

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, 2008 AND 2007

ATLANTIC MUNICIPAL UTILITIES

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ATLANTIC MUNICIPAL UTILITIES
Officials
December 31, 2008

Trustees

Term Expires

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

Management Personnel

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, 2008 and 2007, 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 opinions 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 opinions.

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, 2008 and 2007, 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 March 3, 2009 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, 2006 (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.

Shonewald, Bell, Kghun + Co. P. C.

Atlantic, Iowa
March 3, 2009



Atlantic Municipal Utilities

Management's Discussion and Analysis Audited Financial Statements Years Ended December 31, 2008 and 2007

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, 2008. 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 2008

The Utility's combined net assets increased by \$1.77 million, or 7.25%, from \$24.37 million to \$26.14 million. The Electric Department's net assets increased by \$1.78 million, or 8.63%, from \$20.64 million to \$22.42 million. The Water Department's net assets decreased slightly, about \$1,600, or 0.04%, from \$3.73 million to \$3.72 million.

Combined operating revenues increased by \$1,353,000 or 16.1%. Electric Department operating revenues increased by \$1,372,000, or 18.6%, from \$7.34 million to \$8.76 million. Water Department operating revenues decreased by \$19,000, or 6.0%, from \$1.04 million to \$1.02 million.

Long-term debt (see Table 1) of the two departments decreased. Total combined debt decreased from \$9.89 million in 2007, to \$8.93 million. Electric Department debt was reduced by \$760,000, from \$8.56 million to \$7.80 million. Water Department debt was reduced by \$199,000, from \$1.33 million to \$1.14 million.

Prior outstanding Electric Department debt was reduced by \$605,000, and the Water Department debt reduced by \$175,000.

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			
			Dollar Percent				Dollar Percent				Dollar Percent	
	2008	2007	Change	Change	2008	2007	Change	Change	2008	2007	Change	Change
Current and Other Assets	\$11,394.0	\$12,266.1	-\$872.1	-7.1%	\$1,221.4	\$1,286.7	-\$65.3	-5.1%	\$12,615.4	\$13,552.8	-\$937.4	-6.9%
Capital Assets	\$20,778.3	\$18,819.2	\$1,959.1	10.4%	\$4,093.2	\$4,237.4	-\$144.2	-3.4%	\$24,871.5	\$23,056.6	\$1,814.9	7.9%
Total Assets	\$32,172.3	\$31,085.2	\$1,087.0	3.5%	\$5,314.6	\$5,524.1	-\$209.5	-3.8%	\$37,486.9	\$36,609.3	\$877.6	2.4%
Long-Term Debt	\$7,800.0	\$8,560.0	-\$760.0	-8.9%	\$1,134.3	\$1,333.3	-\$199.0	-14.9%	\$8,934.3	\$9,893.3	-\$959.0	-9.7%
Other Liabilities	\$1,951.6	\$1,886.3	\$65.3	3.5%	\$461.9	\$456.7	\$5.2	1.1%	\$2,413.5	\$2,342.9	\$70.5	3.0%
Total Liabilities	\$9,751.6	\$10,446.3	-\$694.7	-6.6%	\$1,596.2	\$1,790.0	-\$193.8	-10.8%	\$11,347.8	\$12,236.2	-\$888.4	-7.3%
Total Net Assets	\$22,420.7	\$20,639.0	\$1,781.7	8.6%	\$3,718.4	\$3,734.1	-\$15.7	-0.4%	\$26,139.1	\$24,373.1	\$1,766.0	7.2%
Total Liabilities & Net Assets	\$32,172.3	\$31,085.2	\$1,087.0	3.5%	\$5,314.6	\$5,524.1	-\$209.5	-3.8%	\$37,486.9	\$36,609.3	\$877.6	2.4%

Electric Department

AMU issued \$8 million in electric revenue bonds in late 2007. The proceeds of this debt issuance are being used to 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 \$1,959,121, or 10.4%. Capital additions included a number of additions at Walter Scott Unit No. 3 (WS3), as well as a number of additions to distribution facilities. Capital asset additions were funded from bond proceeds as well as cash on hand.

Special Purpose Funds, Current and Other Assets decreased by \$872,099, or 7.1%, due to bond proceeds being used to pay for capital improvements at Walter Scott Unit No. 3. Total Assets increased from \$31.09 million to \$32.17 million, or 3.5%.

Total long-term debt of the Electric Department decreased from \$8,560,000 to \$7,800,000, a total of \$760,000. Current and Other Liabilities increased from \$1,886,255 to \$1,951,594, a change of \$65,339, or 3.5%. This change was mainly attributable to increases in Accounts Payable at the end of the year, and increases in current payments due for long-term debt.

Cash requirements of the Electric Department were provided from operations and proceeds from debt issued in 2007.

Operating Revenue for the Electric Department increased by \$1,372,303, or 18.6%. Energy sales to retail customers increased by 1.8%. Revenues from those sales increased by \$460,219, or 8.6%, in part due to an 8% increase in retail rates put into effect early in 2008. Wholesale sales to other utilities were significantly higher, increasing from \$1,985,575 to \$2,591,267. This increase was primarily due to higher market prices for energy.

Operating Expenses for the Electric Department also increased, from \$6,113,259 the prior year, to \$6,779,908 in 2008. Increases in expenses were primarily caused by increases in purchased power, fuel, and transmission costs. Costs also increased for operating and maintenance, labor, insurance and other costs.

Net Income increased from \$1,350,536 to \$2,055,219, an increase of \$704,683. 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 \$1,087,022 to \$32.17 million. Transfers to the City of Atlantic totaled \$273,536.

Water Department

AMU did not undertake any significant new capital projects during 2008. Due to depreciation of existing assets, there was a reduction of \$144,186 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 \$65,285, to \$1,221,420. Total Assets decreased from \$5.52 million to \$5.31 million, or -3.8%.

Total long-term debt of the Water Department was reduced from \$1,333,256 to \$1,134,295, a total of \$198,961. Current and Other Liabilities increased from \$456,694 to \$461,871, a change of \$5,177, or 1.1%.

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

Operating Revenue for the Water Department declined by 1.84%, with revenues totaling \$1,023,609 in 2008, as compared to \$1,042,831 in 2007. Sales of water were down 5.56%, with 252 million gallons billed. Net Income for the year decreased from \$79,335 in 2007, to \$64,812 in 2008. The decrease was due to lower sales revenues and to increases in operating expenses.

Net Assets of the water utility decreased (\$15,687) to \$3.72 million. (Note: Includes Contributions In Aid Of Construction and amortizations of said contributions). Transfers to the City of Atlantic totaled \$81,464.

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.

