

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, 2007 AND 2006

ATLANTIC MUNICIPAL UTILITIES

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ATLANTIC MUNICIPAL UTILITIES
Officials
December 31, 2007

<u>Trustees</u>	<u>Term Expires</u>
Frank W. Greiner, Chairperson	April, 2009
Keith C. Stork, Vice-Chairperson	April, 2009
Sharon L. Winchell	April, 2011
Bernard L. Elming	April, 2011
Lawrence E. Turner	April, 2013
 <u>Management Personnel</u>	
General Manager Allen J. Bonderman	
Comptroller Steve J. Tjepkes	
Director of Electric Operations Gregory J. Smith	
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, 2007 and 2006, 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, 2007 and 2006, 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 28, 2008 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, 2005 (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.

Groenewold, Bell, Kyburh + Co. P.C.

Atlantic, Iowa
February 28, 2008

AMU

Atlantic Municipal Utilities

Management's Discussion and Analysis Audited Financial Statements Years Ended December 31, 2007 and 2006

This section of the Utility's annual Financial Statements presents an analysis of the Utility's financial performance during the calendar year ended December 31, 2007. This information is presented in conjunction with the audited basic financial statements, which follow this section. The Utility is organized into two operating departments, electric and water. This discussion and analysis not only points out the highlights of each department, but also reports and discusses highlights in combined form.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2007

The Utility's combined net assets increased by \$1.072 million, or 4.60%, from \$23.30 million to \$24.37 million. The Electric Department's net assets increased by \$1.074 million, or 5.49%, from \$19.56 million to \$20.64 million. The Water Department's net assets decreased slightly, about \$2,000, or 0.05%, from \$3.736 million to \$3.734 million.

Combined operating revenues increased by \$643,000 or 8.2%. Electric Department operating revenues increased by \$584,000, or 8.6%, from \$6.81 million to \$7.34 million. Water Department operating revenues increased by \$59,000, or 6.0%, from \$984,000 to \$1.043 million.

Long-term debt (see Table 1) of the two departments increased substantially, due to the Electric Department issuing \$8 million in revenue bond debt. Prior outstanding Electric Department debt was reduced by \$605,000, and the Water Department debt reduced by \$175,000. Total combined debt increased from \$2.812 million in 2006, to \$9.893 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE UTILITY

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

(In thousands of dollars)	Electric Dept.				Water Dept.				Combined			
	2007	2006	Dollar Percent		2007	2006	Dollar Percent		2007	2006	Dollar Percent	
			Change	Change			Change	Change			Change	Change
Current and Other Assets	\$12,266.1	\$6,810.4	\$5,455.7	80.1%	\$1,286.7	\$1,341.0	-\$54.3	-4.0%	\$13,552.8	\$8,151.4	\$5,401.4	66.3%
Capital Assets	\$18,819.2	\$15,300.8	\$3,518.4	23.0%	\$4,237.4	\$4,343.7	-\$106.3	-2.4%	\$23,056.6	\$19,644.5	\$3,412.1	17.4%
Total Assets	\$31,085.2	\$22,111.2	\$8,974.0	40.6%	\$5,524.1	\$5,684.7	-\$160.6	-2.8%	\$36,609.3	\$27,795.9	\$8,813.4	31.7%
Long-Term Debt	\$8,560.0	\$1,295.0	\$7,265.0	561.0%	\$1,333.3	\$1,517.0	-\$183.7	-12.1%	\$9,893.3	\$2,812.0	\$7,081.3	251.8%
Other Liabilities	\$1,886.3	\$1,251.3	\$635.0	50.7%	\$456.7	\$431.6	\$25.1	5.8%	\$2,342.9	\$1,682.9	\$660.0	39.2%
Total Liabilities	\$10,446.3	\$2,546.3	\$7,900.0	310.3%	\$1,790.0	\$1,948.6	-\$158.7	-8.1%	\$12,236.2	\$4,494.9	\$7,741.3	172.2%
Total Net Assets	\$20,639.0	\$19,564.9	\$1,074.1	5.5%	\$3,734.1	\$3,736.1	-\$2.0	-0.1%	\$24,373.1	\$23,301.0	\$1,072.1	4.6%
Total Liabilities & Net Assets	\$31,085.2	\$22,111.2	\$8,974.0	40.6%	\$5,524.1	\$5,684.7	-\$160.6	-2.8%	\$36,609.3	\$27,795.9	\$8,813.4	31.7%

Electric Department

AMU issued \$8 million in electric revenue bonds in late 2007. The proceeds of this debt issuance will fund major capital additions, including over \$6 million dollars in additions to Walter Scott Unit 3 (formerly Council Bluffs 3). Those capital expenditures are primarily for environmental equipment and systems, including mercury and small particulate removal.

Capital Assets increased by \$3,518,423, or 23.0%. Capital additions included a number of additions at Walter Scott Unit No. 3 (WS3), as well as a number of additions to distribution facilities. Additions to distribution assets included replacement of poles in several miles of rural electric lines, including extension of three phase facilities to the Valley Business Park. Capital asset additions were funded from bond proceeds as well as cash on hand.

Special Purpose Funds, Current and Other Assets increased by \$5,455,611, or 80.1%, due to bond proceeds being placed in restricted use accounts. Total Assets increased from \$22.11 million to \$31.09 million, or 40.6%. The majority of this change was attributable to the sale of \$8 million in electric revenue bonds.

Total long-term debt of the Electric Department increased from \$1,295,000 to \$8,560,000, a total of \$7,265,000. Current and Other Liabilities increased from \$1,251,293 to \$1,886,255, a change of \$634,962, or 50.7%. This change was attributable to increases in Accounts Payable at the end of the year, increases in current payments due for long-term debt, and deposits received related to construction of facilities for the proposed ethanol plant.

Cash requirements of the Electric Department were provided from cash flows and \$8 million in new debt issued late in 2007.

Operating Revenue for the Electric Department increased by \$583,539, or 8.57%. Energy sales to retail customers increased by 3.44%. Revenues from those sales increased by \$168,011, or 3.43%. Wholesale sales to other utilities were significantly higher, increasing from \$1,561,195 to \$1,985,575. This increase was due in part to the fact that Walter Scott Unit 3 was offline for regular maintenance in 2006, and in 2007 was available for more hours. Increased revenues also were due to higher market prices for energy.

Operating Expenses for the Electric Department also increased, from \$6,055,825 the prior year, to \$6,113,259 in 2007. Increases in expenses were related to increases in operating and maintenance, labor, insurance, fuel and other costs.

Net Income increased from \$896,602 to \$1,350,536, an increase of \$435,934. The majority of this increase in net income was attributable to increased revenues from sales of surplus energy in the wholesale market.

Total Assets of the electric utility increased by \$8,974,034 to \$31.085 million. Transfers to the City of Atlantic totaled \$276,464, an increase of about \$1,900.

Water Department

AMU did not undertake any significant new capital projects during 2007, in an attempt to accumulate cash for future projects. Due to depreciation of existing assets, there was a reduction of \$106,343 in Capital Assets. The minor capital asset additions that occurred were funded from cash on hand.

Special Purpose Funds, Current and Other Assets and Deferred Costs decreased by \$54,272, to \$1,286,705. Total Assets decreased from \$5.68 million to \$5.52 million, or -2.83%.

Total long-term debt of the Water Department was reduced from \$1,516,983 to \$1,333,256, a total of \$183,727. Current and Other Liabilities increased from \$431,594 to \$456,694, a change of \$25,100, or 5.82%.

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

Operating Revenue for the Water Department increased by 5.99%, with revenues totaling \$1,042,831 in 2007, as compared to \$983,860 in 2006. Sales of water were down about 1/2 of one percent, with 266 million gallons billed. A six percent increase in rates was put in place early in 2007, which is responsible for the increases in sales revenues.

Net Income for the year increased from \$35,826 in 2006, to \$79,335 in 2007. The increase was due to higher sales revenues, offset slightly by increased expenses.

Net Assets of the water utility decreased slightly (\$1,988) to \$3.73 million. (Note: Includes Contributions In Aid Of Construction and amortizations of said contributions). Transfers to the City of Atlantic totaled \$85,536.

