

**ALGONA MUNICIPAL UTILITIES**

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

**December 31, 2008**

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

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**OFFICIALS  
ALGONA MUNICIPAL UTILITIES**

**December 31, 2008**

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	James Modrell	May 2013
Chairman Pro Tem	Jay Geving	May 2009
Trustee	Allan Bonde	May 2012
Trustee	Karen Schaaf	May 2014
Trustee	Walter Krahenbuhl	May 2011
General Manager	John Bilsten	
Comptroller	Brien Rindone	



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Algona Municipal Utilities  
Algona, Iowa

We have audited the accompanying financial statements of the business type activities and each major fund of Algona Municipal Utilities, (a component unit of the City of Algona) as of and for the years ended December 31, 2008 and 2007, which collectively comprise the Utilities' basic financial statements listed as exhibits in the table of contents. These financial statements are the responsibility of Algona Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and each major fund of Algona Municipal Utilities at December 31, 2008 and 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2009 on our consideration of Algona Municipal Utilities's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

June 15, 2009

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Algona Municipal Utilities (AMU) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2008. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2008 FINANCIAL HIGHLIGHTS

- ◆ AMU's revenues increased by 2.9%, or approximately \$328,000 from calendar year 2007 to calendar year 2008.
- ◆ Expenses increased by 10%, or approximately \$1,107,000, in 2008 from 2007.
- ◆ AMU's net assets decreased 1%, or approximately \$227,000 during 2008.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

### REPORTING THE UTILITIES FINANCIAL ACTIVITIES

#### *Fund Financial Statements*

AMU utilizes one kind of fund:

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

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

The condensed statement of net assets, shown below, shows how assets and liabilities have changed from 2007 to 2008. Capital assets, net of depreciation, increased from 2007 to 2008. This increase is due to capital asset additions and increased Construction in Progress during 2008. Total assets increased by approximately \$2,302,000 and liabilities increased by \$2,529,000 resulting in the decrease in net assets of approximately \$227,000 dollars during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2008	2007
Current and other assets	\$ 12,484	\$ 10,233
Capital assets (net of depreciation)	27,014	26,963
Total assets	39,498	37,196
Long-term debt outstanding	9,895	8,183
Other liabilities	2,959	2,142
Total liabilities	12,854	10,325
Net assets:		
Invested in capital assets, net of related debt	20,735	20,203
Restricted	274	500
Unrestricted	5,635	6,168
Total net assets	\$ 26,644	\$ 26,871

## INDIVIDUAL MAJOR FUND ANALYSIS

As AMU completed the year, its enterprise funds reported a combined fund balance of \$26.6 million, a decrease of approximately \$227,000 under last year's total of \$26.9 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- For the year, the Electric Fund total revenues were \$7.86 million, an increase of approximately \$172,000 from 2007. All major revenue sources increased in 2008 except for Merchandising (a decrease of \$190,000). Usage decreased during 2008 by 800,000 kWh (106.0 million in 2008 compared to 106.8 in 2007), but due to changes in the power cost adjustment (PCA) revenues still increased. The changes in the PCA resulted in \$215,000 in additional customer charges in 2008 as compared to \$227,000 in credits in 2007.

Operating expenses were also up in 2008 by approximately \$1,082,000. The electric utility had increased expenses of \$182,000 for NEAL 4 while purchased power increased by \$382,000. This increase in purchased power was mainly due to increases in the billings from the wind farm to more closely reflect the actual costs. We anticipate this cost to decrease in 2009 as a result of corrections in the wind farm billing procedures. Maintenance costs also increased during the year by approximately \$119,000 while overhead expenses increased \$250,000 (mainly due to outside services and energy efficiency rebate increases). Interest expense increased \$40,120 during the year as our long term debt increased temporarily due to receiving the bond proceeds which were used to refund our series 2000 Revenue Bonds in 2009.

For the year the Electric Utility net assets decreased to \$25,070,075, a decrease of \$340,479.