Table 2												
Condensed Statements of Income and Changes in Net Assets												
(In thousands of dollars)	Electric Dept.				Water Dept.				Combined			
	2008	2007	Dollar Change	Percent Change	2008	2007	Dollar Change	Percent Change	2008	2007	Dollar Change	Percent Change
Operating Revenues	\$8,762.5	\$7,390.2	\$1,372.3	18.6%	\$1,023.6	1042.8	(\$19.2)	-1.8%	\$9,786.1	\$8,433.0	\$1,353.1	16.05%
Other Income (Deductions)	\$72.7	\$73.6	(\$1.0)	-1.3%	(\$25.2)	(\$19.5)	(\$5.7)	29.1%	\$47.4	\$54.1	(\$6.6)	-12.29%
Total Operating Income	\$8,835.1	\$7,463.8	\$1,371.3	18.4%	\$998.4	\$1023.3	(\$24.9)	-2.4%	\$9,833.5	\$8,487.1	\$1,346.4	15.86%
Depreciation	\$1,143.0	\$1,059.5	\$83.6	7.9%	\$230.1	\$224.5	\$5.5	2.5%	\$1,373.1	\$1,284.0	\$89.1	6.94%
Other Operating Expenses	\$5,636.9	\$5,053.8	\$583.1	11.5%	\$703.5	\$719.4	(\$15.9)	-2.2%	\$6,340.4	\$5,773.2	\$567.2	9.82%
Total Operating Expense	\$6,779.9	\$6,113.3	\$666.6	10.9%	\$933.6	\$943.9	(\$10.4)	-1.1%	\$7,713.5	\$7,057.2	\$656.3	9.30%
Net Income	\$2,055.2	\$1,350.5	\$704.7	52.2%	\$64.8	\$79.3	(\$14.5)	-18.3%	\$2,120.0	\$1,429.9	\$690.2	48.27%
Net Assets												
Beginning Balance	\$20,639.0	\$19,564.9	\$1,074.1	5.5%	\$3,734.1	\$3,736	(\$2.0)	-0.1%	\$24,373.1	\$23,301.0	\$1,072.1	4.60%
Net Income	\$2,055.2	\$1,350.5	\$704.7	52.2%	\$64.8	\$79.3	(\$14.5)	-18.3%	\$2,120.0	\$1,429.9	\$690.2	48.27%
Distribution to the City	\$273.5	\$276.5	(\$2.9)	-1.1%	\$81.5	\$85.5	(\$4.1)	-4.8%	\$355.0	\$362.0	(\$7.0)	-1.93%
Plus: *Adjustments					\$1.0	\$4.2	(\$3.2)	-77.1%	\$1.0	\$4.2	(\$3.2)	-77.09%
Ending Balance	\$22,420.7	\$20,639.0	\$1,781.7	8.6%	\$3,718.4	\$3734.1	(\$15.7)	-0.4%	\$26,139.1	\$24,373.1	\$1,766.0	7.25%

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

OUTLOOK FOR THE FUTURE

One cannot discuss the outlook for the next few years without examining the "big picture". 2008 was a year which may best be described as a roller coaster ride, one of the wildest in recent memory. The U.S. economy, which had been riding a wave of seeming prosperity in every respect through at least fall of 2007, began what ended up being a freefall into either a major recession, or minor depression, depending on one's point of view.

Costs for crude oil triggered dramatic increases in the cost of transportation fuels, which affect every aspect of business in America. Americans responded by traveling over 107 billion less miles during 2008. Prices for food and delivered goods increased, raising the specter of a possible inflationary trend. The world learned a new terminology – "subprime mortgage" – and watched as the housing market collapsed, taking major banks and financial institutions down with it. Investors watched as their assets disappeared in a stock market fall reminiscent of, at the least, the recession of the early 1980's.

2008 was also, of course, a Presidential election year, and Americans turned out in record numbers to elect a new President, and to bolster a Democratic majority in the U.S. Congress as well as many state legislatures, including Iowa's. Philosophical differences about climate change, incentives for development of renewable energy, transmission policy, and a myriad of other energy-related issues will become more apparent over the next few years. The effects of the economic situation at year-end foreshadow major deficits in the budgets of virtually every state government, and the federal government enacted the first of an unknown number of attempts to bail out the financial industry, and to stabilize the national and world economies.

Poor economic conditions, volatile oil prices, rising energy prices and concerns about climate change are pointing to major changes in the electric industry. Dozens of planned new coal-fired power plants have been cancelled, for two reasons. First and foremost, the politics of climate change and discussions of possible carbon taxes or some sort of cap and trade system for carbon emissions have caused such uncertainty that utilities cannot reasonably predict their risks in investing in coal technology. Secondly, the environmental community has an agenda to not only prevent the construction of any new coal-fired plants, but if possible to make all such existing facilities uneconomic to operate. Various states, thinking that Congress isn't acting quickly enough on climate change legislation, are developing regional carbon trading and regulations, creating different systems in different parts of the country.

Advocates of renewable energy point believe that renewable energy and conservation can displace the need for carbon-based fuels for electrical generation. 2008 was a record year for installation of new wind energy generation in the U.S., with some 8,358 megawatts placed in service, and the U.S. surpassing Germany as having the most wind generation in any country in the world - a total of 25,170 megawatts. Solar, biomass and other forms of renewable energy are receiving a lot of attention, and will likely be subsidized in some way in the near-term, either directly by government, or through forced purchases (at very high prices) by utilities through so-called "feed-through" tariffs.

The emphasis on wind energy is exacerbating an already nagging problem – the inadequacy of electric transmission systems across the nation. 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. As of 12/31/08, Iowa has 2,790 megawatts of wind energy installed, which is in the neighborhood of 30 percent of electrical peak demand. Unless some very expensive ultra-high voltage transmission is added to the grid in the Midwest, wind energy cannot be expected to grow. The problem is that customers in our region should not be burdened with the costs of facilities that they don't really need, and historic methodologies for allocating costs would have them shouldering the majority of the cost.

Conservation is becoming the buzzword across the country, as costs to avoid using energy can sometimes be cheaper than building facilities to meet the increases in demand for energy that our economy has always depended upon. Some states have mandated investment, by utilities, in energy conservation, while others are increasing their mandates dramatically.

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.

What does all this translate to locally, and how is AMU preparing to meet these new challenges?

One casualty of the economic conditions is the planned local ethanol production facility. Ethanol had a brief "boom" period, when profits were high. High oil prices made it appear that demand for ethanol would remain high. But a combination of high grain prices, inadequate financial hedging, then falling prices for both oil and for ethanol took a heavy toll on the industry. One of the larger players in the industry was forced to file bankruptcy, and a number of production facilities have either closed down or severely cut back production. The local project was declared to be "on hold" indefinitely. The good news is that loss of this potential new electrical load does not have any major negative impacts on AMU's electric utility.

AMU is certainly not immune to the impact of a poor economy, or the political uncertainties that could impact us in the future. The best we believe we can do is to monitor the situation both in Iowa and at the federal level, make plans to respond to those things which we know will be required, and remain flexible enough to modify plans as the state and federal government establish their new energy policies.

We believe that AMU is well-positioned to meet these new challenges, for a number of reasons.

AMU's power supply mix is a low-cost set of resources. Federal hydropower remains a relatively low-cost option, despite increases in rates due to seven years of severe drought in the Missouri River Basin drainage area. WS3 continues to be one of the lowest cost power supply sources in the region, and will soon complete installation of mercury and small particulate removal systems, making it one of the cleanest coal plants in the country. Although any coal-fired plant carries the risk of high costs for carbon emissions, AMU customers also have a tremendous benefit in that we own base-load resources adequate for the next two decades or more and aren't dependent upon any of the cancelled projects. Competitive rail service at the WS3 site also helps to ensure that the energy from this source is competitively priced. The electric industry is funding a lot of research on carbon capture and sequestration, and if there is a technological answer to the carbon emission problem, we are confident that it will be found, and put to use. The nation is blessed with an enormous amount of coal resources, and our future depends on using it to power our economy.

