

ALGONA MUNICIPAL UTILITIES

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

December 31, 2007

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

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor’s Report		2-3
Management’s Discussion and Analysis		4-8
Basic Financial Statements:		
Proprietary Fund Financial Statement	<u>Exhibit</u>	
Statements of Fund Net Assets	A	9-10
Statements of Revenue and Expenses and Changes in Fund Net Assets	B	11-12
Statements of Cash Flows	C	13-14
Notes to Financial Statements		15-31
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual – All Proprietary Funds		32
Notes to Required Supplementary Information – Budgetary Reporting		33
Other Supplementary Information		
Comparative Summaries of Electricity Distributed and Billed - Unaudited	<u>Schedule</u> 1	34
Comparative Summaries of Water Pumped and Billed - Unaudited	2	35
Comparative Summaries of Cable, Internet, and Telephone - Unaudited	3	36
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 <i>Government Auditing Standards</i>		37-38
Schedule of Findings		39-42

**OFFICIALS
ALGONA MUNICIPAL UTILITIES**

December 31, 2007

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	James Modrell	May 2013
Chairman Pro Tem	Jay Geving	May 2009
Trustee	Allan Bonde	May 2012
Trustee	Karen Schaaf	May 2008
Trustee	Walter Krahenbuhl	May 2011
General Manager	John Bilsten	
Comptroller	Brien Rindone	

T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Algona Municipal Utilities
Algona, Iowa

We have audited the accompanying financial statements of the business type activities and each major fund of Algona Municipal Utilities, (a component unit of the City of Algona) as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Utilities' basic financial statements listed as exhibits in the table of contents. These financial statements are the responsibility of Algona Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and each major fund of Algona Municipal Utilities at December 31, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2008 on our consideration of Algona Municipal Utilities's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

April 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona Municipal Utilities (AMU) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2007. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- ◆ AMU's revenues increased less than 1%, or approximately \$1,000 from calendar year 2006 to calendar year 2007.
- ◆ Expenses decreased by 2%, or approximately \$195,000, in 2007 from 2006.
- ◆ AMU's net assets increased 2%, or approximately \$552,000 during 2007.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

REPORTING THE UTILITIES FINANCIAL ACTIVITIES

Fund Financial Statements

AMU utilizes one kind of fund:

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

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

The condensed statement of net assets, shown below, shows how assets and liabilities have changed from 2006 to 2007. Capital assets, net of depreciation, increased from 2006 to 2007. This increase is due to capital asset additions and increased Construction in Progress during 2007. Total assets increased by approximately \$107,000 and liabilities decreased by \$445,000 resulting in the increase in net assets of approximately \$552,000 dollars during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2007	2006
Current and other assets	\$ 10,205	\$ 10,849
Capital assets (net of depreciation)	26,991	26,240
Total assets	37,196	37,089
Long-term debt outstanding	8,183	8,499
Other liabilities	2,142	2,270
Total liabilities	10,325	10,769
Net assets:		
Invested in capital assets	20,203	19,209
Restricted	500	500
Unrestricted	6,168	6,610
Total net assets	\$ 26,871	\$ 26,319

INDIVIDUAL MAJOR FUND ANALYSIS

As AMU completed the year, its enterprise funds reported a combined fund balance of \$26.8 million, an increase of approximately \$552,000 over last year's total of \$26.3 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- For the year, the Electric Fund total revenues were \$7.69 million, a decrease of approximately \$433,000 from 2006. All major revenue sources declined in 2007 except for Other Revenue – Pole Attachments (an increase of \$28,000). Usage increased during 2007 by 2.4 million KWH (103.4 million in 2007 compared to 101.0 in 2006), but due to changes in the power cost adjustment (PCA) revenues still declined. The changes in the PCA resulted in \$227,000 in credits for customers in 2007 as compared to generating \$620,000 in additional customer charges for 2006.

Operating expenses were also down in 2007 by approximately \$141,000. The electric utility had increased expenses of \$46,000 for NEAL 4 while purchased power declined by \$138,000. Maintenance costs also declined during the year by approximately \$245,000 while overhead expenses increased \$79,000 (mainly due to outside services and property tax increases). Interest expense declined \$17,500 during the year as we continue to pay down our long term debt.

During 2007 we sold several transformers generating gains of \$36,000 and realized increased revenue of approximately \$177,000 from Jobbing and Construction mainly associated with sales of transformers and switchgear to East Fork Biodiesel.

For the year the Electric Utility net assets increased to \$25,410,554, an increase of \$572,933.

- At year end, the Water Fund \$760,000 in total revenues which was up from \$719,000 in 2006. This is an increase of \$41,000. Our operating expenses for 2007 decreased by \$24,500 to \$632,000. Major changes for 2007 included new Cell Tower rent revenue of \$9,000, decreased wages of \$19,000, decreased health insurance of \$11,000, and increased expenditures for outside services of \$14,000. Net assets for the year increased approximately \$91,000 to \$2,489,646.
- In the Communications Fund for the year, revenues were up in all major categories by \$352,000 (\$2,689,000 – 2007 and \$2,441,000 – 2006). The customer counts are as follows: Cable – 1,739 and 1,746; Internet – 1,446 and 1,378; Telephone – 1,584 and 1,503; and Telephone Lines – 1,981 and 1,858; for the year end 2007 and 2006, respectively. The operating expense for the year end was \$2,448,000, up from \$2,441,000 (an increase of \$7,000.) For the year, we had net loss of \$111,000, which resulted in deficit net assets of \$1,029,000.

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

Changes in Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2007	2006
Revenues:		
Program revenues:		
Charges for service	\$ 10,613	\$ 10,669
General revenues:		
Unrestricted investment earnings	399	395
Other general revenues	146	93
Total revenues	<u>11,158</u>	<u>11,157</u>
Program expenses:		
Business type activities	<u>10,606</u>	<u>10,801</u>
Total expenses	<u>10,606</u>	<u>10,801</u>
Increase (Decrease) in net assets	552	356
Net assets beginning of year	<u>26,319</u>	<u>25,963</u>
Net assets end of year	<u>\$ 26,871</u>	<u>\$ 26,319</u>

BUDGETARY HIGHLIGHTS

AMU did not amend their budget during 2007 and expenses were within budget limitations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2007, AMU had approximately \$27 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is an increase (including additions and deletions net of depreciation) of approximately \$723,000 or 3 percent over last year.

Capital Assets of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2007	2006
Land	\$ 319	\$ 319
Construction in progress	1,596	154
Buildings and improvements	2,078	2,139
Equipment and vehicles	811	902
Infrastructure	22,159	22,726
Total	\$ 26,963	\$ 26,240

The largest additions to capital assets were Neal 4 improvements, additional transformers, and infrastructure for additional communication service.

AMU had depreciation expense of \$2,032,032 in FY07 and total accumulated depreciation of \$31,011,681 at December 31, 2007.

LONG TERM DEBT/LIABILITIES

At December 31, 2007, AMU had approximately \$5,294,000 in revenue bonds outstanding compared to \$5,571,000 at December 31, 2006, as shown below. AMU's liability for deferred compensation also decreased from approximately \$176,000 to \$173,000.