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

(In thousands of dollars)	Electric Dept.				Water Dept.				Combined			
	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change	2007	2006	Dollar Change	Percent Change
	Operating Revenues	\$7,390.2	\$6,806.6	\$583.6	8.6%	\$1,042.8	\$983.8	\$59.0	6.0%	\$8,433.0	\$7,790.4	\$642.6
Other Income (Deductions)	\$73.6	\$145.8	(\$72.2)	-49.5%	(\$19.5)	(\$36.8)	\$17.3	-46.9%	\$54.1	\$109.0	(\$54.9)	-50.4%
Total Operating Income	\$7,463.8	\$6,952.4	\$511.4	7.4%	\$1,023.3	\$947.0	\$76.3	8.1%	\$8,487.1	\$7,899.4	\$587.7	7.4%
Depreciation	\$1,059.5	\$1,041.3	\$18.2	1.7%	\$224.5	\$222.9	\$1.6	0.7%	\$1,284.0	\$1,264.2	\$19.8	1.6%
Other Operating Expenses	\$5,053.8	\$5,014.5	\$39.3	0.8%	\$719.4	\$688.3	\$31.1	4.5%	\$5,773.2	\$5,702.8	\$70.4	1.2%
Total Operating Expense	\$6,113.3	\$6,055.8	\$57.5	0.9%	\$943.9	\$911.2	\$32.7	3.6%	\$7,057.2	\$6,967.0	\$90.2	1.3%
Net Income	\$1,350.5	\$896.6	\$453.9	50.6%	\$79.3	\$35.8	\$43.5	121.6%	\$1,429.9	\$932.4	\$497.5	53.4%
Net Assets												
Beginning Balance	\$19,564.9	\$18,942.9	\$622.0	3.3%	\$3,736.1	\$3,579.5	\$156.6	4.4%	\$23,301.0	\$22,522.4	\$778.6	3.5%
Net Income	\$1,350.5	\$896.6	\$453.9	50.6%	\$79.3	\$35.8	\$43.5	121.6%	\$1,429.9	\$932.4	\$497.5	53.4%
Less: Distribution to the City	\$276.5	\$274.6	\$1.9	0.7%	\$85.5	\$72.4	\$13.1	18.1%	\$362.0	\$347.0	\$15.0	4.3%
Plus: *Adjustments					\$4.2	\$193.2	(\$189.0)	-97.8%	\$4.2	\$193.2	(\$189.0)	-97.8%
Ending Balance	\$20,639.0	\$19,564.9	\$1,074.1	5.5%	\$3,734.1	\$3,736.1	(\$2.0)	-0.1%	\$24,373.1	\$23,301.0	\$1,072.1	4.6%

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

OUTLOOK FOR THE FUTURE

In 2007, AMU was faced with a need to issue debt to pay for major capital improvements, including \$6 to \$7 million for AMU's share of costs for environmental and other equipment at Walter Scott Unit No. 3. Prior to issuing these bonds, AMU obtained credit ratings from Moody's Investment Services, and received an A1 rating. This is the best credit rating a utility our size can receive, and benefits our customers by reducing the cost of borrowing money.

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 is used 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. The financial model proved its value during the credit rating process, as it was used extensively during Moody's review of AMU's past and projected financial performance.

Projected revenue requirements for the electric department indicated that financial needs for 2008 and beyond would require an upward adjustment in rates, so an 8% increase was implemented during the first quarter of 2008. The financial forecast model indicates that future adjustments to electric rates, barring unforeseen changes in costs, should be very close to the annual cost of living changes (1.5 to 2% per year).

New challenges seem to emerge within the electric industry every day. Transmission systems are woefully inadequate, and congestion on the grid adversely impacts customers across the U.S. Increased demand for transmission service has caused a backlog, causing long delays in approval for service, when capacity is available at all. AMU will soon be forced to participate in the real-time energy markets operated by the Midwest Independent System Operator (MISO), which will operate our regional transmission system. The MISO Market system is extremely complex, with some costs changing every five minutes, as conditions change on the transmission network.

Rail companies are having difficulty in accomplishing deliveries of coal, due to increased use of low-sulphur coal, as well as congestion on the rails from ever-increasing traffic. The rail infrastructure, like much of our nation's transportation infrastructure, is in need of a huge injection of capital, and broad system improvements.

Climate change concerns may have serious impacts on electricity availability and pricing. Coal-fired power plants are a major source of carbon dioxide emissions, as well as an easy target for environmentalists and politicians. It appears that either a tax on carbon emissions, or a "cap-and-trade" system of emissions credit trading will become a reality fairly soon. The technology to capture and store carbon dioxide, while talked about as if it exists, is likely at least ten (if not twenty) or more years away, and without that technology few if any new coal-fired power plants will be constructed. In the meantime, existing plants continue to age and will need to be replaced. This has spawned a renewed interest in nuclear power, as utilities recognize that it would be a mistake to depend solely upon natural gas for generation. Much like the world supply of oil, the supply of natural gas is finite. If the nation is forced to use gas to create electricity, the resultant demand for this finite resource would result in extremely high prices for all gas users, as well as much higher prices for electricity.

The emphasis on clean, renewable energy has created significant interest in wind energy, particularly here in the Midwest where we have seemingly endless resources, as well as the space to install the turbines. There are a number of wind farms under construction, and many more planned, in Iowa and neighboring states. However, wind energy is far from a perfect solution. One major problem is that wind is an intermittent resource, and we cannot depend upon it 100% of the time. This results in having to construct duplicate generation, at additional expense. The transmission grid is only capable of supporting a limited amount of wind generation, for technical reasons. That number is approximately 30 to 35 percent of the overall capacity of the system. Right now, there are interconnection requests equal to more than 60 percent of the capacity of the system in the Midwest, and many more wind projects in the early planning stages. No one knows if all that wind energy can even be accommodated, but if it can, what will definitely be needed is a lot of new transmission – not something easily accomplished.

Climate change has also spurred interest in other potential solutions to increasing demand for energy, including technology for so-called smart metering and demand-side management systems, used to control how and when consumers use energy, as well as energy conservation and energy efficiency measures to reduce consumers' use of electricity. Iowa's legislators are considering mandatory programs that would encompass some or all of these measures, with gas and electric utilities being required to provide significant capital to fund those programs.

Western Area Power Administration has continued to experience extreme drought conditions – some of the worst in the history of the federal hydropower system – and increased rates dramatically in January of 2008. This increase amounted to 25 percent, and is the third double-digit rate increase in the past five years.

How is AMU responding to these challenges?

AMU's power supply mix is a low-cost set of resources. Federal hydropower remains a relatively low-cost option, despite increases in rates. WS3 continues to be one of the lowest cost 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 extremely volatile pricing of energy and/or transmission.

Our existing pool of resources used to supply power on a day-to-day basis is not adequate to meet growth in the future. After considering our options, AMU decided to enter a long-term power supply contract with Missouri River Energy Services (MRES). MRES is a joint action agency, formed and owned by a group of over sixty municipal electric systems in Iowa, Minnesota and North and South Dakota. MRES was formed for the purpose of constructing generation and procuring power supply for its members, and also provides assistance with transmission-related issues. They have a professional staff of approximately fifty people, and many years of experience serving the needs of their member-owners. The long-term partnership we have formed with MRES will assure AMU of a reliable power supply for all of its future needs, at affordable costs, through at least 2030. MRES will also assist AMU in dealing with the day-to-day operations in the MISO real-time energy markets.

AMU continues to work with other Iowa municipal utilities to expand our ownership of electric transmission facilities. We have fought for the right to invest in regional transmission facilities, and are actively involved in two projects with MidAmerican Energy. Ownership of facilities, as opposed to paying rents for their use, provides us with assurance that what we pay is cost-based, not profit-based. Deregulation of transmission has caused companies to view transmission as an opportunity for high profits, due to federal policies which reward owners for making needed investments.

AMU is a member of the American Public Power Association (APPA), the national trade association for public power systems. APPA is working with other electric utilities and organizations to effect changes in the way rates for rail transportation are regulated. Historically, the U.S. Surface Transportation Board (STB) has shown little, if any, interest in protecting rail users who have only one railroad serving their area from excessive rates. APPA and its allies are lobbying Congress to create major changes in how the STB functions, and what its goals should be.