AMU entered a long-term power supply contract with Missouri River Energy Services (MRES), a municipal joint action agency, to secure long-term power supply to supplement our other resources. The advantage of a larger entity such as MRES is an ability to diversify risks, as well as to jointly approach problems that are beyond the ability of smaller utilities to address on their own. AMU's local generation provides a hedge against extremely volatile pricing of energy and/or transmission, particularly during times when electricity prices are volatile.

In order to meet consumer expectations that AMU act responsibly in terms of climate change and renewable energy, AMU has joined with a number of other Iowa municipal electric utilities to plan the construction of a large-scale wind farm to be located in Boone County, Iowa. AMU has subscribed for 6 megawatts of this facility, the output of which will equate to 15 to 20 percent of AMU's total retail sales.

Having the diverse mix of power supply resources just mentioned will help to minimize risk to AMU and its customers. And if and when AMU is forced to enter a real-time energy market, being a seller carries significantly less risk than being a buyer. Electricity prices are certain to become much more volatile, especially in light of the cancellation of so many baseload projects.

AMU continues to work with other Iowa municipal utilities on transmission-related issues. We actively participate in an entity called MMTG (Midwest Municipal Transmission Group), which monitors plans for new transmission facilities, as well as the processes related to allocations of cost. We also are working hard to expand our ownership of electric transmission facilities. AMU and MMTG 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.

AMU has, for several years, offered incentives for its customers to utilize high-efficiency electric heat pumps, and geothermal heat pump systems. Additional rebates for energy efficiency measures were added in 2008, and will need to be expanded upon in 2009 and beyond. AMU is working with MRES to offer a broad range of energy efficiency incentives, based upon the value of the efficiency as compared to the avoided cost of constructing new

power generation facilities. AMU is also working with the Iowa Association of Municipal Utilities (IAMU), who is coordinating a statewide effort among municipally-owned utilities to develop energy efficiency programs.

Technology holds the key, in many respects, for the future success of a utility. The industry is working toward the development of a "smart grid", where information from the meter is added to real-time pricing information, and made available to the consumer. AMU will keep a close watch on the technology, and once the initial beta testing is finished, standards are developed, and the technology matures, make decisions on how to best implement it.

A system to "manage" electrical demands during peak periods will probably be purchased within the next few years. We are making a major investment in a Geographical Information System (GIS) mapping and database in 2009, and will continue to upgrade our communications systems.

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.

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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, 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. Once debt is retired related to treatment plant upgrades, it is likely that a larger scale main replacement program will be undertaken. Opportunities for grants or other financial assistance resulting from the recently adopted federal economic stimulus package will be examined, to see if AMU could expedite these projects.

Management expects that regular increases in rates for water will likely be needed over the next several years, however, rates for water in Atlantic should 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.

The General Manager can be contacted at the same address and phone, or by e-mail at a.bonderman@a-m-u.net.

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

ASSETS

	2008	2007
Utility Plant :		
Depreciable capital assets	\$ 14,379,519	\$ 14,770,628
Non-depreciable capital assets	6,398,778	4,048,548
Total utility plant	20,778,297	18,819,176
Special Purpose Funds:		
Revenue bond funds	2,182,840	4,472,213
Board designated funds	1,830,881	1,752,862
Total special purpose funds	4,013,721	6,225,075
Current Assets:		
Cash	1,383,767	1,419,326
Operating and capital reserves	3,988,772	2,898,096
Receivables, less allowance for doubtful accounts (\$30,000 in 2008, \$30,000 in 2007)	619,804	420,588
Inventory	758,789	617,294
Prepaid expenses	38,099	80,201
Total current assets	6,789,231	5,435,505
Other Assets:		
Note receivable	495,855	495,855
Deferred costs	95,160	109,631
Total other assets	591,015	605,486
	\$ 32,172,264	\$ 31,085,242

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Long-Term Debt, less current maturities	\$ 7,800,000	\$ 8,560,000
Current Liabilities:		
Current maturities of long-term debt	760,000	735,000
Accounts payable	698,444	551,078
Accrued employee compensation	107,200	128,190
Accrued property taxes	126,000	111,000
Other accrued taxes	12,967	6,803
Accrued interest	85,107	66,837
Accrued payroll taxes and withholdings	2,914	25,900
Customer construction deposit	--	117,000
Total current liabilities	<u>1,792,632</u>	<u>1,741,808</u>
Other Liabilities:		
Consumer deposits	65,962	63,447
Reserve for employees' retirement	93,000	81,000
Total other liabilities	<u>158,962</u>	<u>144,447</u>
Total liabilities	9,751,594	10,446,255
Net Assets:		
Restricted - expendable	1,915,086	1,894,746
Invested in capital assets net of related debt	12,486,051	12,101,643
Unrestricted	8,019,533	6,642,598
Total net assets	<u>22,420,670</u>	<u>20,638,987</u>
	<u>\$ 32,172,264</u>	<u>\$ 31,085,242</u>

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

	2008	2007
Operating Revenue:		
Retail electricity sales	\$ 5,487,330	\$ 5,059,643
Services provided to the City	310,955	278,423
Sales to other utilities	2,591,267	1,985,575
Total sale of electricity	8,389,552	7,323,641
Other operating revenue	372,904	66,512
Total operating revenue	8,762,456	7,390,153
Operating Expenses:		
Electric production	2,044,917	2,037,062
Purchased power	1,232,802	910,488
Transmission	542,906	447,034
Distribution	681,318	593,207
Administrative and accounting	1,134,942	1,066,008
Provision for depreciation	1,143,023	1,059,460
Total operating expenses	6,779,908	6,113,259
Income from Operations	1,982,548	1,276,894
Other Income and (Deductions):		
Income from investments	265,660	180,796
Interest expense on revenue bonds	(176,073)	(92,356)
Gain (loss) on disposal of equipment	264	(6,073)
Other interest expense	(2,709)	(2,824)
Amortization of bond issue costs	(14,471)	(5,901)
Other income (deductions), net	72,671	73,642
Net Income	\$ 2,055,219	\$ 1,350,536

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,

	<u>2008</u>	<u>2007</u>
Balance, Beginning	\$ 20,638,987	\$ 19,564,915
Net Income	2,055,219	1,350,536
Distribution to the City	<u>(273,536)</u>	<u>(276,464)</u>
Balance, Ending	<u>\$ 22,420,670</u>	<u>\$ 20,638,987</u>

The accompanying notes are an integral part of these statements.