During 2007 in order to finance the Cellular Phone expansion, the Communications Fund issued revenue notes totaling \$250,000.

Outstanding debt of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2007	2006
Revenue Bonds	\$ 5,294	\$ 5,571
Deferred compensation	173	176
Total	\$ 5,467	\$ 5,747

At December 31, 2007 and 2006 the Communications Fund owed the Electric Fund \$3,440,000 under an interfund loan agreement established to finance the AMU broadband telecommunications network. The loan agreement calls for interest to accrue at 5% per year and to be repaid within 180 months.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Algona Municipal Utility's appointed officials considered many factors when setting the calendar year 2008 budget including fees that will be charged for the services the Utilities' provide, future expansions, and capital improvements.

These factors were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$12 million, a decrease of 5 percent under the 2007 budget.

The budget is likely to closer reflect the cash receipts received as estimated based on 2007 results and usage from customers. Budgeted disbursements are expected to decrease also by approximately \$96 thousand. Again, the 2008 budget was set to more closely reflect the actual results as estimated based on 2007 results and expenditures on improvements to the Utility Infrastructure.

If these estimates are realized, the Utilities' budgetary operating balance is expected to decrease by the close of 2008.

Algona Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery of the utmost in reliable products and services. In 2007, Algona Municipal Utilities Electric department started an extensive reconstruction project that involves several parts of town and will be completed in 2008. The construction project involves the removal of all the old 2400 volt electric facilities, and installing new underground electric wires and associated equipment. Consistent with the need to invest for the future energy needs of Algona, combined with growth, aging infrastructure, and a likely requirement to join the Midwest Independent System Operator Electric Market in 2008 resulted in discussions about the need for a more diverse generation mix. AMU entered into discussions with the North Iowa Municipal Electric Cooperative Association (NIMECA) to become a member. Membership in NIMECA will allow Algona Municipal Utilities to provide a means for electric generation risk mitigation, replacement energy during scheduled and forced outages of Neal 4, purchased power agreements for renewable energy from wind, and an opportunity to invest with other NIMECA members in the proposed Alliant Energy Sutherland Unit #4 Power Plant. Also in 2008, a proposed double circuit 69 kV electric transmission line will be built to provide an additional path for electricity to flow into Algona.

Algona Municipal Utilities continues to join with other Iowa cities and utilities to take the lead in making alternative energy sources commercially viable. Under the direction of the Iowa Stored Energy Park Agency, of which Algona Municipal Utilities is a founding member, one of Iowa's greatest energy resources, abundant wind, will be transformed into on-demand electricity for Iowa consumers. A site just outside Dallas Center, Iowa has all the necessary geologic features to allow development of the project. The Iowa Stored Energy Park is expected to be fully operational and providing electricity to Iowa and surrounding states by 2013. The goal is simple: use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment. Algona Municipal Utilities is also involved in the development of the 80 MW Ridgeport Wind Farm in Boone County.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

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

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

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

	ENTERPRISE	
	ELECTRIC	
	2007	2006
Utility plant:		
Property and equipment	\$ 46,089,592	\$ 45,199,198
Less accumulated depreciation	(26,808,466)	(25,342,037)
	<u>19,281,126</u>	<u>19,857,161</u>
Construction in progress	1,502,897	149,773
Utility Plant - Net	<u>20,784,023</u>	<u>20,006,934</u>
Restricted funds		
Cash and cash equivalents	470,268	459,218
Temporary cash investments	645,514	651,765
	<u>1,115,782</u>	<u>1,110,983</u>
Current Assets:		
Cash and cash equivalents	625,763	995,179
Accounts receivable (net of allowance for doubtful accounts)	533,314	644,012
Unbilled usage	136,746	132,322
Accounts receivable -interfund	128,622	128,622
Investments	1,937,901	2,410,000
Inventory	666,468	423,611
Prepaid insurance	22,022	20,783
Accrued Interest receivable	18,605	44,051
Accrued interest receivable - interfund loan	172,000	172,000
	<u>4,241,441</u>	<u>4,970,580</u>
Other assets:		
Interfund loan receivable	3,440,000	3,440,000
Economic development loans receivable	297,500	307,500
	<u>3,737,500</u>	<u>3,747,500</u>
Total assets	<u>\$ 29,878,746</u>	<u>\$ 29,835,997</u>

Exhibit A

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 4,842,966	\$ 4,714,150	\$ 5,446,866	\$ 5,237,729	\$ 56,379,424	\$ 55,151,077
(2,686,463)	(2,579,867)	(1,516,752)	(1,143,550)	(31,011,681)	(29,065,454)
2,156,503	2,134,283	3,930,114	4,094,179	25,367,743	26,085,623
21,340	2,881	71,264	1,122	1,595,501	153,776
2,177,843	2,137,164	4,001,378	4,095,301	26,963,244	26,239,399
-	-	-	-	470,268	459,218
3,215	2,830	24,756	21,486	673,485	676,081
3,215	2,830	24,756	21,486	1,143,753	1,135,299
169,140	62,650	455,787	440,759	1,250,690	1,498,588
48,913	103,931	256,592	177,111	838,819	925,054
21,776	19,606	-	-	158,522	151,928
-	-	-	-	128,622	128,622
72,250	90,000	-	-	2,010,151	2,500,000
40,115	49,489	18,856	27,260	725,439	500,360
9,274	9,017	15,966	14,803	47,262	44,603
990	1,130	-	-	19,595	45,181
-	-	-	-	172,000	172,000
362,458	335,823	747,201	659,933	5,351,100	5,966,336
-	-	-	-	3,440,000	3,440,000
-	-	-	-	297,500	307,500
-	-	-	-	3,737,500	3,747,500
\$ 2,543,516	\$ 2,475,817	\$ 4,773,335	\$ 4,776,720	\$ 37,195,597	\$ 37,088,534

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF NET ASSETS - continued
DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2007	2006
Liabilities:		
Current liabilities:		
Accounts payable	\$ 66,539	\$ 242,203
Accounts payable - City of Algona	178,527	189,336
Accounts payable - interfund	-	-
Checks in excess of bank balance	-	-
Retainage and contracts payable	-	-
Accrued taxes	128,140	137,770
Accrued wages and compensated absences	159,204	123,426
Accrued interest payable	95,268	103,876
Deferred revenue	-	-
Revenue bonds payable	375,000	355,000
	<u>1,002,678</u>	<u>1,151,611</u>
Noncurrent liabilities		
Revenue bonds payable - net of current portion	3,320,000	3,695,000
Interfund loan - payable	-	-
	<u>3,320,000</u>	<u>3,695,000</u>
Other liabilities		
Deferred compensation liability	145,514	151,765
	<u>145,514</u>	<u>151,765</u>
Total liabilities	<u>4,468,192</u>	<u>4,998,376</u>
Fund Net Assets		
Invested in capital assets, net of related debt	17,464,023	16,416,154
Restricted - Bond Covenant	500,000	500,000
Unrestricted (deficit)	7,446,531	7,921,467
Total Net Assets	<u>\$ 25,410,554</u>	<u>\$ 24,837,621</u>