Dealing with climate change issues will continue to provide challenges, but AMU is positioned fairly well. The current environmental equipment additions at WS3 will bring the facility into compliance with rules limiting emissions of sulphur dioxide, nitrous oxide, mercury, small particulate matter, and most other common contaminants. While we cannot avoid the effects of a carbon tax or trading system, one must keep in mind that every coal-fired plant in the U.S. will have to deal with those issues, so we won't be at a competitive disadvantage because of it. Prices may have to increase, but if the government adopts a reasonable system, the cost impact may not be that severe.

As far as renewable energy, AMU has been working with a group of Iowa electric utilities on acquiring wind energy resources. The group's consultants have been purchasing easements for a proposed wind farm near Boone, Iowa, which will total over 100 megawatts (100 thousand kilowatts) of capacity. Our group also recently signed a letter of intent to purchase the output of a 21 megawatt wind farm located in Carroll County. Much work remains to be done, but these and other potential projects should provide a mix of renewable energy for AMU and its partners. Exactly how much wind energy AMU decides to purchase will likely depend on whether the state or the federal government decides to set any kind of mandatory requirements for supplying renewable energy to consumers.

AMU is addressing energy conservation through a new program that provides rebates and incentives for installation of energy-efficient appliances, water heaters, air conditioners, and heat pumps. AMU also intends to promote high-efficiency lighting, and we are developing another new program, which will assist our commercial customers in installing energy efficient lighting, motors and other equipment. As energy becomes more and more expensive, and it is critical that we help our customers learn to use it wisely.

And, finally, the financial position of the electric utility is excellent. Income is adequate to meet the cash requirements of the utility, and reserves are established to provide for emergency and other non-anticipated needs. We have tools to ensure that we remain in sound financial condition, with good credit, by maintaining adequate rates.

AMU's water utility also faces a number of challenges, which can be summed up under two general categories. The first is compliance with regulatory matters, the second is infrastructure.

Water utilities continue to be impacted by a myriad of federal and state regulations resulting from the federal Clean Water Act (CWA) and Safe Drinking Water Act (SDWA). New regulations are monitored closely, and assessed to determine the impact on AMU and its customers. We believe that AMU is positioned fairly well, in terms of compliance with the CWA and SDWA, although there will be some impact on operational costs related to compliance. We have an adequate source of good quality water, and treatment of that water is far less extensive than other community water supplies. AMU management and staff continue to attend workshops so as to remain up to date regarding rules and compliance enforcement, and continually provide training opportunities for employees.

Distribution system infrastructure is very important, and most water utilities – AMU included – struggle to find ways to replacing aging and inadequate infrastructure. Fire protection is always an issue, and mains need to be large enough to provide adequate flows for fire fighters. There are approximately eight miles of water mains in Atlantic that are 4 inch or smaller, much of which is old and in need of replacement. We try to systematically replace deteriorating small mains, a few blocks every year or two, using cash flow as opposed to issuing debt for these routine replacements. Once debt is retired related to treatment plant upgrades, it is likely that a larger scale main replacement program will be undertaken.

Financial needs for the water utility are projected using the same financial model mentioned earlier in this narrative. No rate increase occurred for calendar year 2008, but adjustments will probably be necessary in 2009. Increased operating costs for almost every aspect of providing drinking water and related services will continue to cause upward pressure on rates. Management expects that regular minor increases in rates for water will likely be needed over the next several years, however, rates for water in Atlantic will remain competitive with similar utilities in Iowa.

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

Contacting Financial Management

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

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

ASSETS

	<u>2007</u>	<u>2006</u>
Utility Plant :		
Depreciable capital assets	\$ 14,770,628	\$ 12,950,303
Non-depreciable capital assets	4,048,548	2,350,450
Total utility plant	<u>18,819,176</u>	<u>15,300,753</u>
Special Purpose Funds:		
Revenue bond funds	4,472,213	1,266,138
Board designated funds	<u>1,752,862</u>	<u>2,213,728</u>
Total special purpose funds	6,225,075	3,479,866
Current Assets:		
Cash	1,419,326	690,117
Operating and capital reserves	2,898,096	1,153,348
Receivables, less allowance for doubtful accounts (\$30,000 in 2007, \$32,000 in 2006)	420,588	318,946
Inventory	617,294	608,194
Prepaid expenses	<u>80,201</u>	<u>57,692</u>
Total current assets	5,435,505	2,828,297
Other Assets:		
Note receivable	495,855	495,855
Deferred costs	<u>109,631</u>	<u>6,437</u>
Total other assets	<u>605,486</u>	<u>502,292</u>
	<u>\$ 31,085,242</u>	<u>\$ 22,111,208</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
Long-Term Debt, less current maturities	\$ 8,560,000	\$ 1,295,000
Current Liabilities:		
Current maturities of long-term debt	735,000	605,000
Accounts payable	551,078	220,077
Accrued employee compensation	128,190	109,546
Accrued property taxes	111,000	126,000
Other accrued taxes	6,803	10,108
Accrued interest	66,837	19,206
Accrued payroll taxes and withholdings	25,900	20,899
Customer construction deposit	117,000	--
Total current liabilities	<u>1,741,808</u>	<u>1,110,836</u>
Other Liabilities:		
Consumer deposits	63,447	62,457
Reserve for employees' retirement	81,000	78,000
Total other liabilities	<u>144,447</u>	<u>140,457</u>
Total liabilities	10,446,255	2,546,293
Net Assets:		
Restricted - expendable	1,894,746	1,266,138
Invested in capital assets net of related debt	12,101,643	13,400,753
Unrestricted	6,642,598	4,898,024
Total net assets	<u>20,638,987</u>	<u>19,564,915</u>
	<u>\$ 31,085,242</u>	<u>\$ 22,111,208</u>

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

	<u>2007</u>	<u>2006</u>
Operating Revenue:		
Retail electricity sales	\$ 5,059,643	\$ 4,891,632
Services provided to the City	278,423	275,577
Sales to other utilities	<u>1,985,575</u>	<u>1,561,195</u>
Total sale of electricity	7,323,641	6,728,404
Other operating revenue	<u>66,512</u>	<u>78,210</u>
Total operating revenue	7,390,153	6,806,614
Operating Expenses:		
Electric production	2,037,062	1,841,375
Purchased power	910,488	1,195,995
Transmission	447,034	420,408
Distribution	593,207	494,193
Administrative and accounting	1,066,008	1,062,562
Provision for depreciation	<u>1,059,460</u>	<u>1,041,292</u>
Total operating expenses	<u>6,113,259</u>	<u>6,055,825</u>
Income from Operations	1,276,894	750,789
Other Income and (Deductions):		
Income from investments	180,796	240,614
Interest on revenue bonds	(92,356)	(82,625)
Loss on disposal of equipment	(6,073)	(3,575)
Other interest expense	(2,824)	(3,183)
Amortization of bond issue costs	<u>(5,901)</u>	<u>(5,418)</u>
Other income (deductions), net	<u>73,642</u>	<u>145,813</u>
Net Income	<u>\$ 1,350,536</u>	<u>\$ 896,602</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,

	2007	2006
Balance, Beginning	\$ 19,564,915	\$ 18,942,877
Net Income	1,350,536	896,602
Distribution to the City	<u>(276,464)</u>	<u>(274,564)</u>
Balance, Ending	<u>\$ 20,638,987</u>	<u>\$ 19,564,915</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>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 6,927,788	\$ 6,518,750
Cash paid to suppliers	(3,896,792)	(4,581,845)
Cash paid to employees	(983,534)	(918,542)
Other operating revenue	<u>64,256</u>	<u>77,253</u>
Net cash provided by operating activities	2,111,718	1,095,616
Cash flows from noncapital financing activities:		
Consumer deposits, net	990	39,772
Interest paid	<u>(2,824)</u>	<u>(3,183)</u>
Net cash provided by (used in) noncapital financing activities	(1,834)	36,589
Cash flows from capital and related financing activities:		
Debt proceeds	7,920,000	--
Principal payments	(605,000)	(580,000)
Interest paid on revenue bonds	(64,725)	(88,425)
Capital expenditures	(4,429,694)	(2,340,235)
Debt issue costs	(29,095)	--
Customer construction deposit	<u>117,000</u>	<u>--</u>
Net cash provided by (used in) capital and related financing activities	2,908,486	(3,008,660)
Cash flows from investing activities:		
Special purpose fund investments		
Acquisitions	(3,682,737)	(548,449)
Proceeds	1,029,657	520,370
Operating and capital reserves		
Acquisitions	(3,955,105)	(1,194,946)
Proceeds	2,210,357	3,028,183
Income from investments	<u>200,796</u>	<u>240,614</u>
Net cash provided by (used in) investing activities	<u>(4,197,032)</u>	<u>2,045,772</u>
Net increase in cash	821,338	169,317
Cash at beginning of year	<u>1,184,806</u>	<u>1,015,489</u>
Cash at end of year	<u>\$ 2,006,144</u>	<u>\$ 1,184,806</u>