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

	2008	2007
Cash flows from operating activities:		
Cash received from consumers	\$ 7,867,188	\$ 6,927,788
Cash paid to suppliers	(4,270,227)	(3,896,792)
Cash paid to employees	(1,170,149)	(983,534)
Other operating revenue	368,996	64,256
Net cash provided by operating activities	2,795,808	2,111,718
Cash flows from noncapital financing activities:		
Consumer deposits, net	2,515	990
Interest paid	(2,709)	(2,824)
Net cash used in noncapital financing activities	(194)	(1,834)
Cash flows from capital and related financing activities:		
Debt proceeds	--	7,920,000
Principal payments	(735,000)	(605,000)
Interest paid on revenue bonds	(329,408)	(64,725)
Capital expenditures	(3,186,819)	(4,429,694)
Debt issue costs	--	(29,095)
Customer construction deposit	--	117,000
Net cash provided by (used in) capital and related financing activities	(4,251,227)	2,908,486
Cash flows from investing activities:		
Special purpose fund investments		
Acquisitions	(1,453,083)	(3,682,737)
Proceeds	3,733,091	1,029,657
Operating and capital reserves		
Acquisitions	(4,547,063)	(3,955,105)
Proceeds	3,456,387	2,210,357
Income from investments	299,376	200,796
Net cash provided by (used in) investing activities	1,488,708	(4,197,032)
Net increase in cash	33,095	821,338
Cash at beginning of year	2,006,144	1,184,806
Cash at end of year	\$ 2,039,239	\$ 2,006,144

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

	2008	2007
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 1,383,767	\$ 1,419,326
Cash in special purpose funds	655,472	586,818
Total cash	\$ 2,039,239	\$ 2,006,144
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 1,982,548	\$ 1,276,894
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	1,143,023	1,059,460
Materials returned to stock	1,333	2,468
Uncollectible accounts	16,101	18,044
Reserve for employees' retirement	12,000	3,000
Distribution to City	(273,536)	(276,464)
Change in assets and liabilities		
Receivables	(215,317)	(119,686)
Inventory	(141,495)	(9,100)
Prepaid expenses	42,102	(22,509)
Accounts payable, trade	251,861	174,271
Accrued employee compensation	(20,990)	18,644
Accrued property taxes	15,000	(15,000)
Other accrued taxes	6,164	(3,305)
Accrued payroll taxes and withholdings	(22,986)	5,001
Total adjustments	813,260	834,824
Net cash provided by operating activities	\$ 2,795,808	\$ 2,111,718

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	\$ --	\$ 80,000
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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>2008</u>	<u>2007</u>
Utility Plant:		
Depreciable capital assets	\$ 3,967,370	\$ 4,101,469
Non-depreciable capital assets	<u>125,818</u>	<u>135,905</u>
Total utility plant	4,093,188	4,237,374
Special Purpose Funds:		
Revenue bond funds	750,000	750,000
Board designated funds	178,965	206,327
Memorial fund	<u>3,717</u>	<u>3,698</u>
Total special purpose funds	932,682	960,025
Current Assets:		
Cash	61,973	96,881
Receivables, less allowance for doubtful accounts (\$8,000 in 2008, \$8,000 in 2007)	134,431	136,636
Materials and supplies inventory	78,946	75,995
Prepaid expenses	<u>8,295</u>	<u>9,579</u>
Total current assets	283,645	319,091
Deferred Costs	<u>5,093</u>	<u>7,589</u>
	<u>\$ 5,314,608</u>	<u>\$ 5,524,079</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2008	2007
Long-Term Debt, less current maturities and deferred refunding costs	\$ 1,134,295	\$ 1,333,256
Current Liabilities:		
Current maturities of long-term debt	198,961	183,727
Accounts payable:		
Trade	23,463	31,209
City sewer	135,520	135,326
Accrued employee compensation	43,100	48,094
Other accrued taxes	4,321	2,975
Accrued interest	3,353	4,061
Accrued payroll taxes and withholdings	728	4,907
Total current liabilities	409,446	410,299
Other Liabilities:		
Consumer deposits	15,425	14,395
Reserve for employees' retirement	37,000	32,000
Total other liabilities	52,425	46,395
Total liabilities	1,596,166	1,789,950
Net Assets:		
Contributions in aid of construction	813,283	828,391
Restricted - expendable	753,717	753,698
Invested in capital assets, net of related debt	2,757,333	2,716,519
Unrestricted	(605,891)	(564,479)
Total net assets	3,718,442	3,734,129
	\$ 5,314,608	\$ 5,524,079

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

	2008	2007
Operating Revenue:		
Sale of water:		
Residential	\$ 600,269	\$ 610,769
Commercial	315,967	334,541
Services provided to the City	90,358	87,886
Total sale of water	1,006,594	1,033,196
Other operating revenue	17,015	9,635
Total operating revenue	1,023,609	1,042,831
Operating Expenses:		
Source of supply	36,584	42,155
Pumping	41,946	38,689
Water treatment	104,875	103,597
Distribution	216,765	209,508
Administrative and accounting	303,344	325,492
Provision for depreciation	230,056	224,507
Total operating expenses	933,570	943,948
Income from Operations	90,039	98,883
Other Income and (Deductions):		
Income from investments	27,404	42,458
Interest expense on revenue bonds	(49,307)	(57,537)
Other interest expense	(828)	(760)
Amortization of bond issue costs	(2,496)	(2,931)
Loss on disposal of equipment	--	(778)
Other income (deductions), net	(25,227)	(19,548)
Net Income	\$ 64,812	\$ 79,335

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,

	2008	2007
Balance, Beginning	\$ 3,734,129	\$ 3,736,117
Net Income	64,812	79,335
Contributions in Aid of Construction	965	4,213
Distribution to the City	<u>(81,464)</u>	<u>(85,536)</u>
Balance, Ending	<u>\$ 3,718,442</u>	<u>\$ 3,734,129</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>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 915,132	\$ 943,985
Cash paid to suppliers	(299,474)	(331,690)
Cash paid to employees	(395,559)	(377,777)
Other operating revenue	<u>16,132</u>	<u>8,740</u>
Net cash provided by operating activities	236,231	243,258
Cash flows from noncapital financing activities:		
Consumer deposits, net	1,030	600
Interest paid	<u>(828)</u>	<u>(760)</u>
Net cash provided by (used in) noncapital financing activities	202	(160)
Cash flows from capital and related financing activities:		
Principal payments	(185,000)	(175,000)
Interest paid on revenue bonds	(48,742)	(56,705)
Capital expenditures	(93,311)	(103,051)
Contributions in aid of construction	<u>965</u>	<u>4,213</u>
Net cash used in capital and related financing activities	(326,088)	(330,543)
Cash flows from investing activities:		
Special purpose fund investments:		
Acquisitions	(1,041,652)	(225,958)
Proceeds	1,040,172	221,275
Income from investments	<u>27,404</u>	<u>42,458</u>
Net cash provided by investing activities	<u>25,924</u>	<u>37,775</u>
Net decrease in cash	(63,731)	(49,670)
Cash at beginning of year	<u>300,319</u>	<u>349,989</u>
Cash at end of year	<u>\$ 236,588</u>	<u>\$ 300,319</u>
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 61,973	\$ 96,881
Cash in special purpose funds	<u>174,615</u>	<u>203,438</u>
Total cash	<u>\$ 236,588</u>	<u>\$ 300,319</u>

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

	2008	2007
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 90,039	\$ 98,883
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	230,056	224,507
Materials returned to stock	--	130
Uncollectible accounts	4,192	4,495
Reserve for employees' retirement	5,000	3,000
Distribution to City	(81,464)	(85,536)
Change in assets and liabilities		
Receivables	(1,987)	(2,220)
Materials and supplies inventory	(2,951)	6,044
Prepaid expenses	1,284	(1,965)
Accounts payable:		
Trade	(305)	(231)
City sewer	194	(9,276)
Accrued employee compensation	(4,994)	5,611
Accrued payroll taxes and withholdings	(4,179)	(375)
Other accrued taxes	1,346	191
Total adjustments	146,192	144,375
Net cash provided by operating activities	\$ 236,231	\$ 243,258