See Notes to Financial Statements

Exhibit A - continued

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 1,999	\$ 12,792	\$ 61,271	\$ 74,880	\$ 129,809	\$ 329,875
11,083	3,977	109,386	92,472	298,996	285,785
-	-	128,622	128,622	128,622	128,622
-	14,746	-	-	-	14,746
3,529	3,529	-	-	3,529	3,529
2,392	5,546	62,304	63,773	192,836	207,089
31,652	33,552	43,478	36,610	234,334	193,588
-	-	172,000	172,000	267,268	275,876
-	-	162,200	143,360	162,200	143,360
-	-	174,706	156,620	549,706	511,620
<u>50,655</u>	<u>74,142</u>	<u>913,967</u>	<u>868,337</u>	<u>1,967,300</u>	<u>2,094,090</u>
-	-	1,423,376	1,364,301	4,743,376	5,059,301
-	-	3,440,000	3,440,000	3,440,000	3,440,000
-	-	4,863,376	4,804,301	8,183,376	8,499,301
<u>3,215</u>	<u>2,830</u>	<u>24,756</u>	<u>21,486</u>	<u>173,485</u>	<u>176,081</u>
<u>53,870</u>	<u>76,972</u>	<u>5,802,099</u>	<u>5,694,124</u>	<u>10,324,161</u>	<u>10,769,472</u>
2,177,843	2,137,164	561,378	655,301	20,203,244	19,208,619
-	-	-	-	500,000	500,000
311,803	261,681	(1,590,142)	(1,572,705)	6,168,192	6,610,443
<u>\$ 2,489,646</u>	<u>\$ 2,398,845</u>	<u>\$ (1,028,764)</u>	<u>\$ (917,404)</u>	<u>\$ 26,871,436</u>	<u>\$ 26,319,062</u>

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

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

DECEMBER 31:

ENTERPRISE	
ELECTRIC	
2007	2006

Operating revenues:		
Sale of electricity:		
Residential and commercial	\$ 5,933,088	\$6,405,054
Neal 4	704,959	839,579
Service provided to City of Algona	55,346	73,046
Sales to other utilities	101,338	106,280
Sale of water	-	-
Cable TV fees	-	-
Internet fees	-	-
Telephone Service	-	-
Merchandising	229,689	52,566
Miscellaneous	173,266	166,256
Total operating revenue	7,197,686	7,642,781
 Operating expenses		
Generation and power purchased	3,300,063	3,387,968
Transmission-distribution maintenance	279,977	519,892
Meter reading supplies and labor	178,760	175,955
Sales	37,218	60,691
General and other	629,837	541,897
Administration and general	284,185	217,416
Rebates and other expenses	74,886	46,974
Merchandise, jobbing and construction	9,984	12,748
Property tax and insurance	183,477	171,988
Depreciation	1,552,234	1,539,543
Sales and use tax	4,634	839
Source of supply	-	-
Maintenance of mains, services and meters	-	-
Maintenance of distribution and equipment	-	-
Headend programming	-	-
Customer accounts	-	-
Total operating expenses	6,535,255	6,675,911
Income (loss) from operations	\$ 662,431	\$ 966,870

See Notes to Financial Statements

Exhibit B

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ -	\$ -	\$ -	\$ -	\$ 5,933,088	\$ 6,405,054
-	-	-	-	704,959	839,579
-	-	-	-	55,346	73,046
-	-	-	-	101,338	106,280
703,589	659,072	-	-	703,589	659,072
-	-	926,266	937,696	926,266	937,696
-	-	630,372	589,008	630,372	589,008
-	-	1,073,760	804,618	1,073,760	804,618
14,117	30,323	-	-	243,806	82,889
8,950	-	58,728	5,492	240,944	171,748
<u>726,656</u>	<u>689,395</u>	<u>2,689,126</u>	<u>2,336,814</u>	<u>10,613,468</u>	<u>10,668,990</u>
-	-	-	-	3,300,063	3,387,968
-	-	-	-	279,977	519,892
-	-	-	-	178,760	175,955
-	-	-	-	37,218	60,691
-	-	-	-	629,837	541,897
187,236	207,491	506,552	466,798	977,973	891,705
-	-	-	-	74,886	46,974
19,084	14,309	85,962	92,236	115,030	119,293
-	-	79,083	84,784	262,560	256,772
106,596	103,530	373,202	339,517	2,032,032	1,982,590
-	-	4,719	767	9,353	1,606
161,391	161,927	-	-	161,391	161,927
121,205	119,127	-	-	121,205	119,127
-	-	157,149	153,718	157,149	153,718
-	-	1,180,666	1,238,892	1,180,666	1,238,892
36,740	50,411	60,765	64,742	97,505	115,153
<u>632,252</u>	<u>656,795</u>	<u>2,448,098</u>	<u>2,441,454</u>	<u>9,615,605</u>	<u>9,774,160</u>
\$ 94,404	\$ 32,600	\$ 241,028	\$ (104,640)	\$ 997,863	\$ 894,830

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

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

DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2007	2006
Non-operating income (expense) and transfers		
Interest income	\$ 378,746	\$ 378,714
Interest expense	(190,536)	(208,085)
Miscellaneous	79,231	64,303
Donations	(39,635)	(39,000)
Transfers to City - in lieu of property tax	(352,971)	(400,936)
Gain (Loss) on disposition of assets	35,667	-
Total other income (expense)	<u>(89,498)</u>	<u>(205,004)</u>
(Loss) before transfers	572,933	761,866
Transfers in (out)	<u>-</u>	<u>(260,000)</u>
Change in Net Assets	572,933	501,866
Total net assets, beginning	<u>24,837,621</u>	<u>24,335,755</u>
Total net assets, ending	<u><u>\$ 25,410,554</u></u>	<u><u>\$ 24,837,621</u></u>

See Notes to Financial Statements

Exhibit B - continued

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 9,197	\$ 5,890	\$ 11,063	\$ 10,667	\$ 399,006	\$ 395,271
-	-	(258,312)	(248,903)	(448,848)	(456,988)
24,128	22,129	2,889	5,125	106,248	91,557
-	-	-	-	(39,635)	(39,000)
(36,928)	(33,791)	(113,028)	(95,903)	(502,927)	(530,630)
-	1,354	5,000	-	40,667	1,354
<u>(3,603)</u>	<u>(4,418)</u>	<u>(352,388)</u>	<u>(329,014)</u>	<u>(445,489)</u>	<u>(538,436)</u>
90,801	28,182	(111,360)	(433,654)	552,374	356,394
-	10,000	-	250,000	-	-
90,801	38,182	(111,360)	(183,654)	552,374	356,394
<u>2,398,845</u>	<u>2,360,663</u>	<u>(917,404)</u>	<u>(733,750)</u>	<u>26,319,062</u>	<u>25,962,668</u>
<u>\$ 2,489,646</u>	<u>\$ 2,398,845</u>	<u>\$ (1,028,764)</u>	<u>\$ (917,404)</u>	<u>\$ 26,871,436</u>	<u>\$ 26,319,062</u>