(continued next page)

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

	<u>2007</u>	<u>2006</u>
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 1,419,326	\$ 690,117
Cash in special purpose funds	<u>586,818</u>	<u>494,689</u>
Total cash	<u>\$ 2,006,144</u>	<u>\$ 1,184,806</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 1,276,894	\$ 750,789
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	1,059,460	1,041,292
Materials returned to stock	2,468	--
Uncollectible accounts	18,044	17,864
Reserve for employees' retirement	3,000	(3,000)
Distribution to City	(276,464)	(274,564)
Change in assets and liabilities		
Receivables	(119,686)	64,966
Inventory	(9,100)	(173,608)
Prepaid expenses	(22,509)	(20,531)
Accounts payable, trade	174,271	(321,668)
Accrued employee compensation	18,644	4,674
Accrued property taxes	(15,000)	10,000
Other accrued taxes	(3,305)	(1,732)
Accrued payroll taxes and withholdings	<u>5,001</u>	<u>1,134</u>
Total adjustments	<u>834,824</u>	<u>344,827</u>
Net cash provided by operating activities	<u>\$ 2,111,718</u>	<u>\$ 1,095,616</u>

Non-Cash Transactions:

The Utilities also incurred the following non-cash transaction in addition to the transactions reflected in the reconciliation of income from operations to net cash provided by operating activities.

Bond issue costs netted from proceeds	<u>\$ 80,000</u>	<u>\$ --</u>
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The accompanying notes are an integral part of these statements.

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

ASSETS

	<u>2007</u>	<u>2006</u>
Utility Plant:		
Depreciable capital assets	\$ 4,101,469	\$ 4,217,899
Non-depreciable capital assets	<u>135,905</u>	<u>125,818</u>
Total utility plant	4,237,374	4,343,717
Special Purpose Funds:		
Revenue bond funds	750,000	750,000
Board designated funds	206,327	201,633
Memorial fund	<u>3,698</u>	<u>3,664</u>
Total special purpose funds	960,025	955,297
Current Assets:		
Cash	96,881	146,596
Receivables, less allowance for doubtful accounts (\$8,000 in 2007, \$7,000 in 2006)	136,636	138,911
Materials and supplies inventory	75,995	82,039
Prepaid expenses	<u>9,579</u>	<u>7,614</u>
Total current assets	319,091	375,160
Deferred Costs	<u>7,589</u>	<u>10,520</u>
	<u>\$ 5,524,079</u>	<u>\$ 5,684,694</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
Long-Term Debt, less current maturities and deferred refunding costs	\$ 1,333,256	\$ 1,516,983
Current Liabilities:		
Current maturities of long-term debt	183,727	173,504
Accounts payable:		
Trade	31,209	15,419
City sewer	135,326	144,602
Accrued employee compensation	48,094	42,483
Other accrued taxes	2,975	2,784
Accrued interest	4,061	4,725
Accrued payroll taxes and withholdings	4,907	5,282
Total current liabilities	<u>410,299</u>	<u>388,799</u>
Other Liabilities:		
Consumer deposits	14,395	13,795
Reserve for employees' retirement	32,000	29,000
Total other liabilities	<u>46,395</u>	<u>42,795</u>
Total liabilities	1,789,950	1,948,577
Net Assets:		
Contributions in aid of construction	828,391	840,191
Restricted - expendable	753,698	753,664
Invested in capital assets, net of related debt	2,716,519	2,647,862
Unrestricted	(564,479)	(505,600)
Total net assets	<u>3,734,129</u>	<u>3,736,117</u>
	<u>\$ 5,524,079</u>	<u>\$ 5,684,694</u>

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

	<u>2007</u>	<u>2006</u>
Operating Revenue:		
Sale of water:		
Residential	\$ 610,769	\$ 572,944
Commercial	334,541	325,744
Services provided to the City	<u>87,886</u>	<u>73,462</u>
Total sale of water	1,033,196	972,150
Other operating revenue	<u>9,635</u>	<u>11,710</u>
Total operating revenue	1,042,831	983,860
Operating Expenses:		
Source of supply	42,155	44,505
Pumping	38,689	41,572
Water treatment	103,597	100,002
Distribution	209,508	193,216
Administrative and accounting	325,492	309,001
Provision for depreciation	<u>224,507</u>	<u>222,926</u>
Total operating expenses	943,948	911,222
Income from Operations	98,883	72,638
Other Income and (Deductions):		
Income from investments	42,458	35,424
Interest on revenue bonds	(57,537)	(65,428)
Other interest expense	(760)	--
Amortization of bond issue costs	(2,931)	(3,353)
Loss on disposal of equipment	<u>(778)</u>	<u>(3,455)</u>
Other income (deductions), net	(19,548)	(36,812)
Net Income	<u>\$ 79,335</u>	<u>\$ 35,826</u>

The accompanying notes are an integral part of these statements.

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

	<u>2007</u>	<u>2006</u>
Balance, Beginning	\$ 3,736,117	\$ 3,579,480
Net Income	79,335	35,826
Contributions in Aid of Construction	4,213	193,248
Distribution to the City	<u>(85,536)</u>	<u>(72,437)</u>
Balance, Ending	<u>\$ 3,734,129</u>	<u>\$ 3,736,117</u>

The accompanying notes are an integral part of these statements.

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

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 943,985	\$ 902,629
Cash paid to suppliers	(331,690)	(327,397)
Cash paid to employees	(377,777)	(352,999)
Other operating revenue	<u>8,740</u>	<u>11,143</u>
Net cash provided by operating activities	243,258	233,376
Cash flows from noncapital financing activities:		
Consumer deposits, net	600	2,100
Interest paid	<u>(760)</u>	<u>--</u>
Net cash provided by (used in) noncapital financing activities	(160)	2,100
Cash flows from capital and related financing activities:		
Principal payments	(175,000)	(170,000)
Interest paid on revenue bonds	(56,705)	(64,355)
Capital expenditures	(103,051)	(384,628)
Contributions in aid of construction	<u>4,213</u>	<u>193,248</u>
Net cash used in capital and related financing activities	(330,543)	(425,735)
Cash flows from investing activities:		
Special purpose fund investments:		
Acquisitions	(225,958)	(520,239)
Proceeds	221,275	519,132
Income from investments	<u>42,458</u>	<u>35,424</u>
Net cash provided by investing activities	<u>37,775</u>	<u>34,317</u>
Net decrease in cash	(49,670)	(155,942)
Cash at beginning of year	<u>349,989</u>	<u>505,931</u>
Cash at end of year	<u>\$ 300,319</u>	<u>\$ 349,989</u>
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 96,881	\$ 146,596
Cash in special purpose funds	<u>203,438</u>	<u>203,393</u>
Total cash	<u>\$ 300,319</u>	<u>\$ 349,989</u>

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

	2007	2006
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 98,883	\$ 72,638
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	224,507	222,926
Materials returned to stock	130	--
Uncollectible accounts	4,495	4,037
Reserve for employees' retirement	3,000	3,000
Distribution to City	(85,536)	(72,437)
Change in assets and liabilities		
Receivables	(2,220)	3,374
Materials and supplies inventory	6,044	(6,839)
Prepaid expenses	(1,965)	312
Accounts payable:		
Trade	(231)	2,466
City sewer	(9,276)	1,455
Accrued employee compensation	5,611	2,572
Accrued payroll taxes and withholdings	(375)	225
Other accrued taxes	191	(353)
Total adjustments	144,375	160,738
Net cash provided by operating activities	\$ 243,258	\$ 233,376

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2007 and 2006

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, 2007 and 2006

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, 2007 and 2006

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, 2007 and 2006

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, restricted, or contributions in aid of construction*.