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2008 and 2007

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, 2008 and 2007

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, 2008 and 2007

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, 2008 and 2007

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

14. Net Assets

Net assets of the Utilities are classified in four 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 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. *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>2008</u>	<u>2007</u>
Fees for Services Provided to City	\$ 310,955	\$ 278,423
Payment From and Part of Distribution to City	<u>273,536</u>	<u>276,464</u>
Franchise Requirement	<u>\$ 37,419</u>	<u>\$ 1,959</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2008 and 2007

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

<u>Water Department</u>	<u>2008</u>	<u>2007</u>
Fees for Services Provided to City	\$ 90,358	\$ 87,886
Payment From and Distribution to City	<u>81,464</u>	<u>85,536</u>
Franchise Requirement	<u>\$ 8,894</u>	<u>\$ 2,350</u>
Sewer Fees Collected for City	<u>\$ 690,920</u>	<u>\$ 688,160</u>
Charge to City for Sewer Billing Service	<u>\$ 4,029</u>	<u>\$ 2,670</u>
Account Payable to City	<u>\$ 135,520</u>	<u>\$ 135,326</u>

NOTE C - SPECIAL PURPOSE FUNDS

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

<u>Electric Department</u>	<u>2008</u>	<u>2007</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 1,615,086	\$ 1,594,746
Capital improvements	300,000	300,000
Bond proceeds for capital acquisitions	<u>267,754</u>	<u>2,577,467</u>
Total restricted	<u>\$ 2,182,840</u>	<u>\$ 4,472,213</u>
Board Designated for:		
Unforeseen disasters	\$ 350,000	\$ 350,000
Production plant repairs and capital expenditures	1,000,000	1,000,000
Equipment replacement	150,000	150,000
Employee retirement	153,726	151,244
Funding of bond requirements	<u>177,155</u>	<u>101,618</u>
Total board designated	<u>\$ 1,830,881</u>	<u>\$ 1,752,862</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2008 and 2007

NOTE C - SPECIAL PURPOSE FUNDS - Continued

Water Department

	2008	2007
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 250,000	\$ 250,000
Capital improvements	500,000	500,000
Bond funds	750,000	750,000
Restricted by donor for well field improvements	3,717	3,698
Total restricted	\$ 753,717	\$ 753,698
Board Designated for:		
System improvements	\$ 100,000	\$ 135,000
Employee retirement	40,000	40,000
Funding of bond requirements	38,965	31,327
Total board designated	\$ 178,965	\$ 206,327

During the year ended December 31, 2008, AMU expended \$2,309,713 (\$5,422,533 in 2007) of revenue note proceeds on the construction programs.

NOTE D - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2008 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, 2008 and 2007

NOTE D - DEPOSITS AND INVESTMENTS - Continued

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

	2008	2007
Invested Funds:		
U.S. Treasury Securities	\$ --	\$ 450,122
Government Agencies	7,273,249	8,019,287
Other Interest Bearing Accounts	655,472	586,818
Interest Receivable	73,772	66,944
Total Investments	\$ 8,002,493	\$ 9,123,171
Special Purpose Funds:		
Restricted	\$ 2,182,840	\$ 4,472,213
Board Designated	1,830,881	1,752,862
Total Special Purpose Funds	4,013,721	6,225,075
Operating and Capital Reserves	3,988,772	2,898,096
Total Investments	\$ 8,002,493	\$ 9,123,171

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

	2008	2007
Invested Funds:		
U.S. Treasury Securities	\$ --	\$ 150,063
Government Agencies	751,772	599,060
Other Interest Bearing Accounts	174,615	203,438
Interest Receivable	6,295	7,464
Total Investments	\$ 932,682	\$ 960,025
Special Purpose Funds:		
Restricted	\$ 753,717	\$ 753,698
Board Designated	178,965	206,327
Total Special Purpose Funds	\$ 932,682	\$ 960,025

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, 2008 and 2007

NOTE E - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2008 and 2007 were as follows:

	<u>Balance 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2008</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 37,070,638	\$ 752,983	\$ 124,654	\$ 37,698,967
Depreciation	<u>22,300,010</u>	<u>1,143,023</u>	<u>123,585</u>	<u>23,319,448</u>
Depreciable Capital Assets, Net	<u>\$ 14,770,628</u>	<u>\$(390,040)</u>	<u>\$ 1,069</u>	<u>\$ 14,379,519</u>
Construction in Progress	\$ 3,479,471	\$ 3,103,213	\$ 752,983	\$ 5,829,701
Land and Land Rights	<u>569,077</u>	<u>--</u>	<u>--</u>	<u>569,077</u>
Non-Depreciable Capital Assets	<u>\$ 4,048,548</u>	<u>\$ 3,103,213</u>	<u>\$ 752,983</u>	<u>\$ 6,398,778</u>
	<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>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2008 and 2007

NOTE E - CAPITAL ASSETS - Continued

	<u>Balance 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2008</u>
<u>Water Department</u>				
Plant and Equipment	\$ 8,435,935	\$ 95,957	\$ 4,170	\$ 8,527,722
Depreciation	<u>4,334,466</u>	<u>230,056</u>	<u>4,170</u>	<u>4,560,352</u>
Depreciable Capital Assets, Net	<u>\$ 4,101,469</u>	<u>\$(134,099)</u>	<u>\$ --</u>	<u>\$ 3,967,370</u>
Construction in Progress	\$ 10,087	\$ 85,870	\$ 95,957	\$ --
Land and Land Rights	<u>125,818</u>	<u>--</u>	<u>--</u>	<u>125,818</u>
Non-Depreciable Capital Assets	<u>\$ 135,905</u>	<u>\$ 85,870</u>	<u>\$ 95,957</u>	<u>\$ 125,818</u>
	<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>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2008 and 2007

NOTE F - ELECTRIC DEPARTMENT NOTE RECEIVABLE

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

	2008	2007
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, 2008 and 2007 follows:

	Balance 2007	Additions	Reductions	Balance 2008
1999 Revenue Bonds	\$ 1,295,000	\$ --	\$ 635,000	\$ 660,000
2007 Capital Loan Notes	8,000,000	--	100,000	7,900,000
Less Current Portion	(735,000)	(760,000)	(735,000)	(760,000)
Total Long-Term Debt	8,560,000	(760,000)	--	7,800,000
Consumer Deposits	63,447	2,515	--	65,962
Reserve for Employee Retirement	81,000	12,000	--	93,000
Total Non-Current Liabilities	\$ 8,704,447	\$(745,485)	\$ --	\$ 7,958,962
	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, 2008 and 2007

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

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 \$605,000 in 2007 to \$660,000 in 2009. Interest rates range from 4.00% to 4.125%. The bonds are subject to early redemption.

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 annual debt service on the notes is expected to require less than 31% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$1,064,000 and \$3,388,000, respectively.