- At year end, the Water Fund had \$798,000 in total revenues which was up from \$760,000 in 2007; an increase of \$38,000. The Water Fund's operating expenses for 2008 decreased by \$28,000 to \$641,000. Changes of note for 2008 included increased Cell Tower rent revenue of \$8,600, increased overhead costs of \$74,000, and a decrease in Plant Maintenance of \$125,000 due to recouping expenses paid for the Electric Utility at the power plant. Net assets for the year increased approximately \$157,000 to \$2,646,603.
- In the Communications Fund for the year, revenues were up by \$153,000 (2,826,000 – 2008 and \$2,708,000 – 2007). The customer counts are as follows: Cable – 1,812 and 1,739; Internet – 1,558 and 1,446; Telephone – 1,682 and 1,584; for the years ended December 31, 2008 and 2007, respectively. The fund's operating expense for the year end was \$2,510,000, up from \$2,448,000 (an increase of \$62,000). For the year, we had net loss of \$43,500, which resulted in deficit net assets of \$1,072,331.

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

Changes in Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2008	2007
Revenues:		
Program revenues:		
Charges for service	\$ 11,110	\$ 10,613
General revenues:		
Unrestricted investment earnings	268	399
Other general revenues	108	146
Total revenues	<u>11,486</u>	<u>11,158</u>
Program expenses:		
Business type activities	<u>11,713</u>	<u>10,606</u>
Total expenses	<u>11,713</u>	<u>10,606</u>
Increase (Decrease) in net assets	(227)	552
Net assets beginning of year	<u>26,871</u>	<u>26,319</u>
Net assets end of year	<u>\$ 26,644</u>	<u>\$ 26,871</u>

## BUDGETARY HIGHLIGHTS

AMU did not amend their budget during 2008 and expenses were within budget limitations.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2008, AMU had approximately \$27 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is an increase (including additions and deletions net of depreciation) of approximately \$51,000 or less than 1 percent over last year.

Capital Assets of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2008	2007
Land	\$ 319	\$ 319
Construction in progress	2,540	1,596
Buildings and improvements	2,017	2,078
Equipment and vehicles	720	811
Infrastructure	21,418	22,159
Total	\$ 27,014	\$ 26,963

The largest additions to capital assets were additional work on the underground conversion project, Neal 4 capital improvements, and an investment in the Sutherland Generation Project.

AMU had depreciation expense of \$2,037,583 in FY08 and total accumulated depreciation of \$33,040,934 at December 31, 2008.

### LONG TERM DEBT/LIABILITIES

At December 31, 2008, AMU had approximately \$7,478,000 in revenue bonds outstanding compared to \$5,294,000 at December 31, 2007, as shown below. AMU's liability for deferred compensation also decreased from approximately \$173,000 to \$120,000.

During 2008 in order to refinance the 2000 Series of Electric Revenue Bonds, the Electric Fund issued revenue notes totaling \$2,735,000. The 2000 Series Electric Revenue Bonds were paid in full in January 2009.

Outstanding debt of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2008	2007
Revenue Bonds	\$ 7,478	\$ 5,294
Deferred compensation	120	173
Total	\$ 7,598	\$ 5,467

At December 31, 2008 and 2007 the Communications Fund owed the Electric Fund \$3,440,000 under an interfund loan agreement established to finance the AMU broadband telecommunications network. The loan agreement calls for interest to accrue at 3.58% (5.0% through June 30, 2008) per year and to be repaid within 180 months.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Algona Municipal Utility's appointed officials considers many factors when setting the calendar year 2009 budget including fees that will be charged for the services the Utilities' provide, for future expansions, and capital improvements.

