's contributions to IPERS for the years ended December 31, 2006, 2005 and 2004 were \$89,212, \$86,969 and \$81,896 respectively, equal to the required contributions for each year.

NOTE 10 - TRANSFERS TO CITY IN LIEU OF PROPERTY TAXES

By resolution of AMU's Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Algona, Iowa. For the years ended December 31, 2006 and 2005, transfers totaled 5% of gross sales less actual property taxes paid and services rendered to the City of Algona, Iowa.

NOTE 11 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years. The Utility

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

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - RISK MANAGEMENT - continued

assumes liability for any deductibles and claims in excess of coverage limitations. The Utility also has a self-insured reserve fund to be used for replacement and repair of outside assets in the event of disaster. See Note 3 for more detail regarding the self-insured reserve fund.

NOTE 12 - JOINT VENTURE

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

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

NOTE 13 – COMPENSATED ABSENCES

AMU employees accumulate a limited amount of earned but unused vacation. The Utility's approximate liability for earned vacation payments payable to employees at December 31, 2006 and 2005 is as follows:

Type of Benefit	Electric	Water	Communication	Total
December 31, 2006				
Vacation	\$ 49,898	11,107	13,108	\$ 74,113
December 31, 2005				
Vacation	\$ 44,346	10,691	17,243	\$ 72,280

NOTE 14 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2006 and 2005 was as follows:

December 31, 2006

Electric Fund

Proprietary Activities	Balance			Balance
	Beginning	Increases	Decreases	End
	of Year			of Year
Capital Assets not being depreciated:				
Land	\$ 257,428	-	-	\$ 257,428
Construction in progress	203,789	898,385	952,401	149,773
	\$ 461,217	898,385	952,401	\$ 407,201

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

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – CAPITAL ASSETS – continued

Electric Fund - continued

Capital Assets being depreciated:						
Buildings and improvements	\$	2,502,893	21,452	-	\$	2,524,345
Equipment and vehicles		2,244,616	58,587	-		2,303,203
Infrastructure		38,734,699	1,379,523	-		40,114,222
Total capital assets being depreciated		<u>43,482,208</u>	<u>1,459,562</u>	-		<u>44,941,770</u>
Less accumulated depreciation for:						
Buildings and improvements		485,696	61,378	-		547,074
Equipment and vehicles		1,323,027	166,743	-		1,489,770
Infrastructure, road network		21,993,771	1,311,422	-		23,305,193
Total accumulated depreciation		<u>23,802,494</u>	<u>1,539,543</u>	-		<u>25,342,037</u>
Total capital assets being depreciated, net		<u>19,679,714</u>				<u>19,599,733</u>
Business type activities capital assets, net	\$	<u>20,140,931</u>			\$	<u>20,006,934</u>

Water Fund

Proprietary Activities	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	-	21,051	18,171	2,881
	<u>\$ 12,306</u>	<u>21,051</u>	<u>18,171</u>	<u>\$ 15,187</u>
Capital Assets being depreciated:				
Equipment and vehicles	\$ 211,987	26,067	20,585	\$ 217,469
Infrastructure	4,440,032	44,343	-	4,484,375
Total capital assets being depreciated	<u>4,652,019</u>	<u>70,410</u>	<u>20,585</u>	<u>4,701,844</u>
Less accumulated depreciation for:				
Equipment and vehicles	161,278	10,411	16,439	155,250
Infrastructure, road network	2,331,498	93,119	-	2,424,617
Total accumulated depreciation	<u>2,492,776</u>	<u>103,530</u>	<u>16,439</u>	<u>2,579,867</u>
Total capital assets being depreciated, net	<u>2,159,243</u>			<u>2,121,977</u>
Business type activities capital assets, net	<u>\$ 2,171,549</u>			<u>\$ 2,137,164</u>

Communications Fund

Proprietary Activities	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	151,554	12,822	163,254	1,122
	<u>\$ 201,189</u>	<u>12,822</u>	<u>163,254</u>	<u>\$ 50,757</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – CAPITAL ASSETS – continued

Communications Fund – continued

Capital Assets being depreciated:					
Buildings and improvements	\$	202,184	-	\$	202,184
Equipment and vehicles		149,046	3,210		152,256
Infrastructure		4,506,391	327,263		4,833,654
Total capital assets being depreciated		<u>4,857,621</u>	<u>330,473</u>		<u>5,188,094</u>
Less accumulated depreciation for:					
Buildings and improvements		32,349	8,088		40,437
Equipment and vehicles		104,921	20,555		125,476
Infrastructure, road network		666,763	310,874		977,637
Total accumulated depreciation		<u>804,033</u>	<u>339,517</u>		<u>1,143,550</u>
Total capital assets being depreciated, net		<u>4,053,588</u>			<u>4,044,544</u>
Business type activities capital assets, net	\$	<u>4,254,777</u>		\$	<u>4,095,301</u>