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, 2009 through 2013 and thereafter are as follows:

	Principal	Interest	Total
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	525,000	246,631	771,631
2014-2018	2,960,000	907,011	3,867,011
2019-2022	2,860,000	249,945	3,109,945
	\$ 8,560,000	\$ 2,579,664	\$ 11,139,664

During the year ended December 31, 2008, approximately \$172,000 (\$20,000 in 2007) of interest cost was capitalized. Interest earned on unexpended debt proceeds of approximately \$34,000 (\$20,000 in 2007) was offset against the capitalized interest.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2008 and 2007

NOTE H - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended December 31, 2008 and 2007 follows:

	<u>Balance 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2008</u>
1998 Capital Loan Notes	\$ 1,025,000	\$ --	\$ 185,000	\$ 840,000
Deferred Refunding Costs	<u>(3,872)</u>	<u>--</u>	<u>(1,273)</u>	<u>(2,599)</u>
	1,021,128	--	183,727	837,401
Less Current Portion	<u>(183,727)</u>	<u>(198,961)</u>	<u>(183,727)</u>	<u>(198,961)</u>
	837,401	(198,961)	--	638,440
Note Payable - Electric	<u>495,855</u>	<u>--</u>	<u>--</u>	<u>495,855</u>
Total Long-Term Debt	1,333,256	(198,961)	--	1,134,295
Consumer Deposits	14,395	1,030	--	15,425
Reserve for Employees' Retirement	<u>32,000</u>	<u>5,000</u>	<u>--</u>	<u>37,000</u>
Total Non-Current Liabilities	<u>\$ 1,379,651</u>	<u>\$(192,931)</u>	<u>\$ --</u>	<u>\$ 1,186,720</u>
	<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	<u>(5,368)</u>	<u>--</u>	<u>(1,496)</u>	<u>(3,872)</u>
	1,194,632	--	173,504	1,021,128
Less Current Portion	<u>(173,504)</u>	<u>(183,727)</u>	<u>(173,504)</u>	<u>(183,727)</u>
	1,021,128	(183,727)	--	837,401
Note Payable - Electric	<u>495,855</u>	<u>--</u>	<u>--</u>	<u>495,855</u>
Total Long-Term Debt	1,516,983	(183,727)	--	1,333,256
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>

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, 2008 and 2007

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 \$175,000 in 2007 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 annual debt service on the notes is expected to require less than 67% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$234,000 and \$347,000, respectively.

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 subsequent years are as follows:

	Principal	Interest	Total
2009	\$ 200,000	\$ 40,233	\$ 240,233
2010	205,000	30,833	235,833
2011	220,000	21,095	241,095
2012	710,855	10,535	721,390
	\$ 1,335,855	\$ 102,696	\$ 1,438,551

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 3.90% (4.10% effective July 1, 2008) of their annual salary and the Utilities are required to contribute 6.05% (6.35% effective July 1, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended December 31, 2008, 2007, and 2006, were approximately \$104,200, \$92,300, and \$87,600, respectively, equal to the required contributions for each year.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2008 and 2007

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, 2008 were approximately \$274,400.

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) 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 of \$200,000 (\$400,000 total accrued at December 31, 2008 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 \$5,403,000 represents the Utility's share of ongoing construction projects at WS #3. These projects have an estimated cost to complete of \$1,050,000. The Utility financed the costs of these projects through capital loan notes issued in 2007 and funds generated internally.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2008 and 2007

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Transmission Lines

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 \$3.5 million. IPPA plans to fund the project through the issuance of debt (which will be paid off by revenues generated from the transmission assets) and member cash investments. AMU's cash investment will be approximately \$200,000 of which \$32,000 has already been paid.

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.

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REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
 Budgetary Comparison Schedule
 Year Ended December 31, 2008

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	\$ 9,028,380	\$ 1,051,013	\$ 965	\$ 10,080,358
Contributions	--	965	(965)	--
Expenses	<u>6,973,161</u>	<u>986,201</u>	<u>920,000</u>	<u>8,879,362</u>
Net	2,055,219	65,777	(920,000)	1,200,996
Balance beginning of year	20,638,987	3,734,129	(8,082,788)	16,290,328
Transfers to the City	<u>(273,536)</u>	<u>(81,464)</u>	<u>--</u>	<u>(355,000)</u>
Balance end of year	<u>\$ 22,420,670</u>	<u>\$ 3,718,442</u>	<u>\$ (9,002,788)</u>	<u>\$ 17,136,324</u>
		<u>Budget</u>	<u>Budget</u>	<u>Variance</u>
		<u>Basis</u>		<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues		\$ 10,080,358	\$ 10,096,000	\$(15,642)
Expenses		<u>8,879,362</u>	<u>9,971,500</u>	<u>1,092,138</u>
Net		1,200,996	124,500	1,076,496
Balance beginning of year		16,290,328	16,290,328	--
Transfers to the City		<u>(355,000)</u>	<u>(390,000)</u>	<u>35,000</u>
Balance end of year		<u>\$ 17,136,324</u>	<u>\$ 16,024,828</u>	<u>\$ 1,111,496</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>2008</u>	<u>2007</u>
<u>2007 Series</u>				
April 1, 2008	--	3.60%	\$ --	\$ 100,000
April 1, 2009	--	3.60	100,000	100,000
April 1, 2010	--	3.60	465,000	465,000
April 1, 2011	--	3.65	485,000	485,000
April 1, 2012	--	3.70	505,000	505,000
April 1, 2013	--	3.75	525,000	525,000
April 1, 2014	--	3.80	545,000	545,000
April 1, 2015	--	3.85	570,000	570,000
April 1, 2016	--	3.90	590,000	590,000
April 1, 2017	April 1, 2016	3.95	615,000	615,000
April 1, 2018	April 1, 2016	4.05	640,000	640,000
April 1, 2019	April 1, 2016	4.15	670,000	670,000
April 1, 2020	April 1, 2016	4.20	700,000	700,000
April 1, 2021	April 1, 2016	4.25	730,000	730,000
April 1, 2022	April 1, 2016	4.30	760,000	760,000
			<u>\$ 7,900,000</u>	<u>\$ 8,000,000</u>
<u>1999 Series</u>				
April 1, 2008	April 1, 2006	4.000%	\$ --	\$ 635,000
April 1, 2009	April 1, 2006	4.125	660,000	660,000
			<u>\$ 660,000</u>	<u>\$ 1,295,000</u>

WATER DEPARTMENT:

<u>1998 Series</u>				
Dec. 1, 2008	Dec. 1, 2006	4.60%	\$ --	\$ 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>\$ 840,000</u>	<u>\$ 1,025,000</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
 Operating Revenue
 Year ended December 31,

	2008	2007
<u>ELECTRIC DEPARTMENT</u>		
Retail Electricity Sales:		
Residential	\$ 1,826,078	\$ 1,684,652
Commercial	2,704,489	2,495,639
Rural resident and rural commercial	930,073	853,790
Interdepartmental sales	26,690	25,562
	\$ 5,487,330	\$ 5,059,643
Other Operating Revenue:		
Customer late payment charges	\$ 12,154	\$ 11,908
Service charges	8,620	9,465
Rent from electric properties	9,980	11,974
Net contract work	5,872	5,990
Transmission service	303,261	9,758
Internet wireless services, net	5,137	9,577
Scrap sales	22,610	4,643
Bad debts recovered	3,908	2,256
Miscellaneous	1,362	941
	\$ 372,904	\$ 66,512
<u>WATER DEPARTMENT</u>		
Other Operating Revenue:		
Service charges	\$ 4,835	\$ 6,155
Net contract work	10,728	2,585
Scrap sales	569	--
Bad debts recovered	883	895
	\$ 17,015	\$ 9,635

See Independent Auditor's Report.