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

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

	<u>ENTERPRISE</u>	
	<u>ELECTRIC</u>	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 7,130,694	\$ 6,809,890
Cash receipts from interfund services	128,622	528,622
Other operating cash receipts	44,644	37,634
Cash payments to suppliers	(4,451,861)	(4,847,845)
Cash payments to employees	(924,772)	(836,974)
Cash payments for interfund services	-	-
	<u>1,927,327</u>	<u>1,691,327</u>
Cash flows from noncapital financing activities		
Transfer to the City of Algona in-lieu of property tax	(363,780)	(362,475)
Donations	(39,635)	(39,000)
Intercompany Transfers	-	(260,000)
	<u>(403,415)</u>	<u>(661,475)</u>
Cash flows from capital and related financing activities		
Deferred compensation payments	(38,548)	(30,843)
Deferred compensation deposits	32,297	21,213
Acquisition and construction of capital assets	(2,331,637)	(1,405,546)
Repayment of revenue bonds	(355,000)	(335,000)
Proceeds from bond issuances	-	-
Cash payments for interest	(199,144)	(216,042)
	<u>(2,892,032)</u>	<u>(1,966,218)</u>
Cash flows from investing activities:		
Interest received during the year	404,192	860,329
Principal received on economic development loan	10,000	10,000
Proceeds from redemption of investments	2,156,251	7,000,000
Purchase of investments	(1,677,901)	(6,490,370)
Proceeds from sale of fixed asset	37,981	-
Miscellaneous income	79,231	64,303
	<u>79,231</u>	<u>64,303</u>
Net cash provided by investing activities	<u>\$ 1,009,754</u>	<u>\$ 1,444,262</u>

See Notes to Financial Statements

Exhibit C

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 779,504	\$ 627,957	\$ 2,584,687	\$ 2,373,846	\$10,494,885	\$ 9,811,693
-	-	-	-	128,622	528,622
-	-	43,798	5,492	88,442	43,126
(270,468)	(255,649)	(1,525,943)	(1,514,457)	(6,248,272)	(6,617,951)
(276,664)	(295,664)	(421,300)	(465,321)	(1,622,736)	(1,597,959)
-	-	(128,622)	(528,622)	(128,622)	(528,622)
<u>232,372</u>	<u>76,644</u>	<u>552,620</u>	<u>(129,062)</u>	<u>2,712,319</u>	<u>1,638,909</u>
(29,822)	(29,814)	(96,114)	(91,965)	(489,716)	(484,254)
-	-	-	-	(39,635)	(39,000)
-	10,000	-	250,000	-	-
<u>(29,822)</u>	<u>(19,814)</u>	<u>(96,114)</u>	<u>158,035</u>	<u>(529,351)</u>	<u>(523,254)</u>
-	-	-	-	(38,548)	(30,843)
385	756	3,270	6,632	35,952	28,601
(147,273)	(73,291)	(279,279)	(180,041)	(2,758,189)	(1,658,878)
-	-	(172,839)	(137,182)	(527,839)	(472,182)
-	-	250,000	-	250,000	-
-	-	(258,312)	(721,315)	(457,456)	(937,357)
<u>(146,888)</u>	<u>(72,535)</u>	<u>(457,160)</u>	<u>(1,031,906)</u>	<u>(3,496,080)</u>	<u>(3,070,659)</u>
9,337	8,032	11,063	10,667	424,592	879,028
-	-	-	-	10,000	10,000
90,000	180,000	-	-	2,246,251	7,180,000
(72,635)	(180,756)	(3,270)	(6,632)	(1,753,806)	(6,677,758)
-	5,500	5,000	-	42,981	5,500
<u>24,126</u>	<u>22,129</u>	<u>2,889</u>	<u>5,125</u>	<u>106,246</u>	<u>91,557</u>
<u>\$ 50,828</u>	<u>\$ 34,905</u>	<u>\$ 15,682</u>	<u>\$ 9,160</u>	<u>\$ 1,076,264</u>	<u>\$ 1,488,327</u>

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

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

	ENTERPRISE	
	ELECTRIC	
	2007	2006
Net increase (decrease) in cash and cash equivalents	\$ (358,366)	\$ 507,896
Cash and cash equivalents-beginning of year	1,454,397	946,501
Cash and cash equivalents-end of year	<u>1,096,031</u>	<u>1,454,397</u>
Restricted funds	470,268	459,218
Current assets	<u>625,763</u>	<u>995,179</u>
	<u>1,096,031</u>	<u>1,454,397</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Income (Loss) from operations	662,431	966,870
Adjustments to reconcile operating income to Net cash provided by operating activities:		
Depreciation	1,552,234	1,539,543
Change in accounts receivable	110,698	(244,883)
Change in unbilled usage	(4,424)	(21,437)
Change in accounts receivable - interfund	-	400,315
Change in prepaid expenses	(1,239)	(2,592)
Change in inventory	(242,857)	(40,797)
Change in accounts payable and retainages payable	(175,664)	(930,341)
Change in checks in excess of bank balance	-	-
Change in accrued taxes	(9,630)	9,746
Change in accrued wages and compensated absences	35,778	14,903
Change in deferred revenue	-	-
	<u>\$ 1,927,327</u>	<u>\$ 1,691,327</u>

See Notes to Financial Statements

Exhibit C - continued

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2007	2006	2007	2006	2007	2006
\$ 106,490	\$ 19,200	\$ 15,028	\$ (993,773)	\$ (236,848)	\$ 91,690
62,650	43,450	440,759	1,434,532	1,957,806	1,264,306
<u>169,140</u>	<u>62,650</u>	<u>455,787</u>	<u>440,759</u>	<u>1,720,958</u>	<u>1,957,806</u>
-	-	-	-	470,268	459,218
<u>169,140</u>	<u>62,650</u>	<u>455,787</u>	<u>440,759</u>	<u>1,250,690</u>	<u>1,498,588</u>
<u>169,140</u>	<u>62,650</u>	<u>455,787</u>	<u>440,759</u>	<u>1,720,958</u>	<u>1,957,806</u>
94,404	32,600	241,028	(104,640)	997,863	894,830
106,596	103,530	373,202	339,517	2,032,032	1,982,590
55,018	(64,825)	(79,481)	29,619	86,235	(280,089)
(2,170)	3,387	-	-	(6,594)	(18,050)
-	-	-	(400,315)	-	-
(257)	(2,953)	(1,163)	(6)	(2,659)	(5,551)
9,374	(5,937)	8,404	(13,439)	(225,079)	(60,173)
(10,793)	10,764	(13,609)	9,322	(200,066)	(910,255)
(14,746)	(4,944)	-	-	(14,746)	(4,944)
(3,154)	3,568	(1,469)	(2,772)	(14,253)	10,542
(1,900)	1,454	6,868	747	40,746	17,104
-	-	18,840	12,905	18,840	12,905
<u>\$ 232,372</u>	<u>\$ 76,644</u>	<u>\$ 552,620</u>	<u>\$ (129,062)</u>	<u>\$ 2,712,319</u>	<u>\$ 1,638,909</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Presentation

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

AMU reports the following major proprietary funds:

Enterprise:

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements were within budgeted limits for the year ended December 31, 2007.