These factors were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$20 million, an increase of 65 percent over the 2008

budget. The budget is likely to closer reflect the cash receipts received as estimated based on 2008 results and usage from customers. Budgeted disbursements are expected to increase by approximately \$5.35 million. Again, the 2009 budget was set to more closely reflect the actual results as estimated based on 2008 results and expenditures on improvements to the Utility Infrastructure. The Budget included \$8 million in revenue bonds to be issued for a proposed Alliant Energy Sutherland Generation Station, and the related expenditures for the capital calls. However, after the budget was set, the Sutherland Project was stopped.

If these estimates are realized, the Utilities' budgetary operating balance is expected to increase by the close of 2009.

Algona Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery of the utmost in reliable products and services. In 2007, Algona Municipal Utilities Electric department started an extensive reconstruction project that involves several parts of town and will be completed in 2009. The construction project involves the removal of all the old 2400 volt electric facilities, and installing new underground electric wires and associated equipment. Consistent with the need to invest for the future energy needs of Algona, combined with growth, aging infrastructure, AMU continues to look at new diversified generation projects. AMU, through the North Iowa Municipal Electric Cooperative Association (NIMECA), will be exploring the opportunity to join the WAPA Power Control area for generation and transmission dispatch along with ancillary services. AMU, through NIMECA, is also exploring an energy sales and purchase agreement with Basin Electric.

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

## **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

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

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

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

	ENTERPRISE	
	ELECTRIC	
	2008	2007
Utility plant:		
Property and equipment	\$ 46,763,083	\$ 46,089,592
Less accumulated depreciation	(28,371,930)	(26,808,466)
	<u>18,391,153</u>	<u>19,281,126</u>
Construction in progress	2,443,318	1,502,897
Utility Plant - Net	<u>20,834,471</u>	<u>20,784,023</u>
Restricted funds		
Cash and cash equivalents	481,080	470,268
Temporary cash investments	372,689	645,514
	<u>853,769</u>	<u>1,115,782</u>
Current Assets:		
Cash and cash equivalents	2,925,587	625,763
Accounts receivable (net of allowance for doubtful accounts)	503,682	533,314
Unbilled usage	170,711	136,746
Accounts receivable -interfund	128,622	128,622
Investments	1,974,901	1,937,901
Inventory	899,150	666,468
Prepaid insurance	23,299	22,022
Accrued interest receivable	9,408	18,605
Accrued interest receivable - interfund loan	147,980	172,000
	<u>6,783,340</u>	<u>4,241,441</u>
Other assets:		
Investment in joint venture	-	-
Interfund loan receivable	3,440,000	3,440,000
Economic development loans receivable	322,500	297,500
	<u>3,762,500</u>	<u>3,737,500</u>
Total assets	<u>\$ 32,234,080</u>	<u>\$ 29,878,746</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ 4,984,581	\$ 4,842,966	\$ 5,767,379	\$ 5,446,866	\$ 57,515,043	\$ 56,379,424
(2,796,874)	(2,686,463)	(1,872,130)	(1,516,752)	(33,040,934)	(31,011,680)
2,187,707	2,156,503	3,895,249	3,930,114	24,474,109	25,367,744
96,145	21,340	821	71,264	2,540,284	1,595,501
2,283,852	2,177,843	3,896,070	4,001,378	27,014,393	26,963,245
-	-	-	-	481,080	470,268
4,819	3,215	16,130	24,756	393,638	673,485
4,819	3,215	16,130	24,756	874,718	1,143,753
203,092	169,140	289,101	455,787	3,417,780	1,250,690
50,305	48,913	173,211	256,592	727,198	838,819
26,342	21,776	-	-	197,053	158,522
-	-	-	-	128,622	128,622
100,250	72,250	-	-	2,075,151	2,010,151
30,136	40,115	35,275	18,856	964,561	725,439
10,281	9,274	7,724	15,966	41,304	47,262
504	990	-	-	9,912	19,595
-	-	-	-	147,980	172,000
420,910	362,458	505,311	747,201	7,709,561	5,351,100
-	-	137,270	-	137,270	-
-	-	-	-	3,440,000	3,440,000
-	-	-	-	322,500	297,500
-	-	137,270	-	3,899,770	3,737,500
\$ 2,709,581	\$ 2,543,516	\$ 4,554,781	\$ 4,773,335	\$ 39,498,442	\$ 37,195,598