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

	2008	2007
Electric Production:		
WS #3 Production:		
Operating supervision and labor	\$ 65,986	\$ 72,235
Fuel	1,180,081	1,092,752
Operating supplies and expense	145,717	197,063
Maintenance of production plant	487,436	492,537
Total WS #3 production	1,879,220	1,854,587
Atlantic Production:		
Operating supervision and labor	15,481	11,751
Fuel	31,415	45,153
Operating supplies and expense	3,207	7,496
Maintenance of production plant	115,594	118,075
Total Atlantic production	165,697	182,475
Total electric production	2,044,917	2,037,062
Purchased Power	1,232,802	910,488
Transmission Expense:		
Maintenance of transmission line and other	542,906	447,034
Distribution Expense:		
City:		
Operating supervision and labor	105,946	56,063
Line and station supplies and expense	74,710	85,164
Meter expense	31,735	32,466
Miscellaneous distribution expense	87,455	92,796
Maintenance of structures and equipment	13,519	19,708
Maintenance of lines	147,690	120,477
Maintenance of line transformers	20,936	7,185
Maintenance of street lighting and signal systems	30,958	28,693
Maintenance of meters	12,586	14,930
Total city distribution expense	525,535	457,482
Rural:		
Operating supervision and labor	48,709	34,226
Line and station supplies and expense	66	300
Meter expense	74	260
Miscellaneous distribution expense	14,436	23,219
Maintenance of structures and equipment	16,981	13,766

(continued next page)

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

	2008	2007
Distribution Expense (Continued):		
Rural (Continued):		
Maintenance of lines	\$ 64,228	\$ 54,467
Maintenance of line transformers	8,461	4,142
Maintenance of meters	2,828	5,345
Total rural distribution expense	155,783	135,725
Total distribution expense	681,318	593,207
Administrative and Accounting Expense:		
Customer accounting:		
Meter reading labor	26,293	25,545
Accounting and collecting costs	107,696	101,053
Supplies and expense	1,370	1,400
Uncollectible accounts	16,101	18,044
Total customer accounting	151,460	146,042
Administrative and general:		
Administrative and general salaries	58,753	55,294
Office supplies and expense	38,525	41,160
Outside service employed	17,613	22,238
Property insurance	53,102	54,230
Liability insurance and safety program costs	52,011	48,328
Employees' pension and benefits	222,705	236,770
Franchise requirement	37,419	1,959
Regulatory commission expense	10,423	14,707
Internet	15,582	10,137
Energy efficiency grant/rebate program	48,709	28,518
Miscellaneous general expense	98,629	103,062
Maintenance of general plant	31,267	43,908
Payroll taxes	192,868	173,805
Property taxes	133,137	103,396
Total administrative and general	1,010,743	937,512
Administrative adjustments	40,989	40,104
Less administrative expense transferred	(68,250)	(57,650)
Net administrative and general	983,482	919,966
Total administrative and accounting expense	1,134,942	1,066,008
Provision for Depreciation	1,143,023	1,059,460
Total operating expenses	\$ 6,779,908	\$ 6,113,259

See Independent Auditor's Report.

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

	2008	2007
Source of Supply Expense:		
Operating supplies and expense	\$ 8,028	\$ 7,835
Maintenance of water source	28,556	34,320
Total source of supply expense	36,584	42,155
Pumping Expense:		
Operating labor	20,168	19,501
Fuel and power pumping	16,043	15,450
Maintenance of pumping station	5,735	3,738
Total pumping expense	41,946	38,689
Water Treatment Expense:		
Operating labor	52,739	49,700
Chemicals	32,727	31,974
Operating supplies and expense	11,777	13,311
Maintenance of water treatment plant	7,632	8,612
Total water treatment expense	104,875	103,597
Distribution Expense:		
Operating labor	122,073	117,963
Operating supplies and expense	7,826	10,378
Maintenance of distribution reservoirs and standpipes	5,320	8,084
Maintenance of mains	73,063	60,580
Maintenance of services	1,358	1,252
Maintenance of meters	3,213	4,218
Maintenance of hydrants	3,912	7,033
Total distribution expense	216,765	209,508
Administrative and Accounting Expense:		
Customer Accounting:		
Meter reading labor	14,476	14,484
Accounting and collecting labor	47,182	42,688
Supplies and expense	7,184	8,612
Uncollectible accounts	4,192	4,495
Total customer accounting	73,034	70,279

(continued next page)

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

	2008	2007
Administrative and Accounting Expense (Continued):		
Administrative and General:		
Administrative and general salaries	\$ 34,808	\$ 34,067
Office supplies and other expense	22,113	21,858
Outside service employed	6,306	10,441
Property insurance	8,675	8,033
Liability insurance costs	20,097	29,344
Employees' pensions and benefits	80,090	81,283
Franchise requirement	8,895	2,350
Regulatory Commission expense	982	987
Miscellaneous general expense	25,263	27,290
Transportation expense	10,342	10,612
Maintenance of general plant	4,302	2,618
Payroll taxes	<u>38,613</u>	<u>35,894</u>
Total administrative and general	260,486	264,777
Administrative adjustments	(6,363)	4,183
Less administrative expense transferred	<u>(23,813)</u>	<u>(13,747)</u>
Net administrative and general	<u>230,310</u>	<u>255,213</u>
Total administrative and accounting expense	303,344	325,492
Provision for Depreciation	<u>230,056</u>	<u>224,507</u>
Total operating expenses	<u>\$ 933,570</u>	<u>\$ 943,948</u>

See Independent Auditor's Report.

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

	<u>2008</u>	<u>2007</u>
Operating Revenue:		
Sale of electricity	\$ 8,389,552	\$ 7,323,641
Other operating revenue	<u>372,904</u>	<u>66,512</u>
Total operating revenue	8,762,456	7,390,153
Operating Expenses (Not Including Depreciation)	<u>5,636,885</u>	<u>5,053,799</u>
Operating Income Before Depreciation	3,125,571	2,336,354
Provision for Depreciation	<u>1,143,023</u>	<u>1,059,460</u>
Income From Operations	1,982,548	1,276,894
Other Income and (Deductions), Net	<u>72,671</u>	<u>73,642</u>
Net Income	<u>\$ 2,055,219</u>	<u>\$ 1,350,536</u>
Net Income as a Percent of Total Operating Revenue	<u>23.45%</u>	<u>18.27%</u>

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 6,728,404	\$ 7,267,100	\$ 6,259,144
<u>78,210</u>	<u>74,766</u>	<u>73,861</u>
6,806,614	7,341,866	6,333,005
<u>5,014,533</u>	<u>4,894,535</u>	<u>4,587,467</u>
1,792,081	2,447,331	1,745,538
<u>1,041,292</u>	<u>1,033,679</u>	<u>1,007,783</u>
750,789	1,413,652	737,755
<u>145,813</u>	<u>21,188</u>	<u>(72,078)</u>
<u>\$ 896,602</u>	<u>\$ 1,434,840</u>	<u>\$ 665,677</u>
<u>13.17%</u>	<u>19.54%</u>	<u>10.51%</u>