E. Utility Plant and Depreciation

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

F. Revenue, Unbilled Usage, and Deferred Revenue, Accounts Receivable

Revenues are based on billing rates applied to customers' consumption. Unbilled usage represents revenues based upon estimated consumption for the period between the last billing dates at the end of the year. Deferred revenue represents amounts billed for cable t.v., internet, telephone, and data services that had not yet been delivered at the end of the year. The allowance method is used to account for uncollectible accounts receivable. As of December 31, 2007 and 2006, \$12,571 and \$14,280 respectively of accounts receivable were older than 90 days. These past due accounts are primarily associated with the electric utility. AMU charges 1.5% per month on past due accounts.

G. Inventory

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

H. Joint Plant Ownership

Under a joint ownership agreement with other utilities, AMU has a 2.937% undivided interest in a 640 MW electric generation station known as George Neal Generating Station Unit No. 4. As of December 31, 2007 and 2006, AMU's interest in this plant represents a total investment of \$10,580,284 and \$10,515,369 included in property and equipment respectively. Accumulated depreciation associated with the Utility's ownership in this plant totaled \$(8,562,607) and \$(8,901,588) at December 31, 2007 and 2006 respectively. Operating costs and depreciation associated with this plant are reflected in the statement of income.

AMU also has a 4.18% undivided interest in the Lehigh-Webster Transmission System. As of December 31, 2007 and 2006, AMU's interest in the system represents a total investment of \$364,770 included in property and equipment. Accumulated depreciation associated with the AMU's ownership in this plant totaled \$(351,907) and \$(338,831) at December 31, 2007 and 2006 respectively. Operating costs and depreciation associated with this system are reflected in the statement of income.

I. Interest Capitalization

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

J. Rate Matters

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

K. Use of Estimates

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

L. Cash and Cash Equivalents

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

NOTE 2 - CASH AND INVESTMENTS

AMU's deposits at December 31, 2007 and 2006 (which include certificates of deposit totaling \$2,500,000 and \$3,000,000 respectively) were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS-continued

AMU had investments in the Iowa Public Agency Investments Trust at December 31, 2007 and 2006, which are valued at and amortized cost of \$555,918 and \$530,086 respectively pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

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

Reconciliation of the Utility’s cash and cash equivalents and temporary cash and investments for the years ended December 31, 2007 and 2006 is as follows:

		December 31, 2007			
		Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents					
Restricted		\$470,268	-	-	\$ 470,268
Current assets		625,763	169,140	455,787	1,250,690
		<u>1,096,031</u>	<u>169,140</u>	<u>455,787</u>	<u>1,720,958</u>
Investments					
Restricted		645,514	3,215	24,756	673,485
Unrestricted		1,937,901	72,250	-	2,010,151
		<u>2,583,415</u>	<u>75,465</u>	<u>24,756</u>	<u>2,683,636</u>
Total cash and cash equivalents and investments		<u>\$ 3,679,446</u>	<u>244,605</u>	<u>480,543</u>	<u>\$ 4,404,594</u>
		December 31, 2006			
		Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents					
Restricted		\$ 459,218	-	-	\$ 459,218
Current assets		995,179	62,650	440,759	1,495,588
		<u>1,454,397</u>	<u>62,650</u>	<u>440,759</u>	<u>1,957,806</u>
Investments					
Restricted		651,765	2,830	21,486	676,081
Unrestricted		2,410,000	90,000	-	2,500,000
		<u>3,061,765</u>	<u>92,830</u>	<u>21,486</u>	<u>3,176,081</u>
Total cash and cash equivalents and investments		<u>\$ 4,516,162</u>	<u>155,480</u>	<u>462,245</u>	<u>\$ 5,133,887</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – BOARD DESIGNATED FUNDS

AMU’s Board of Trustees designates funds for certain purposes from time to time in order to earmark funds for special purposes and not for regular operations. The board-designated funds are included on the balance sheet as current assets and are available given board approval for any and all expenditures incurred by AMU if necessary. The designations as of December 31, 2007 and 2006 are summarized below.

Money has been designated to the following funds:

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

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

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

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

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

Capacity Reserve – for future expansion of electric capacity.

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

	December 31, 2007			
	Electric Utility	Water Utility	Communications Utility	Total Utility
Transmission reserve				
Cash and cash equivalents	\$ -	-	-	\$ -
Investments	1,210,000	-	-	1,210,000
	1,210,000	-	-	1,210,000
Improvement reserve				
Cash and cash equivalents	460,000	72,250	-	532,250
Investments	-	10,000	-	10,000
	\$ 460,000	82,250	-	\$ 542,250

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – BOARD DESIGNATED FUNDS – continued

	December 31, 2007 – continued			
	Electric Utility	Water Utility	Communications Utility	Total Utility
Medical self-insured				
Cash and cash equivalents	\$ 43,881	-	-	\$ 43,881
Investments	-	-	-	-
	43,881	-	-	43,881
Self-insured reserve				
Cash and cash equivalents	-	9,600	-	9,600
Investments	150,000	80,000	-	230,000
	150,000	89,600	-	239,600
Capacity Reserve				
Cash and cash equivalents	7,000	-	-	7,000
Investments	550,000	-	-	550,000
	557,000	-	-	557,000
Economic development loan fund				
Cash and cash equivalents	32,500	-	-	32,500
Economic development loans receivable	297,500	-	-	297,500
	330,000	-	-	330,000
Total unrestricted funds designated by trustees				
Cash and cash equivalents	543,381	81,850	-	625,231
Investments	2,207,500	90,000	-	2,297,500
	\$ 2,750,881	171,850	-	\$ 2,922,731

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – BOARD DESIGNATED FUNDS – continued

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

NOTE 4 – INTERFUND LOAN

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

The resolution decreased the interest rate on the interfund loan from 5.5% to 5.0%. As of December 31, 2007 and 2006 the outstanding balance on the interfund loan was \$3,440,000.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – INTERFUND LOAN - continued

This interfund loan is reflected on the Electric Department Balance Sheet as an Other Asset. It is reflected on the Communication Department's Balance Sheets as an Other Liability. Accrued interest as of December 31, 2007 and 2006 of \$172,000 is also reflected on the Electric Department's Balance Sheet as Accrued Interest Receivable – Interfund Loan and the Communication Department's Balance Sheet as Accrued Interest Payable - Interfund Loan.

NOTE 5 – ECONOMIC DEVELOPMENT LOAN FUND

AMU has established through board designation a revolving loan fund in conjunction with the City of Algona. To date \$330,000 has been lent to the City of Algona to fund the program. From these funds, money was lent by the City of Algona for various economic development projects. This money is to be repaid by the City of Algona as they receive payments from the various borrowers. As of December 31, 2007 and 2006 the balance due AMU under the program was \$297,500 and \$307,500 respectively.

NOTE 6 – REVENUE BONDS PAYABLE

The following is a summary of changes in long-term debt for the year ended December 31, 2007 and 2006.