December 31, 2005:

Electric Fund

Proprietary Activities	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 257,428	-	-	\$ 257,428
Construction in progress	207,227	283,289	286,727	203,789
	<u>\$ 464,655</u>	<u>283,289</u>	<u>286,727</u>	<u>\$ 461,217</u>
Capital Assets being depreciated:				
Buildings and improvements	\$ 2,445,509	57,384	-	\$ 2,502,893
Equipment and vehicles	2,264,133	42,066	61,583	2,244,616
Infrastructure	37,924,761	809,938	-	38,734,699
Total capital assets being depreciated	<u>42,634,403</u>	<u>909,388</u>	<u>61,583</u>	<u>43,482,208</u>
Less accumulated depreciation for:				
Buildings and improvements	425,705	59,991	-	485,696
Equipment and vehicles	1,205,426	175,098	57,497	1,323,027
Infrastructure, road network	20,708,687	1,285,084	-	21,993,771
Total accumulated depreciation	<u>22,339,818</u>	<u>1,520,173</u>	<u>57,497</u>	<u>23,802,494</u>
Total capital assets being depreciated, net	<u>20,294,585</u>			<u>19,679,714</u>
Business type activities capital assets, net	\$ <u>20,759,240</u>			\$ <u>20,140,931</u>

Water Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	161,150	79,729	240,879	-
	<u>\$ 173,456</u>	<u>79,729</u>	<u>240,879</u>	<u>\$ 12,306</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – CAPITAL ASSETS – continued

Water Fund - continued

Capital Assets being depreciated:					
Equipment and vehicles	\$	211,282	705	-	\$ 211,987
Infrastructure		4,167,860	272,172	-	4,440,032
Total capital assets being depreciated		<u>4,379,142</u>	<u>272,877</u>	-	<u>4,652,019</u>
Less accumulated depreciation for:					
Equipment and vehicles		152,084	9,194	-	161,278
Infrastructure, road network		2,244,020	87,478	-	2,331,498
Total accumulated depreciation		<u>2,396,104</u>	<u>96,672</u>	-	<u>2,492,776</u>
Total capital assets being depreciated, net		<u>1,983,038</u>			<u>2,159,243</u>
Business type activities capital assets, net	\$	<u>2,156,494</u>			<u>\$ 2,171,549</u>

Communications Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	-	154,820	3,266	151,554
	<u>\$ 49,635</u>	<u>154,820</u>	<u>3,266</u>	<u>\$ 201,189</u>
Capital Assets being depreciated:				
Buildings and improvements	\$ 202,184	-	-	\$ 202,184
Equipment and vehicles	149,046	-	-	149,046
Infrastructure	4,400,527	105,864	-	4,506,391
Total capital assets being depreciated	<u>4,751,757</u>	<u>105,864</u>	-	<u>4,857,621</u>
Less accumulated depreciation for:				
Buildings and improvements	24,262	8,087	-	32,349
Equipment and vehicles	77,620	27,301	-	104,921
Infrastructure, road network	399,166	267,597	-	666,763
Total accumulated depreciation	<u>501,048</u>	<u>302,985</u>	-	<u>804,033</u>
Total capital assets being depreciated, net	<u>4,250,709</u>			<u>4,053,588</u>
Business type activities capital assets, net	\$ <u>4,300,344</u>			\$ <u>4,254,777</u>

Depreciation expense was charged to the following functions:

Proprietary activities:	December 31, 2006	December 31, 2005
Electric	\$ 1,539,543	\$ 1,520,173
Water	103,530	96,672
Communications	<u>339,517</u>	<u>302,985</u>
	<u>\$1,982,590</u>	<u>\$ 1,919,830</u>

NOTE 15 – DEFICIT FUND BALANCE

The Communications Fund has a deficit balance of \$917,404 and \$733,750 as of December 31, 2006 and 2005 respectively.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 16 – INTERFUND TRANSFERS

For the year ended December 31, 2006, interfund transfers were as detailed below.