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

	2008	2007
Sale of Electricity:		
Sales to consumers	\$ 5,798,285	\$ 5,338,066
Sales to other utilities	2,591,267	1,985,575
Total Electricity Sales	\$ 8,389,552	\$ 7,323,641
Kilowatt Hours:		
Generated	132,336,100	132,205,200
Purchased	39,237,310	38,310,816
Energy available	171,573,410	170,516,016
Station power/transmission loss	6,046,276	4,646,224
Available for sale	165,527,134	165,869,792
Sales and transfers to other utilities	54,568,516	54,644,192
Output to the system	110,958,618	111,225,600
Billed to consumers	106,895,456	105,012,973
Distribution loss	4,063,162	6,212,627
Distribution loss percent	3.7%	5.6%
Revenue Billed Per KWH to Consumers	5.42¢	5.08¢
Peak Hour Demand in KW	25,151	24,751
Services Provided to the City:		
Street Lighting:		
Energy	\$ 71,138	\$ 64,248
Operation and maintenance	31,618	29,627
Depreciation	35,650	35,356
	138,406	129,231
Energy for public buildings, parks and other uses	172,549	149,192
Other City projects	--	--
	\$ 310,955	\$ 278,423
 <u>Consumer Classifications</u>		
Residential	3,259	3,232
Small Commercial	573	579
Large Commercial	42	43
Rural Residential	569	565
Rural Commercial	93	89
Area Lighting	290	286
City and Water Department	89	90
Total number of consumers	4,915	4,884

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 5,167,209	\$ 5,301,244	\$ 4,951,958
<u>1,561,195</u>	<u>1,965,856</u>	<u>1,307,186</u>
<u>\$ 6,728,404</u>	<u>\$ 7,267,100</u>	<u>\$ 6,259,144</u>
108,976,400	133,382,000	118,826,300
45,926,151	36,780,027	43,609,516
154,902,551	170,162,027	162,435,816
4,414,598	5,110,260	4,982,221
150,487,953	165,051,767	157,453,595
44,177,753	57,490,867	56,774,495
106,310,200	107,560,900	100,679,100
101,302,223	104,106,914	95,640,186
5,007,977	3,453,986	5,038,914
4.7%	3.2%	5.0%
5.10¢	5.09¢	5.18¢
25,435	25,211	24,465
\$ 67,314	\$ 71,494	\$ 70,832
26,849	21,374	18,049
<u>35,036</u>	<u>33,625</u>	<u>32,538</u>
<u>129,199</u>	<u>126,493</u>	<u>121,419</u>
146,378	155,828	129,111
<u>19,670</u>	<u>--</u>	<u>--</u>
<u>\$ 295,247</u>	<u>\$ 282,321</u>	<u>\$ 250,530</u>
3,233	3,226	3,197
583	578	584
43	44	45
566	565	559
91	99	97
285	279	272
<u>89</u>	<u>89</u>	<u>87</u>
<u>4,890</u>	<u>4,880</u>	<u>4,841</u>

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

	<u>2008</u>	<u>2007</u>
Operating Revenue:		
Sale of water	\$ 1,006,594	\$ 1,033,196
Other operating revenue	<u>17,015</u>	<u>9,635</u>
Total operating revenue	1,023,609	1,042,831
Operating Expenses (Not Including Depreciation)	<u>703,514</u>	<u>719,441</u>
Operating Income Before Depreciation	320,095	323,390
Provision for Depreciation	<u>230,056</u>	<u>224,507</u>
Income From Operations	90,039	98,883
Other Income (Deductions), Net	<u>(25,227)</u>	<u>(19,548)</u>
Net Income	<u>\$ 64,812</u>	<u>\$ 79,335</u>
Net Income as a Percent of Total Operating Revenue	<u>6.33%</u>	<u>7.61%</u>

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 972,150	\$ 1,009,869	\$ 1,008,825
<u>11,710</u>	<u>13,744</u>	<u>11,218</u>
983,860	1,023,613	1,020,043
<u>688,296</u>	<u>642,242</u>	<u>648,767</u>
295,564	381,371	371,276
<u>222,926</u>	<u>230,298</u>	<u>225,008</u>
72,638	151,073	146,268
<u>(36,812)</u>	<u>(51,028)</u>	<u>(62,095)</u>
<u>\$ 35,826</u>	<u>\$ 100,045</u>	<u>\$ 84,173</u>
<u>3.64%</u>	<u>9.77%</u>	<u>8.25%</u>

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

	<u>2008</u>	<u>2007</u>
Total Revenue Billed	<u>\$ 1,006,594</u>	<u>\$ 1,033,196</u>
Gallage:		
Pumped	285,970,000	324,065,000
Billed	251,514,300	266,308,200
Total system maintenance and loss	34,455,700	57,756,800
Accounted for losses*	16,186,860	30,608,938
Unaccounted for losses	18,268,840	27,147,862
Percent unaccounted for	6.39%	8.38%
Revenue Billed Per 100 Gallons	40.0¢	38.8¢
Number of Consumers	3,332	3,311
Peak Day - Gallons Pumped	1,489,000	1,485,000
Services Provided to the City:		
Water for parks, disposal plant and public buildings	\$ 9,708	\$ 9,915
Operation and maintenance	40,229	39,285
Depreciation	<u>40,421</u>	<u>38,686</u>
	<u>\$ 90,358</u>	<u>\$ 87,886</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>2006</u>	<u>2005</u>	<u>2004</u>
<u>\$ 972,150</u>	<u>\$ 1,009,869</u>	<u>\$ 1,008,825</u>
329,229,000	326,127,000	340,930,000
267,999,725	283,333,025	290,892,000
61,229,275	42,793,975	50,038,000
22,201,896	13,617,295	12,874,480
39,027,379	29,176,680	37,163,520
11.85%	8.95%	10.90%
36.3¢	35.6¢	34.7¢
3,309	3,310	3,294
1,543,000	1,540,000	1,930,000
\$ 10,860	\$ 8,966	\$ 7,600
27,061	29,501	35,305
<u>35,541</u>	<u>38,330</u>	<u>36,347</u>
<u>\$ 73,462</u>	<u>\$ 76,797</u>	<u>\$ 79,252</u>

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

	2008	2007
<u>ELECTRIC DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 2,055,219	\$ 1,350,536
Add:		
Depreciation	1,143,023	1,059,460
Interest on revenue bonds	176,073	92,356
(Gain) loss on disposal of equipment	(264)	6,073
Amortization	14,471	5,901
Available For Debt Service	\$ 3,388,522	\$ 2,514,326
Maximum Debt Service in Any Year	\$ 1,085,000	\$ 1,085,000
Actual Coverage	312%	232%
Minimum Coverage Required	125%	125%
<u>WATER DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 64,812	\$ 79,335
Add:		
Depreciation	230,056	224,507
Interest on revenue bonds	49,307	57,537
Loss on disposal of equipment	--	778
Amortization	2,496	2,931
Available For Debt Service	\$ 346,671	\$ 365,088
Maximum Debt Service on Bonds in Any Year	\$ 252,000	\$ 252,000
Actual Coverage	138%	145%
Minimum Coverage Required	125%	125%

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, 2008, and have issued our report thereon dated March 3, 2009. 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 opinions 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.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2008 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
March 3, 2009

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2008

PART I - SIGNIFICANT DEFICIENCIES

08-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. However, this situation is common in small municipal 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

08-II-A Certified Budget: The Utilities' expenditures during the year ended December 31, 2008 did not exceed amounts budgeted.

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

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

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

08-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.

08-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, 2008

PART II - REQUIRED STATUTORY REPORTING (Continued)

08-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.

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

08-II-I Telecommunications Services: No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

* * *