Electric Utility:

	Bal. 1/1/07	Issued	Repaid	Bal. 12/31/07
Business type activities:				
Revenue Bonds – issued August 24, 2000	\$ 4,050,000	-	355,000	\$ 3,695,000

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

Communications Utility:

	Bal. 1/1/07	Issued	Repaid	Bal. 12/31/07
Business type activities:				
Revenue Bonds – issued January 12, 2005	\$ 327,036	-	107,388	\$ 219,648
Revenue Bonds – issued November 30, 2005	717,434	-	36,287	681,147
Revenue Bonds – issued December 13, 2005	476,451	-	27,375	449,076
Revenue Bonds – issued October 3, 2007	-	250,000	1,789	248,211
	<u>\$ 1,520,921</u>	<u>250,000</u>	<u>172,839</u>	<u>\$ 1,598,082</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – REVENUE BONDS PAYABLE - continued

Communications Utility - continued:

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

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

Year Ending December 31,	Electric Series 2000 Interest 4.75-5.35%		Communications Jan 12., 2005 Interest 3.74%		Communications Nov. 30, 2005 Interest 6.0%		Communications Dec 13, 2005 Interest 5.09%		Communications Oct. 3, 2007 Interest 5.45%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	375,000	181,347	102,900	6,772	35,510	40,708	25,210	22,449	11,086	13,527	549,706	22,449
2009	395,000	162,285	106,815	2,857	37,850	38,368	26,524	21,135	11,754	12,923	577,943	21,135
2010	420,000	141,805	18,193	85	610,543	36,000	27,906	19,753	12,420	11,606	1,078,046	19,753
2011	445,000	119,853	-	-	-	-	29,360	18,299	13,124	10,891	487,484	18,299
2012	470,000	96,402	-	-	-	-	30,889	16,770	199,827	10,727	700,716	16,770
2013	500,000	71,175	-	-	-	-	32,499	15,160	-	-	532,499	15,160
2014	530,000	44,005	-	-	-	-	34,192	13,467	-	-	564,192	13,467
2015	560,000	14,980	-	-	-	-	35,974	11,685	-	-	595,974	11,685
2016	-	-	-	-	-	-	37,848	9,811	-	-	37,848	9,811
2017	-	-	-	-	-	-	39,820	7,839	-	-	39,820	7,839
2018	-	-	-	-	-	-	41,895	5,764	-	-	41,895	5,764
2019	-	-	-	-	-	-	44,078	3,581	-	-	44,078	3,581
2020	-	-	-	-	-	-	46,295	1,285	-	-	42,881	1,285
	<u>\$3,695,000</u>	<u>831,852</u>	<u>219,648</u>	<u>9,714</u>	<u>681,147</u>	<u>115,076</u>	<u>449,076</u>	<u>166,998</u>	<u>248,211</u>	<u>59,674</u>	<u>5,293,082</u>	<u>1,183,314</u>

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – INTEREST COSTS

During the years ended December 31, 2007 and 2006, the interest incurred and expensed by the Electric Fund was \$190,536 and \$208,085 respectively.

During the years ended December 31, 2007 and 2006, the interest incurred by the Communication Fund was \$258,312 and \$248,903 respectively. The Electric Fund recognized interest income of \$172,000 each year from the interfund loan during 2007 and 2006.

NOTE 8 – RESTRICTED FUNDS

As of December 31, 2007 and 2006 Restricted Funds related to the Electric Department consisted of the following.

	December 31, 2007		
	Cash and Cash		
	Equivalents	Investments	Total
Bond sinking fund	\$ 470,268	\$ -	\$ 470,268
Bond reserve fund	-	500,000	500,000
Total restricted bond funds	470,268	500,000	970,268
Deferred compensation fund	-	145,514	145,514
	\$ 470,268	\$ 645,514	\$1,115,782

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

The bond funds are restricted as stated in Note 6.

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – RESTRICTED FUNDS - continued

AMU has a fiduciary responsibility over this restricted fund and the fund assets remain the property of AMU until paid. The restricted funds set aside for this program were \$75,708 and \$101,715 at December 31, 2007 and 2006 respectively. The remaining deferred compensation fund assets are maintained in a 457(b) plan.

The Water and Communications funds had restricted funds of \$3,215 and \$24,756 as of December 31, 2007 and \$2,830 and \$21,486 as of December 31, 2006. These funds were all held in the 457(b) deferred compensation plan offered AMU employees.

NOTE 9 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and AMU is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. AMU's contributions to IPERS for the years ended December 31, 2007, 2006 and 2005 were \$98,196, \$89,212 and \$86,969 respectively, equal to the required contributions for each year.

NOTE 10 - TRANSFERS TO CITY IN LIEU OF PROPERTY TAXES

By resolution of AMU's Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Algona, Iowa. For the years ended December 31, 2007 and 2006, transfers totaled 5% of gross sales less actual property taxes paid and services rendered to the City of Algona, Iowa.

NOTE 11 – RISK MANAGEMENT

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - RISK MANAGEMENT - continued

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

NOTE 12 - JOINT VENTURE

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

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

NOTE 13 – COMPENSATED ABSENCES

AMU employees accumulate a limited amount of earned but unused vacation. The Utility's approximate liability for earned vacation payments payable to employees at December 31, 2007 and 2006 is as follows:

Type of Benefit	Electric	Water	Communication	Total
December 31, 2007				
Vacation	\$ 54,974	8,617	14,974	\$ 78,565
December 31, 2006				
Vacation	\$ 49,898	11,107	13,108	\$ 74,113

NOTE 14 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2007 and 2006 was as follows:

December 31, 2007

Electric Fund

Proprietary Activities	Balance			Balance
	Beginning	Increases	Decreases	End
Capital Assets not being depreciated:	of Year			of Year
Land	\$ 257,428	-	-	\$ 257,428
Construction in progress	149,773	1,353,124	-	1,502,897
	\$ 407,201	1,353,124	-	\$ 1,760,325

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

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – CAPITAL ASSETS – continued

Electric Fund – continued

Capital Assets being depreciated:				
Buildings and improvements	\$ 2,524,345	8,623	-	\$ 2,532,968
Equipment and vehicles	2,303,203	34,259	-	2,337,462
Infrastructure	40,114,222	935,631	88,119	40,961,734
Total capital assets being depreciated	<u>44,941,770</u>	<u>978,513</u>	<u>88,119</u>	<u>45,832,164</u>
Less accumulated depreciation for:				
Buildings and improvements	547,074	61,767	-	608,841
Equipment and vehicles	1,489,770	161,135	-	1,650,905
Infrastructure, road network	23,305,193	1,329,332	85,805	24,548,720
Total accumulated depreciation	<u>25,342,037</u>	<u>1,552,234</u>	<u>85,805</u>	<u>26,808,466</u>
Total capital assets being depreciated, net	<u>19,599,733</u>			<u>19,023,698</u>
Business type activities capital assets, net	<u>\$20,006,934</u>			<u>\$ 20,784,023</u>

Water Fund

Proprietary Activities	Balance			Balance End of Year
	Beginning Of Year	Increases	Decreases	
Capital Assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	2,881	18,459	-	21,340
	<u>\$ 15,187</u>	<u>18,459</u>	<u>-</u>	<u>\$ 33,646</u>
Capital Assets being depreciated:				
Equipment and vehicles	\$ 217,469	46,632	-	\$ 264,101
Infrastructure	4,484,375	82,184	-	4,566,559
Total capital assets being depreciated	<u>4,701,844</u>	<u>128,816</u>	<u>-</u>	<u>4,830,660</u>
Less accumulated depreciation for:				
Equipment and vehicles	155,250	13,394	-	168,644
Infrastructure, road network	2,424,617	93,202	-	2,517,819
Total accumulated depreciation	<u>2,579,867</u>	<u>106,596</u>	<u>-</u>	<u>2,686,463</u>
Total capital assets being depreciated, net	<u>2,121,977</u>			<u>2,144,197</u>
Business type activities capital assets, net	<u>\$ 2,137,164</u>			<u>\$ 2,177,843</u>