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>2007</u>	<u>2006</u>
Fees for Services Provided to City	\$ 278,423	\$ 275,577
Payment From and Part of Distribution to City	<u>276,464</u>	<u>274,563</u>
Franchise Requirement	<u>\$ 1,959</u>	<u>\$ 1,014</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2007 and 2006

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

<u>Water Department</u>	<u>2007</u>	<u>2006</u>
Fees for Services Provided to City	\$ 87,886	\$ 73,462
Payment From and Distribution to City	<u>85,536</u>	<u>72,437</u>
Franchise Requirement	<u>\$ 2,350</u>	<u>\$ 1,025</u>
Sewer Fees Collected for City	<u>\$ 688,160</u>	<u>\$ 683,820</u>
Charge to City for Sewer Billing Service	<u>\$ 2,670</u>	<u>\$ 2,680</u>
Account Payable to City	<u>\$ 135,326</u>	<u>\$ 144,602</u>

NOTE C - SPECIAL PURPOSE FUNDS

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

<u>Electric Department</u>	<u>2007</u>	<u>2006</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 1,594,746	\$ 966,138
Capital improvements	300,000	300,000
Bond proceeds for capital acquisitions	<u>2,577,467</u>	<u>--</u>
Total restricted	<u>\$ 4,472,213</u>	<u>\$ 1,266,138</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
Equipment replacement	150,000	150,000
Employee retirement	151,244	151,321
Funding of bond requirements	<u>101,618</u>	<u>62,407</u>
Total board designated	<u>\$ 1,752,862</u>	<u>\$ 2,213,728</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2007 and 2006

NOTE C - SPECIAL PURPOSE FUNDS - Continued

Water Department

	<u>2007</u>	<u>2006</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 250,000	\$ 250,000
Capital improvements	<u>500,000</u>	<u>500,000</u>
Bond funds	750,000	750,000
Restricted by donor for well field improvements	<u>3,698</u>	<u>3,664</u>
Total restricted	<u>\$ 753,698</u>	<u>\$ 753,664</u>
Board Designated for:		
System improvements	\$ 135,000	\$ 135,000
Employee retirement	40,000	40,000
Funding of bond requirements	<u>31,327</u>	<u>26,633</u>
Total board designated	<u>\$ 206,327</u>	<u>\$ 201,633</u>

During the year ended December 31, 2007, AMU expended \$5,422,533 of revenue note proceeds on the construction programs. During the year ended December 31, 2006, no restricted funds were expended.

NOTE D - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2007 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, 2007 and 2006

NOTE D - DEPOSITS AND INVESTMENTS - Continued

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

	<u>2007</u>	<u>2006</u>
Invested Funds:		
U.S. Treasury Securities	\$ 450,122	\$ 1,049,999
Government Agencies	8,019,287	3,057,375
Other Interest Bearing Accounts	586,818	494,689
Interest Receivable	<u>66,944</u>	<u>31,151</u>
Total Investments	<u>\$ 9,123,171</u>	<u>\$ 4,633,214</u>
Special Purpose Funds:		
Restricted	\$ 4,472,213	\$ 1,266,138
Board Designated	<u>1,752,862</u>	<u>2,213,728</u>
Total Special Purpose Funds	6,225,075	3,479,866
Operating and Capital Reserves	<u>2,898,096</u>	<u>1,153,348</u>
Total Investments	<u>\$ 9,123,171</u>	<u>\$ 4,633,214</u>

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

	<u>2007</u>	<u>2006</u>
Invested Funds:		
U.S. Treasury Securities	\$ 150,063	\$ 224,469
Government Agencies	599,060	520,904
Other Interest Bearing Accounts	203,438	203,393
Interest Receivable	<u>7,464</u>	<u>6,531</u>
Total Investments	<u>\$ 960,025</u>	<u>\$ 955,297</u>
Special Purpose Funds:		
Restricted	\$ 753,698	\$ 753,664
Board Designated	<u>206,327</u>	<u>201,633</u>
Total Special Purpose Funds	<u>\$ 960,025</u>	<u>\$ 955,297</u>

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, 2007 and 2006

NOTE E - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2007 and 2006 were as follows:

	<u>Balance 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2007</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 36,325,976	\$ 2,888,326	\$ 2,143,664	\$ 37,070,638
Depreciation	<u>23,375,673</u>	<u>1,059,460</u>	<u>2,135,123</u>	<u>22,300,010</u>
Depreciable Capital Assets, Net	<u>\$ 12,950,303</u>	<u>\$ 1,828,866</u>	<u>\$ 8,541</u>	<u>\$ 14,770,628</u>
Construction in Progress	\$ 1,781,373	\$ 4,586,424	\$ 2,888,326	\$ 3,479,471
Land and Land Rights	<u>569,077</u>	<u>--</u>	<u>--</u>	<u>569,077</u>
Non-Depreciable Capital Assets	<u>\$ 2,350,450</u>	<u>\$ 4,586,424</u>	<u>\$ 2,888,326</u>	<u>\$ 4,048,548</u>
	<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>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2007 and 2006

NOTE E - CAPITAL ASSETS - Continued

	<u>Balance 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2007</u>
<u>Water Department</u>				
Plant and Equipment	\$ 8,347,538	\$ 108,985	\$ 20,588	\$ 8,435,935
Depreciation	<u>4,129,639</u>	<u>224,507</u>	<u>19,680</u>	<u>4,334,466</u>
Depreciable Capital Assets, Net	<u>\$ 4,217,899</u>	<u>\$ (115,522)</u>	<u>\$ 908</u>	<u>\$ 4,101,469</u>
Construction in Progress	\$ --	\$ 119,072	\$ 108,985	\$ 10,087
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>\$ 119,072</u>	<u>\$ 108,985</u>	<u>\$ 135,905</u>
	<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>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2007 and 2006

NOTE F - ELECTRIC DEPARTMENT NOTE RECEIVABLE

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

	2007	2006
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, 2007 and 2006 follows:

	Balance 2006	Additions	Reductions	Balance 2007
1999 Revenue Bonds	\$ 1,900,000	\$ --	\$ 605,000	\$ 1,295,000
2007 Capital Loan Notes	--	8,000,000	--	8,000,000
Less Current Portion	(605,000)	(735,000)	(605,000)	(735,000)
Total Long-Term Debt	1,295,000	7,265,000	--	8,560,000
Consumer Deposits	62,457	990	--	63,447
Reserve for Employee Retirement	78,000	3,000	--	81,000
Total Non-Current Liabilities	\$ 1,435,457	\$ 7,268,990	\$ --	\$ 8,704,447

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2007 and 2006

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

	<u>Balance 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2006</u>
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	 <u>\$ 2,003,685</u>	 <u>\$(565,228)</u>	 <u>\$ 3,000</u>	 <u>\$ 1,435,457</u>

Series 1999 Revenue Bonds

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 2006 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.

Series 2007 Capital Loan Notes

The 2007 Series Capital Loan Notes constitute a lien on the net income of the Electric Department. They are not general obligations of the City of Atlantic. The notes mature in increasing amounts ranging from \$100,000 in 2008 to \$760,000 in 2022. Interest rates range from 3.60% to 4.30%. The part of these notes maturing on and after April 1, 2016 are subject to early redemption on or after that date.