Transferred from:	Transferred to:	Amount
Electric Fund	Communications Fund	\$ 250,000
Electric Fund	Water Fund	10,000
		<u>\$ 260,000</u>

The transfer was made with the Board of Trustees' approval from the surpluses generated in the electric fund.

NOTE 17 – JOINT LEASE AGREEMENT

Algona Municipal Utilities constructed a distribution system to facilitate the implementation of the data services offered to area residents and businesses. Portions of this system and the office facilities maintained by the Electric utility are leased under a forty-year operating lease, requiring annual payments of \$128,622. At December 31, 2006 and 2005, \$128,622 and \$257,244 in lease payments due under this agreement were included in accounts payable. The future minimum lease payments are as follows:

Year Ending December 31,	Payments
2007	128,622
2008	128,622
2009	128,622
2010	128,622
2011-2015	643,110
2016-2020	643,110
2021-2025	643,110
2026-2030	643,110
2031-2035	643,110
2036-2040	643,110
2041-2043	385,866
Total	<u>\$ 4,759,014</u>

Required Supplementary Information

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS
BUDGET AND ACTUAL - ALL PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2006

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
Receipts:			
Charges for service	\$ 10,474,998	\$ 10,448,000	26,998
Interest earnings	879,028	-	879,028
	<u>11,354,026</u>	<u>10,448,000</u>	<u>906,026</u>
Disbursements:			
Program			
Business type activities	12,332,945	11,032,000	(1,300,945)
	<u>12,332,945</u>	<u>11,032,000</u>	<u>(1,300,945)</u>
Net (loss)	(978,919)	(584,000)	(394,919)
Balance beginning of year	<u>6,420,306</u>	<u>5,643,162</u>	<u>777,144</u>
Balance end of year	<u>\$ 5,441,387</u>	<u>\$ 5,059,162</u>	<u>382,225</u>

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

	Financial Statements	Adjustments	Budget
Revenues	\$ 11,157,172	\$ 196,854	\$ 11,354,026
Disbursements	<u>10,800,778</u>	<u>1,532,167</u>	<u>12,332,945</u>
Net income(Loss)	<u>\$ 356,394</u>	<u>\$ (1,335,313)</u>	<u>\$ (978,919)</u>

See accompanying independent auditor's report

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2006

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

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

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

Disbursements for the business-type activities exceeded the amount budgeted for 2006.

Other Supplementary Information

ALGONA MUNICIPAL UTILITIES

Schedule 1

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Sale of electricity:			
Sales to consumers	\$ 6,405,054	\$ 5,202,549	\$ 4,878,853
Sales to other utilities	179,326	158,992	156,065
Sales for resale	<u>839,579</u>	<u>1,041,948</u>	<u>560,843</u>
Total electricity sales	<u><u>7,423,959</u></u>	<u><u>6,403,489</u></u>	<u><u>5,595,761</u></u>
Kilowatt hours:			
Wind generation	6,088,600	5,397,000	5,615,400
Generated	120,922,580	112,310,030	126,640,440
Purchases	<u>5,205,000</u>	<u>20,044,000</u>	<u>3,798,000</u>
Energy available	132,216,180	137,751,030	136,053,840
Station power/transmission loss	<u>1,389,660</u>	<u>1,333,790</u>	<u>1,313,460</u>
Available for sale	130,826,520	136,417,240	134,740,380
Billed to consumers	99,571,261	98,446,687	90,798,264
Sales to other utilities	3,054,657	3,209,611	2,887,794
Sales for resale	25,626,000	31,638,000	36,070,000
Distribution loss	2,574,602	3,122,942	4,984,322
Distribution loss percent	2.45%	2.29%	5.05%
Revenue billed per KWH to consumers	0.0643	0.0528	0.0537
Peak hour demand in KW	21,620	21,960	20,400
Services provided to the City			
Street lighting:			
Energy	59,902	61,112	55,628
Operation and Maintenance	<u>13,144</u>	<u>10,213</u>	<u>16,482</u>
	73,046	71,325	72,110
Energy for Public Buildings, Parks and Other uses	<u>106,280</u>	<u>87,667</u>	<u>83,955</u>
	<u><u>179,326</u></u>	<u><u>158,992</u></u>	<u><u>156,065</u></u>
Year to date KWH sales			
Residential	30,956,739	31,206,879	28,796,142
Commercial	68,975,402	67,614,142	62,002,122
Area Lighting	1,409,208	1,452,389	1,308,394
City	<u>1,284,569</u>	<u>1,382,888</u>	<u>1,920,622</u>
Total number of KWH sales	<u><u>102,625,918</u></u>	<u><u>101,656,298</u></u>	<u><u>94,027,280</u></u>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 2