Communications Fund

Proprietary Activities	Balance			Balance End of Year
	Beginning Of Year	Increases	Decreases	
Capital Assets not being depreciated:				
Land	\$ 49,635	-	-	\$49,635
Construction in progress	1,122	70,142	-	71,264
	<u>\$ 50,757</u>	<u>70,142</u>	<u>-</u>	<u>\$120,899</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – CAPITAL ASSETS – continued

Communications Fund – continued

Capital Assets being depreciated:				
Buildings and improvements	\$ 202,184	-	-	\$ 202,184
Equipment and vehicles	152,256	11,843	-	164,099
Infrastructure	4,833,654	197,294	-	5,030,948
Total capital assets being depreciated	<u>5,188,094</u>	<u>209,137</u>	<u>-</u>	<u>5,397,231</u>
Less accumulated depreciation for:				
Buildings and improvements	40,437	8,087	-	48,524
Equipment and vehicles	125,476	9,200	-	134,676
Infrastructure, road network	977,637	355,915	-	1,333,552
Total accumulated depreciation	<u>1,143,550</u>	<u>373,202</u>	<u>-</u>	<u>1,516,752</u>
Total capital assets being depreciated, net	<u>4,044,544</u>			<u>3,880,479</u>
Business type activities capital assets, net	<u>\$ 4,095,301</u>			<u>\$ 4,001,378</u>

December 31, 2006:

Electric Fund

Proprietary Activities	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 257,428	-	-	\$ 257,428
Construction in progress	203,789	898,385	952,401	149,773
	<u>\$ 461,217</u>	<u>898,385</u>	<u>952,401</u>	<u>\$ 407,201</u>
Capital Assets being depreciated:				
Buildings and improvements	\$ 2,502,893	21,452	-	\$ 2,524,345
Equipment and vehicles	2,244,616	58,587	-	2,303,203
Infrastructure	38,734,699	1,379,523	-	40,114,222
Total capital assets being depreciated	<u>43,482,208</u>	<u>1,459,562</u>	<u>-</u>	<u>44,941,770</u>
Less accumulated depreciation for:				
Buildings and improvements	485,696	61,378	-	547,074
Equipment and vehicles	1,323,027	166,743	-	1,489,770
Infrastructure, road network	21,993,771	1,311,422	-	23,305,193
Total accumulated depreciation	<u>23,802,494</u>	<u>1,539,543</u>	<u>-</u>	<u>25,342,037</u>
Total capital assets being depreciated, net	<u>19,679,714</u>			<u>19,599,733</u>
Business type activities capital assets, net	<u>\$ 20,140,931</u>			<u>\$ 20,006,934</u>

Water Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	-	21,051	18,171	2,881
	<u>\$ 12,306</u>	<u>21,051</u>	<u>18,171</u>	<u>\$ 15,187</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – CAPITAL ASSETS – continued

Water Fund - continued

Capital Assets being depreciated:				
Equipment and vehicles	\$ 211,987	26,067	20,585	\$ 217,469
Infrastructure	4,440,032	44,343	-	4,484,375
Total capital assets being depreciated	<u>4,652,019</u>	<u>70,410</u>	<u>20,585</u>	<u>4,701,844</u>
Less accumulated depreciation for:				
Equipment and vehicles	161,278	10,411	16,439	155,250
Infrastructure, road network	2,331,498	93,119	-	2,424,617
Total accumulated depreciation	<u>2,492,776</u>	<u>103,530</u>	<u>16,439</u>	<u>2,579,867</u>
Total capital assets being depreciated, net	<u>2,159,243</u>			<u>2,121,977</u>
Business type activities capital assets, net	<u>\$ 2,171,549</u>			<u>\$ 2,137,164</u>

Communications Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	151,554	12,822	163,254	1,122
	<u>\$ 201,189</u>	<u>12,822</u>	<u>163,254</u>	<u>\$ 50,757</u>
Capital Assets being depreciated:				
Buildings and improvements	\$ 202,184	-	-	\$ 202,184
Equipment and vehicles	149,046	3,210	-	152,256
Infrastructure	4,506,391	327,263	-	4,833,654
Total capital assets being depreciated	<u>4,857,621</u>	<u>330,473</u>	<u>-</u>	<u>5,188,094</u>
Less accumulated depreciation for:				
Buildings and improvements	32,349	8,088	-	40,437
Equipment and vehicles	104,921	20,555	-	125,476
Infrastructure, road network	666,763	310,874	-	977,637
Total accumulated depreciation	<u>804,033</u>	<u>339,517</u>	<u>-</u>	<u>1,143,550</u>
Total capital assets being depreciated, net	<u>4,053,588</u>			<u>4,044,544</u>
Business type activities capital assets, net	<u>\$ 4,254,777</u>			<u>\$ 4,095,301</u>

Depreciation expense was charged to the following functions:

Proprietary activities:	December 31, 2007	December 31, 2006
Electric	\$ 1,552,234	\$ 1,539,543
Water	106,596	103,530
Communications	<u>373,202</u>	<u>339,517</u>
	<u>\$ 2,032,032</u>	<u>\$ 1,982,590</u>

NOTE 15 – DEFICIT NET ASSETS

The Communications Fund has a deficit balance of \$1,028,764 and \$917,404 as of December 31, 2007 and 2006 respectively.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 16 – INTERFUND TRANSFERS

There were no interfund transfers for the year ended December 31, 2007.

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

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

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

NOTE 17 – JOINT LEASE AGREEMENT

Algona Municipal Utilities constructed a distribution system to facilitate the implementation of the data services offered to area residents and businesses. Portions of this system and the office facilities maintained by the Electric utility are leased under a forty-year operating lease, requiring annual payments of \$128,622. As of December 31, 2007 and 2006, \$128,622 in lease payments due under this agreement was included in accounts payable. The future minimum lease payments are as follows:

Year Ending	
2008	128,622
2009	128,622
2010	128,622
2011	128,622
2012-2016	643,110
2017-2021	643,110
2022-2026	643,110
2027-2031	643,110
2032-2036	643,110
2037-2041	643,110
2042-2043	<u>257,244</u>
Total	<u>\$ 4,630,392</u>

NOTE 18 – CONTRACTS

As part of the reconstruction project started in 2007 involving the replacement of transformers and the burying of overhead electric lines, AMU has signed contracts in which the work will extend past December 31, 2007. One such contract was signed for \$968,255. Remaining work under this contract totals \$567,938 as of December 31, 2007.