The resolutions of the Board of Trustees authorizing the issuance of the 2007 and 1999 electric revenue bonds and notes specify the creation and maintenance of a sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Electric Department long-term debt during each of the five years ending December 31, 2008 through 2012 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 735,000	\$ 329,407	\$ 1,064,407
2009	760,000	325,015	1,085,015
2010	465,000	301,233	766,233
2011	485,000	284,011	769,011
2012	505,000	265,818	770,818
2013-2017	2,845,000	1,019,772	3,864,772
2018-2022	3,500,000	383,815	3,883,815
	<u>\$ 9,295,000</u>	<u>\$ 2,909,071</u>	<u>\$ 12,204,071</u>

During the year ended December 31, 2007, \$20,000 of interest cost was capitalized. Interest earned on unexpended debt proceeds of \$20,000 was offset against the capitalized interest.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2007 and 2006

NOTE H - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended December 31, 2007 and 2006 follows:

	<u>Balance 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2007</u>
1998 Capital Loan Notes	\$ 1,200,000	\$ --	\$ 175,000	\$ 1,025,000
Deferred Refunding Costs	(5,368)	--	(1,496)	(3,872)
	1,194,632	--	173,504	1,021,128
Less Current Portion	(173,504)	(183,727)	(173,504)	(183,727)
	1,021,128	(183,727)	--	837,401
Note Payable - Electric	495,855	--	--	495,855
Total Long-Term Debt	<u>1,516,983</u>	<u>(183,727)</u>	<u>--</u>	<u>1,333,256</u>
Consumer Deposits	13,795	600	--	14,395
Reserve for Employees' Retirement	<u>29,000</u>	<u>3,000</u>	<u>--</u>	<u>32,000</u>
Total Non-Current Liabilities	<u>\$ 1,559,778</u>	<u>\$(180,127)</u>	<u>\$ --</u>	<u>\$ 1,379,651</u>

	<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>

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, 2007 and 2006

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 notes mature in increasing amounts ranging from \$170,000 in 2006 to \$215,000 in 2012. Interest rates range from 4.50% to 4.90%. The notes maturing on and after December 1, 2007 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 sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements 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, 2008 through 2012 are as follows:

	Principal	Interest	Total
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
	\$ 1,520,855	\$ 151,438	\$ 1,672,293

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% (3.90% effective July 1, 2007) of their annual salary and the Utilities are required to contribute 5.75% (6.05% effective July 1, 2007) of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended December 31, 2007, 2006, and 2005, were approximately \$92,300, \$87,600, and \$86,600, respectively, equal to the required contributions for each year.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2007 and 2006

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, 2007 were approximately \$374,800.

NOTE K - COMMITMENTS AND CONTINGENCIES

Power Supply

The Electric Utility participates with several other utility companies in the operation of the Walter Scott Energy Center No. 3 (WS #3) (formerly known as Council Bluffs Power Station Unit No. 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 WS #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 (\$200,400 during 2007 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 \$3,184,000 represents the Utility's share of ongoing construction projects at WS #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, 2007 and 2006

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

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 2009.
- B. WS #3 Generating Station - Environmental regulations and age of plant will require various remodeling and additional construction projects over the next two years. Current estimates indicate that AMU's share of the project costs will exceed \$7,000,000. AMU is funding their share of the cost from these projects through the use of reserve funds, capital loan notes issued in 2007, and future earnings from operations. By year end, approximately \$3,000,000 had been expended on these projects.
- C. The Electric Utility has joined with other Municipal Utilities in Iowa to form the Iowa Public Power Agency (IPPA). The group is currently negotiating with Mid-American Energy Company (MEC) regarding investment in ownership of transmission lines. The project currently being discussed would involve an investment by IPPA of approximately \$3,000,000 of which AMU's share would be approximately \$397,000. IPPA plans to fund the project through a combination of member cash investments and debt. Currently AMU has invested approximately \$32,000 (included in construction in progress) in the project. The group has not determined the portion of member commitments to be funded through cash contributions.

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, 2007

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

	<u>Per Financial Statements</u>		<u>Budget</u>	<u>Combined</u>
	<u>Electric</u>	<u>Water</u>	<u>Adjustments</u>	<u>Utilities</u>
Revenues	\$ 7,570,949	\$ 1,085,289	\$ 4,213	\$ 8,660,451
Contributions	--	4,213	(4,213)	--
Expenses	<u>6,220,413</u>	<u>1,005,954</u>	<u>780,000</u>	<u>8,006,367</u>
Net	1,350,536	83,548	(780,000)	654,084
Balance beginning of year	19,564,915	3,736,117	(15,544,439)	7,756,593
Transfers to the City	<u>(276,464)</u>	<u>(85,536)</u>	<u>--</u>	<u>(362,000)</u>
Balance end of year	<u>\$ 20,638,987</u>	<u>\$ 3,734,129</u>	<u>\$(16,324,439)</u>	<u>\$ 8,048,677</u>
		<u>Budget</u>	<u>Budget</u>	<u>Variance</u>
		<u>Basis</u>	<u>Budget</u>	<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues		\$ 8,660,451	\$ 8,773,000	\$ 112,549
Expenses		<u>8,006,367</u>	<u>9,173,000</u>	<u>1,166,633</u>
Net		654,084	(400,000)	1,054,084
Balance beginning of year		7,756,593	7,756,593	--
Transfers to the City		<u>(362,000)</u>	<u>(361,000)</u>	<u>(1,000)</u>
Balance end of year		<u>\$ 8,048,677</u>	<u>\$ 6,995,593</u>	<u>\$ 1,053,084</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>2007</u>	<u>2006</u>
<u>2007 Series</u>				
April 1, 2008	--	3.60%	\$ 100,000	\$ --
April 1, 2009	--	3.60	100,000	--
April 1, 2010	--	3.60	465,000	--
April 1, 2011	--	3.65	485,000	--
April 1, 2012	--	3.70	505,000	--
April 1, 2013	--	3.75	525,000	--
April 1, 2014	--	3.80	545,000	--
April 1, 2015	--	3.85	570,000	--
April 1, 2016	--	3.90	590,000	--
April 1, 2017	April 1, 2016	3.95	615,000	--
April 1, 2018	April 1, 2016	4.05	640,000	--
April 1, 2019	April 1, 2016	4.15	670,000	--
April 1, 2020	April 1, 2016	4.20	700,000	--
April 1, 2021	April 1, 2016	4.25	730,000	--
April 1, 2022	April 1, 2016	4.30	760,000	--
			<u>\$ 8,000,000</u>	<u>\$ --</u>
<u>1999 Series</u>				
April 1, 2007	April 1, 2006	4.000%	\$ --	\$ 605,000
April 1, 2008	April 1, 2006	4.000	635,000	635,000
April 1, 2009	April 1, 2006	4.125	660,000	660,000
			<u>\$ 1,295,000</u>	<u>\$ 1,900,000</u>

WATER DEPARTMENT:

<u>1998 Series</u>				
Dec. 1, 2007	Dec. 1, 2006	4.55%	\$ --	\$ 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	215,000	215,000
			<u>\$ 1,025,000</u>	<u>\$ 1,200,000</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
 Operating Revenue
 Year ended December 31,

	<u>2007</u>	<u>2006</u>
<u>ELECTRIC DEPARTMENT</u>		
Retail Electricity Sales:		
Residential	\$ 1,684,652	\$ 1,612,711
Commercial	2,495,639	2,442,978
Rural resident and rural commercial	853,790	810,155
Interdepartmental sales	<u>25,562</u>	<u>25,788</u>
	<u>\$ 5,059,643</u>	<u>\$ 4,891,632</u>
Other Operating Revenue:		
Customer late payment charges	\$ 11,908	\$ 12,020
Service charges	9,465	10,170
Rent from electric properties	11,974	13,953
Net contract work	5,990	6,878
Transmission service	9,758	16,571
Internet wireless services, net	9,577	11,265
Scrap sales	4,643	5,597
Bad debts recovered	2,256	957
Miscellaneous	<u>941</u>	<u>799</u>
	<u>\$ 66,512</u>	<u>\$ 78,210</u>
<u>WATER DEPARTMENT</u>		
Other Operating Revenue:		
Service charges	\$ 6,155	\$ 5,945
Net contract work	2,585	5,089
Scrap sales	--	109
Bad debts recovered	<u>895</u>	<u>567</u>
	<u>\$ 9,635</u>	<u>\$ 11,710</u>

See Independent Auditor's Report.