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total Revenue billed	<u>\$ 659,072</u>	<u>\$ 584,869</u>	<u>\$ 450,937</u>
Cubic Foot			
Pumped	39,740,400	39,391,507	39,978,040
Billed	33,669,587	33,345,719	33,628,795
City of Algona	724,450	958,672	1,720,317
System loss	5,346,363	5,087,116	4,628,928
Percent loss	13.45%	12.91%	11.58%
Revenue billed per cubic foot	0.0196	0.0175	0.0134
Peak day-cubic footage pumped	189,400	174,960	171,773
Services provided to City			
Water for parks, disposal plant and public buildings	12,053	13,056	15,010
Public fire protection	17,700	17,700	12,318
	<u>\$ 29,753</u>	<u>\$ 30,756</u>	<u>\$ 27,328</u>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 3

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenue:			
Cable TV	\$ 937,696	\$ 735,363	\$ 599,659
Internet	589,008	527,695	487,800
Telephone	804,618	751,670	457,578
Miscellaneous	<u>5,492</u>	<u>12,707</u>	<u>14,705</u>
Total operating revenue	<u><u>2,336,814</u></u>	<u><u>2,027,435</u></u>	<u><u>1,559,742</u></u>
Customers			
Cable TV	1,746	1,802	1,713
Internet	1,384	1,305	1,150
Telephone	1,502	1,384	1,096
Average monthly revenue per customer			
Cable TV	44.75	34.01	29.17
Internet	35.47	33.70	35.35
Telephone	44.64	45.26	34.79
Services Provided to City			
Cable TV	1,441	1,118	923
Internet	3,404	3,486	3,576
Telephone	<u>954</u>	<u>530</u>	<u>381</u>
	<u><u>\$ 5,799</u></u>	<u><u>\$ 5,134</u></u>	<u><u>\$ 4,880</u></u>

Unaudited - See Accompanying Independent Auditor's Report

T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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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 of the
Algona Municipal Utilities:

We have audited the financial statements of Algona Municipal Utilities, component units of the City of Algona, Iowa, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 29, 2007. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Planning

In planning and performing our audit, we considered AMU's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AMU's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of AMU's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we considered to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects AMU's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by AMU's internal control. We consider the deficiency described in 06-II-A of the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by AMU's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the deficiency described in 06-II-A is not a material weakness.

Compliance and Other Matters

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

We noted certain other matters that are reported in Part III of the schedule of findings.

Comments involving statutory and other legal matters about AMU's 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 AMU. 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.

AMU's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the response and accordingly we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of management, the Board of Trustees, others within AMU, and other parties to whom AMU may report including federal awarding agencies and pass-thru entities. The report is not intended and should not be used by anyone other than these parties.

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

July 5, 2007

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

SCHEDULE OF FINDINGS

Part I: Summary of the Independent Auditor's Results

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

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

SCHEDULE OF FINDINGS

Part II: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT CONTROL DEFICIENCIES:

06-II-A Credit Card Usage – We noted on more than one occasion that AMU’s written credit card usage policy was not followed when paying AMU’s credit card charges.

Recommendation - AMU’s credit card policy requires that a detailed invoice in addition to the credit card receipt be submitted for all charges that are greater than or equal to \$10.00. To provide adequate controls over use of credit and to maintain detailed records of various credit purchases, the credit card policy as written should be adhered to.

Response - We will follow the written credit card policy in the future.

Conclusion - Response Accepted.

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

SCHEDULE OF FINDINGS

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Official Depositories – A resolution naming official depositories has been approved by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2006.
- III-B-06 Certified Budget - Disbursements during the year ended December 31, 2006 exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.
- Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response – We will amend the budget in the future if necessary.
- Conclusion - Response accepted.
- III-C-06 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-06 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.
- III-E-06 Business Transactions – We did not identify any transactions conducted with AMU officials or employees for 2006.
- III-F-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-G-06 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.
- III-H-06 Revenue Bonds – No violations of revenue bond resolution requirements were noted.
- III-I-06 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.

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

SCHEDULE OF FINDINGS

Part III: Other Findings Related to Statutory Reporting: continued

III-J-06 Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.

III-K-06 Financial Condition – The Communication fund had a deficit fund balance of \$917,404 at December 31, 2006.

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

Response – AMU is and has been conducting rate studies reviewing options to eliminate the deficit.

Conclusion – Response accepted.