Required Supplementary Information

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

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS
BUDGET AND ACTUAL - ALL PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2007

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
Receipts:			
Charges for service	\$ 11,096,616	\$ 12,026,000	(929,384)
Interest earnings	399,006	658,000	(258,994)
	<u>11,495,622</u>	<u>12,684,000</u>	<u>(1,188,378)</u>
Disbursements:			
Program			
Business type activities	12,234,915	12,877,500	642,585
	<u>12,234,915</u>	<u>12,877,500</u>	<u>642,585</u>
Net (loss)	(739,293)	(193,500)	(545,793)
Balance beginning of year	<u>5,441,387</u>	<u>5,999,556</u>	<u>(558,169)</u>
Balance end of year	<u>\$ 4,702,094</u>	<u>\$ 5,806,056</u>	<u>(1,103,962)</u>

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

	Financial Statements	Adjustments	Budget
Revenues	\$ 11,159,389	\$ 336,233	\$ 11,495,622
Disbursements	10,607,015	1,627,900	12,234,915
Net income(Loss)	<u>\$ 552,374</u>	<u>\$ (1,291,667)</u>	<u>\$ (739,293)</u>

See accompanying independent auditor's report

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2007

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

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

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

Disbursements were within budgeted limits for the year ended December 31, 2007.

Other Supplementary Information

ALGONA MUNICIPAL UTILITIES

Schedule 1

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Sale of electricity:			
Sales to consumers	\$ 5,933,088	\$ 6,405,054	\$ 5,202,549
Sales to other utilities	156,684	179,326	158,992
Sales for resale	<u>704,959</u>	<u>839,579</u>	<u>1,041,948</u>
Total electricity sales	<u><u>6,794,731</u></u>	<u><u>7,423,959</u></u>	<u><u>6,403,489</u></u>
Kilowatt hours:			
Wind generation	5,038,600	6,088,600	5,397,000
Generated	116,660,810	120,922,580	112,310,030
Purchases	<u>8,541,100</u>	<u>5,205,000</u>	<u>20,044,000</u>
Energy available	130,240,510	132,216,180	137,751,030
Station power/transmission loss	<u>1,434,190</u>	<u>1,389,660</u>	<u>1,333,790</u>
Available for sale	128,806,320	130,826,520	136,417,240
Billed to consumers	102,037,782	99,571,261	98,446,687
Sales to other utilities	3,174,718	3,054,657	3,209,611
Sales for resale	19,471,000	25,626,000	31,638,000
Distribution loss	4,122,820	2,574,602	3,122,942
Distribution loss percent	3.77%	2.45%	2.29%
Revenue billed per KWH to consumers	0.0581	0.0643	0.0528
Peak hour demand in KW	21,970	21,620	21,960
Services provided to the City			
Street lighting:			
Energy	47,748	59,902	61,112
Operation and Maintenance	<u>7,598</u>	<u>13,144</u>	<u>10,213</u>
	55,346	73,046	71,325
Energy for Public Buildings, Parks and Other uses	<u>101,338</u>	<u>106,280</u>	<u>87,667</u>
	<u><u>156,684</u></u>	<u><u>179,326</u></u>	<u><u>158,992</u></u>
Year to date KWH sales			
Residential	31,938,160	31,206,879	31,206,879
Commercial	70,490,562	67,614,142	67,614,142
Area Lighting	1,399,138	1,452,389	1,452,389
City	<u>1,384,640</u>	<u>1,382,888</u>	<u>1,382,888</u>
Total number of KWH sales	<u><u>105,212,500</u></u>	<u><u>101,656,298</u></u>	<u><u>101,656,298</u></u>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 2

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total Revenue billed	<u>\$ 703,589</u>	<u>\$ 659,072</u>	<u>\$ 584,869</u>
Cubic Foot			
Pumped	40,864,933	39,740,400	39,391,507
Billed	34,580,033	33,669,587	33,345,719
City of Algona	339,150	724,450	958,672
System loss	5,945,750	5,346,363	5,087,116
Percent loss	14.55%	13.45%	12.91%
Revenue billed per cubic foot	0.0203	0.0196	0.0175
Peak day-cubic footage pumped	166,147	189,400	174,960
Services provided to City			
Water for parks, disposal plant and public buildings	7,688	12,053	13,056
Public fire protection	17,850	17,700	17,700
	<u>\$ 25,538</u>	<u>\$ 29,753</u>	<u>\$ 30,756</u>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 3

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenue:			
Cable TV	\$ 926,266	\$ 937,696	\$ 735,363
Internet	630,372	589,008	527,695
Telephone	1,073,760	804,618	751,670
Miscellaneous	<u>58,728</u>	<u>5,492</u>	<u>12,707</u>
Total operating revenue	<u><u>2,689,126</u></u>	<u><u>2,336,814</u></u>	<u><u>2,027,435</u></u>
Customers			
Cable TV	1,739	1,746	1,802
Internet	1,446	1,384	1,305
Telephone	1,584	1,502	1,384
Average monthly revenue per customer			
Cable TV	44.39	44.75	34.01
Internet	36.33	35.47	33.70
Telephone	56.63	44.64	45.26
Services Provided to City			
Cable TV	1,738	1,441	1,118
Internet	3,535	3,404	3,486
Telephone	<u>1,030</u>	<u>954</u>	<u>530</u>
	<u><u>\$ 6,303</u></u>	<u><u>\$ 5,799</u></u>	<u><u>\$ 5,134</u></u>

Unaudited - See Accompanying Independent Auditor's Report

T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of the
Algona Municipal Utilities:

We have audited the financial statements of Algona Municipal Utilities, component units of the City of Algona, Iowa, as of and for the year ended December 31, 2007, and have issued our report thereon dated April 22, 2008. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Planning

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects AMU's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by AMU's internal control. We consider the deficiency described in 07-II-A of the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the deficiency described in 07-II-A is a material weakness. Prior year significant deficiencies have been resolved except for 07-II-A.

Compliance and Other Matters

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

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

Comments involving statutory and other legal matters about AMU's operations for the year ended December 31, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of AMU. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

AMU's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusions on AMU's response we did not audit the response and express no opinion on it.

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

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

April 22, 2008

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

SCHEDULE OF FINDINGS

Part I: Summary of the Independent Auditor's Results

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

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

SCHEDULE OF FINDINGS

Part II: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT CONTROL DEFICIENCIES:

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

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

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

Conclusion - Response Accepted.

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

SCHEDULE OF FINDINGS

Part III: Other Findings Related to Statutory Reporting:

- III-A-07 Official Depositories – A resolution naming official depositories has been approved by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2007.

- III-B-07 Certified Budget - Disbursements during the year ended December 31, 2007 were within budgeted limits.

- III-C-07 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-D-07 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.

- III-E-07 Business Transactions – Business transactions with Utility officials are detailed as follows.

Name, Title, and <u>Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Allan Bonde, Trustee Owner Al's Repair	Minor repair work	\$128

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Board of Trustee's member do not appear to represent a conflict of interest since the total transactions were less than \$1,500.

- III-F-07 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- III-G-07 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.

- III-H-07 Revenue Bonds – No violations of revenue bond resolution requirements were noted.

- III-I-07 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.

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

SCHEDULE OF FINDINGS

Part III: Other Findings Related to Statutory Reporting: continued

III-J-07 Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.

III-K-07 Financial Condition – The Communication fund had a deficit fund balance of \$1,028,764 at December 31, 2007.

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

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

Conclusion – Response accepted.