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

	2007	2006
Electric Production:		
WS #3 Production:		
Operating supervision and labor	\$ 72,235	\$ 115,643
Fuel	1,092,752	978,659
Operating supplies and expense	197,063	208,673
Maintenance of production plant	492,537	342,352
Total WS #3 production	1,854,587	1,645,327
Atlantic Production:		
Operating supervision and labor	11,751	10,756
Fuel	45,153	66,856
Operating supplies and expense	7,496	5,008
Maintenance of production plant	118,075	113,428
Total Atlantic production	182,475	196,048
Total electric production	2,037,062	1,841,375
Purchased Power	910,488	1,195,995
Transmission Expense:		
Maintenance of transmission line and other	447,034	420,408
Distribution Expense:		
City:		
Operating supervision and labor	56,063	47,591
Line and station supplies and expense	85,164	74,048
Meter expense	32,466	34,497
Miscellaneous distribution expense	92,796	66,160
Maintenance of structures and equipment	19,708	10,870
Maintenance of lines	120,477	111,638
Maintenance of line transformers	7,185	6,769
Maintenance of street lighting and signal systems	28,693	26,347
Maintenance of meters	14,930	6,602
Total city distribution expense	457,482	384,522
Rural:		
Operating supervision and labor	34,226	28,960
Line and station supplies and expense	300	3,204
Meter expense	260	252
Miscellaneous distribution expense	23,219	14,480
Maintenance of structures and equipment	13,766	11,020

(continued next page)

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

	<u>2007</u>	<u>2006</u>
Distribution Expense (Continued):		
Rural (Continued):		
Maintenance of lines	\$ 54,467	\$ 50,408
Maintenance of line transformers	4,142	--
Maintenance of meters	<u>5,345</u>	<u>1,347</u>
Total rural distribution expense	<u>135,725</u>	<u>109,671</u>
Total distribution expense	593,207	494,193
Administrative and Accounting Expense:		
Customer accounting:		
Meter reading labor	25,545	21,253
Accounting and collecting costs	101,053	97,251
Supplies and expense	1,400	1,661
Uncollectible accounts	<u>18,044</u>	<u>17,864</u>
Total customer accounting	<u>146,042</u>	<u>138,029</u>
Administrative and general:		
Administrative and general salaries	55,294	54,486
Office supplies and expense	41,160	41,030
Outside service employed	22,238	15,970
Property insurance	54,230	58,194
Liability insurance and safety program costs	48,328	51,628
Employees' pension and benefits	236,770	250,726
Franchise requirement	1,959	20,683
Regulatory commission expense	14,707	8,450
Internet	10,137	12,180
Energy efficiency grant/rebate program	28,518	36,271
Miscellaneous general expense	103,062	94,848
Maintenance of general plant	43,908	38,231
Payroll taxes	173,805	165,943
Property taxes	<u>103,396</u>	<u>130,825</u>
Total administrative and general	<u>937,512</u>	<u>979,465</u>
Administrative adjustments	40,104	27,255
Less administrative expense transferred	<u>(57,650)</u>	<u>(82,187)</u>
Net administrative and general	<u>919,966</u>	<u>924,533</u>
Total administrative and accounting expense	1,066,008	1,062,562
Provision for Depreciation	<u>1,059,460</u>	<u>1,041,292</u>
Total operating expenses	<u>\$ 6,113,259</u>	<u>\$ 6,055,825</u>

See Independent Auditor's Report.

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

	<u>2007</u>	<u>2006</u>
Source of Supply Expense:		
Operating supplies and expense	\$ 7,835	\$ 7,964
Maintenance of water source	34,320	36,541
Total source of supply expense	42,155	44,505
Pumping Expense:		
Operating labor	19,501	15,204
Fuel and power pumping	15,450	15,671
Maintenance of pumping station	3,738	10,697
Total pumping expense	38,689	41,572
Water Treatment Expense:		
Operating labor	49,700	48,569
Chemicals	31,974	30,301
Operating supplies and expense	13,311	12,203
Maintenance of water treatment plant	8,612	8,929
Total water treatment expense	103,597	100,002
Distribution Expense:		
Operating labor	117,963	115,365
Operating supplies and expense	10,378	12,992
Maintenance of distribution reservoirs and standpipes	8,084	5,957
Maintenance of mains	60,580	49,215
Maintenance of services	1,252	745
Maintenance of meters	4,218	5,063
Maintenance of hydrants	7,033	3,879
Total distribution expense	209,508	193,216
Administrative and Accounting Expense:		
Customer Accounting:		
Meter reading labor	14,484	12,980
Accounting and collecting labor	42,688	41,787
Supplies and expense	8,612	7,539
Uncollectible accounts	4,495	4,037
Total customer accounting	70,279	66,343

(continued next page)

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

	<u>2007</u>	<u>2006</u>
Administrative and Accounting Expense (Continued):		
Administrative and General:		
Administrative and general salaries	\$ 34,067	\$ 33,273
Office supplies and other expense	21,858	21,628
Outside service employed	10,441	10,561
Property insurance	8,033	7,513
Liability insurance costs	29,344	21,066
Employees' pensions and benefits	81,283	90,199
Franchise requirement	2,350	1,025
Regulatory Commission expense	987	1,008
Miscellaneous general expense	27,290	23,488
Transportation expense	10,612	11,377
Maintenance of general plant	2,618	3,044
Payroll taxes	<u>35,894</u>	<u>34,352</u>
Total administrative and general	264,777	258,534
Administrative adjustments	4,183	(1,160)
Less administrative expense transferred	<u>(13,747)</u>	<u>(14,716)</u>
Net administrative and general	<u>255,213</u>	<u>242,658</u>
Total administrative and accounting expense	325,492	309,001
Provision for Depreciation	<u>224,507</u>	<u>222,926</u>
Total operating expenses	<u>\$ 943,948</u>	<u>\$ 911,222</u>

See Independent Auditor's Report.

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

	<u>2007</u>	<u>2006</u>
Operating Revenue:		
Sale of electricity	\$ 7,323,641	\$ 6,728,404
Other operating revenue	<u>66,512</u>	<u>78,210</u>
Total operating revenue	7,390,153	6,806,614
Operating Expenses (Not Including Depreciation)	<u>5,053,799</u>	<u>5,014,533</u>
Operating Income Before Depreciation	2,336,354	1,792,081
Provision for Depreciation	<u>1,059,460</u>	<u>1,041,292</u>
Income From Operations	1,276,894	750,789
Other Income and (Deductions), Net	<u>73,642</u>	<u>145,813</u>
Net Income	<u>\$ 1,350,536</u>	<u>\$ 896,602</u>
Net Income as a Percent of Total Operating Revenue	<u>18.27%</u>	<u>13.17%</u>

See Independent Auditor's Report.

<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 7,267,100	\$ 6,259,144	\$ 5,426,887
<u>74,766</u>	<u>73,861</u>	<u>84,264</u>
7,341,866	6,333,005	5,511,151
<u>4,894,535</u>	<u>4,587,467</u>	<u>4,116,338</u>
2,447,331	1,745,538	1,394,813
<u>1,033,679</u>	<u>1,007,783</u>	<u>1,004,746</u>
1,413,652	737,755	390,067
<u>21,188</u>	<u>(72,078)</u>	<u>(35,170)</u>
<u>\$ 1,434,840</u>	<u>\$ 665,677</u>	<u>\$ 354,897</u>
<u>19.54%</u>	<u>10.51%</u>	<u>6.44%</u>

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

	<u>2007</u>	<u>2006</u>
Sale of Electricity:		
Sales to consumers	\$ 5,338,066	\$ 5,167,209
Sales to other utilities	<u>1,985,575</u>	<u>1,561,195</u>
Total Electricity Sales	<u>\$ 7,323,641</u>	<u>\$ 6,728,404</u>
Kilowatt Hours:		
Generated	132,205,200	108,976,400
Purchased	38,310,816	45,926,151
Energy available	170,516,016	154,902,551
Station power/transmission loss	4,646,224	4,414,598
Available for sale	165,869,792	150,487,953
Sales and transfers to other utilities	54,644,192	44,177,753
Output to the system	111,225,600	106,310,200
Billed to consumers	105,012,973	101,302,223
Distribution loss	6,212,627	5,007,977
Distribution loss percent	5.6%	4.7%
Revenue Billed Per KWH to Consumers	5.08¢	5.10¢
Peak Hour Demand in KW	24,751	25,435
Services Provided to the City:		
Street Lighting:		
Energy	\$ 64,248	\$ 67,314
Operation and maintenance	29,627	26,849
Depreciation	<u>35,356</u>	<u>35,036</u>
	129,231	129,199
Energy for public buildings, parks and other uses	149,192	146,378
Other City projects	<u>--</u>	<u>19,670</u>
	<u>\$ 278,423</u>	<u>\$ 295,247</u>
 <u>Consumer Classifications</u>		
Residential	3,232	3,233
Small Commercial	579	583
Large Commercial	43	43
Rural Residential	565	566
Rural Commercial	89	91
Area Lighting	286	285
City and Water Department	<u>90</u>	<u>89</u>
Total number of consumers	<u><u>4,884</u></u>	<u><u>4,890</u></u>

See Independent Auditor's Report.

<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 5,301,244	\$ 4,951,958	\$ 4,670,904
<u>1,965,856</u>	<u>1,307,186</u>	<u>755,983</u>
\$ <u>7,267,100</u>	\$ <u>6,259,144</u>	\$ <u>5,426,887</u>
133,382,000	118,826,300	134,511,300
36,780,027	43,609,516	33,743,706
170,162,027	162,435,816	168,255,006
5,110,260	4,982,221	4,956,759
165,051,767	157,453,595	163,298,247
57,490,867	56,774,495	62,512,447
107,560,900	100,679,100	100,785,800
104,106,914	95,640,186	96,008,126
3,453,986	5,038,914	4,777,674
3.2%	5.0%	4.7%
5.09¢	5.18¢	4.87¢
25,211	24,465	25,445
\$ 71,494	\$ 70,832	\$ 71,189
21,374	18,049	20,525
<u>33,625</u>	<u>32,538</u>	<u>31,432</u>
126,493	121,419	123,146
155,828	129,111	82,330
<u>--</u>	<u>--</u>	<u>--</u>
\$ <u>282,321</u>	\$ <u>250,530</u>	\$ <u>205,476</u>
3,226	3,197	3,194
578	584	584
44	45	51
565	559	558
99	97	94
279	272	276
<u>89</u>	<u>87</u>	<u>84</u>
<u>4,880</u>	<u>4,841</u>	<u>4,841</u>

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

	<u>2007</u>	<u>2006</u>
Operating Revenue:		
Sale of water	\$ 1,033,196	\$ 972,150
Other operating revenue	<u>9,635</u>	<u>11,710</u>
Total operating revenue	1,042,831	983,860
Operating Expenses (Not Including Depreciation)	<u>719,441</u>	<u>688,296</u>
Operating Income Before Depreciation	323,390	295,564
Provision for Depreciation	<u>224,507</u>	<u>222,926</u>
Income From Operations	98,883	72,638
Other Income (Deductions), Net	<u>(19,548)</u>	<u>(36,812)</u>
Net Income	<u>\$ 79,335</u>	<u>\$ 35,826</u>
Net Income as a Percent of Total Operating Revenue	<u>7.61%</u>	<u>3.64%</u>

See Independent Auditor's Report.

<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 1,009,869	\$ 1,008,825	\$ 993,815
13,744	11,218	15,773
<u>1,023,613</u>	<u>1,020,043</u>	<u>1,009,588</u>
<u>642,242</u>	<u>648,767</u>	<u>621,973</u>
381,371	371,276	387,615
<u>230,298</u>	<u>225,008</u>	<u>223,696</u>
151,073	146,268	163,919
<u>(51,028)</u>	<u>(62,095)</u>	<u>(56,809)</u>
<u>\$ 100,045</u>	<u>\$ 84,173</u>	<u>\$ 107,110</u>
<u>9.77%</u>	<u>8.25%</u>	<u>10.61%</u>

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

	<u>2007</u>	<u>2006</u>
Total Revenue Billed	<u>\$ 1,033,196</u>	<u>\$ 972,150</u>
Gallage:		
Pumped	324,065,000	329,229,000
Billed	266,308,200	267,999,725
Total system maintenance and loss	57,756,800	61,229,275
Accounted for losses*	30,608,938	22,201,896
Unaccounted for losses	27,147,862	39,027,379
Percent unaccounted for	8.38%	11.85%
Revenue Billed Per 100 Gallons	38.8¢	36.3¢
Number of Consumers	3,311	3,309
Peak Day - Gallons Pumped	1,485,000	1,543,000
Services Provided to the City:		
Water for parks, disposal plant and public buildings	\$ 9,915	\$ 10,860
Operation and maintenance	39,285	27,061
Depreciation	<u>38,686</u>	<u>35,541</u>
	<u>\$ 87,886</u>	<u>\$ 73,462</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>2005</u>	<u>2004</u>	<u>2003</u>
<u>\$ 1,009,869</u>	<u>\$ 1,008,825</u>	<u>\$ 993,815</u>
326,127,000	340,930,000	374,556,000
283,333,025	290,892,000	302,849,000
42,793,975	50,038,000	71,707,000
13,617,295	12,874,480	28,911,935
29,176,680	37,163,520	42,795,065
8.95%	10.90%	11.43%
35.6¢	34.7¢	32.8¢
3,310	3,294	3,295
1,540,000	1,930,000	1,771,000
\$ 8,966	\$ 7,600	\$ 5,354
29,501	35,305	36,552
38,330	36,347	35,817
<u>\$ 76,797</u>	<u>\$ 79,252</u>	<u>\$ 77,723</u>

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

	<u>2007</u>	<u>2006</u>
<u>ELECTRIC DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 1,350,536	\$ 896,602
Add:		
Depreciation	1,059,460	1,041,292
Interest on revenue bonds	92,356	82,625
Loss on disposal of equipment	6,073	3,575
Amortization	<u>5,901</u>	<u>5,418</u>
Available For Debt Service	<u>\$ 2,514,326</u>	<u>\$ 2,029,512</u>
Maximum Debt Service in Any Year	<u>\$ 1,085,000</u>	<u>\$ 674,900</u>
Actual Coverage	<u>232%</u>	<u>301%</u>
Minimum Coverage Required	<u>125%</u>	<u>125%</u>
 <u>WATER DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 79,335	\$ 35,826
Add:		
Depreciation	224,507	222,926
Interest on revenue bonds	57,537	65,428
Loss on disposal of equipment	778	3,455
Amortization	<u>2,931</u>	<u>3,353</u>
Available For Debt Service	<u>\$ 365,088</u>	<u>\$ 330,988</u>
Maximum Debt Service on Bonds in Any Year	<u>\$ 252,000</u>	<u>\$ 252,000</u>
Actual Coverage	<u>145%</u>	<u>131%</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 unit of the City of Atlantic, Iowa) as of and for the year ended December 31, 2007, and have issued our report thereon dated February 28, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Atlantic Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the 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 the Utilities' ability to initiate, authorize, record, process, or report financial data reliably, in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood a misstatement of the Utilities' financial statements, that is more than inconsequential, will not be prevented or detected by the Utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Trustees
Atlantic Municipal Utilities

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utilities' 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 necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2007 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.

Atlantic Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

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, Kyburz & Co. P.C.
Atlantic, Iowa
February 28, 2008

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2007

PART I - SIGNIFICANT DEFICIENCIES

07-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

07-II-A Certified Budget: The Utilities' expenditures during the year ended December 31, 2007 did not exceed amounts budgeted.

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

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

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

07-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.

07-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, 2007

PART II - REQUIRED STATUTORY REPORTING (Continued)

07-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.

07-II-H Revenue Bonds and Notes: No violations of revenue bond or revenue note resolution requirements were noted.

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

* * *

PART III - OTHER MATTERS

07-III-A Conflict of Interest Statements: Atlantic Municipal Utilities does not require management or members of its Board of Trustees to sign formal conflict of interest statements. However, when a conflict of interest is identified, it is noted in the board minutes, and, the affected person abstains from discussion and voting.

Recommendation: We recommend that the Utilities adopt a policy requiring signed conflict of interest statements be in place for management and the Board of Trustees.

Response: Atlantic Municipal Utilities has always carefully documented situations involving conflicts of interest for its management and board members. We will adopt a policy requiring signed conflict of interest statements.

Conclusion: Response accepted.

* * *