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

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

	ENTERPRISE	
	ELECTRIC	
	2008	2007
Liabilities:		
Current liabilities:		
Accounts payable	\$ 448,987	\$ 66,539
Accounts payable - City of Algona	166,760	178,527
Accounts payable - interfund	-	-
Checks in excess of bank balance	-	-
Retainage and contracts payable	-	-
Accrued taxes	129,795	128,140
Accrued wages and compensated absences	178,194	159,204
Accrued interest payable	86,080	95,268
Deferred revenue	-	-
Revenue bonds payable	840,000	375,000
	<u>1,849,816</u>	<u>1,002,678</u>
Noncurrent liabilities		
Revenue bonds payable - net of current portion	5,215,000	3,320,000
Interfund loan - payable	-	-
	<u>5,215,000</u>	<u>3,320,000</u>
Other liabilities		
Deferred compensation liability	99,189	145,514
	<u>99,189</u>	<u>145,514</u>
Total liabilities	<u>7,164,005</u>	<u>4,468,192</u>
Fund Net Assets		
Invested in capital assets, net of related debt	17,995,551	17,464,023
Restricted - Bond Covenant	273,500	500,000
Unrestricted (deficit)	6,801,024	7,446,531
Total Net Assets	<u>\$ 25,070,075</u>	<u>\$ 25,410,554</u>

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ (267)	\$ 1,999	\$ 68,018	\$ 61,271	\$ 516,738	\$ 129,809
12,456	11,083	124,627	109,386	303,843	298,996
-	-	128,622	128,622	128,622	128,622
-	-	-	-	-	-
3,529	3,529	-	-	3,529	3,529
2,913	2,392	59,595	62,304	192,303	192,836
39,528	31,652	49,927	43,478	267,649	234,334
-	-	147,980	172,000	234,060	267,268
-	-	169,500	162,200	169,500	162,200
-	-	182,943	174,706	1,022,943	549,706
<u>58,159</u>	<u>50,655</u>	<u>931,212</u>	<u>913,967</u>	<u>2,839,187</u>	<u>1,967,300</u>
-	-	1,239,770	1,423,376	6,454,770	4,743,376
-	-	<u>3,440,000</u>	<u>3,440,000</u>	<u>3,440,000</u>	<u>3,440,000</u>
-	-	<u>4,679,770</u>	<u>4,863,376</u>	<u>9,894,770</u>	<u>8,183,376</u>
<u>4,819</u>	<u>3,215</u>	<u>16,130</u>	<u>24,756</u>	<u>120,138</u>	<u>173,485</u>
<u>62,978</u>	<u>53,870</u>	<u>5,627,112</u>	<u>5,802,099</u>	<u>12,854,095</u>	<u>10,324,161</u>
2,283,852	2,177,843	456,070	561,378	20,735,473	20,203,244
-	-	-	-	273,500	500,000
<u>362,751</u>	<u>311,803</u>	<u>(1,528,401)</u>	<u>(1,590,142)</u>	<u>5,635,374</u>	<u>6,168,192</u>
<u>\$ 2,646,603</u>	<u>\$ 2,489,646</u>	<u>\$ (1,072,331)</u>	<u>\$ (1,028,764)</u>	<u>\$ 26,644,347</u>	<u>\$ 26,871,436</u>

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

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

**DECEMBER 31:**

	ENTERPRISE	
	ELECTRIC	
	2008	2007
Operating revenues:		
Sale of electricity:		
Residential and commercial	\$ 6,385,187	\$ 5,933,088
Neal 4	765,421	704,959
Service provided to City of Algona	51,943	55,346
Sales to other utilities	106,573	101,338
Sale of water	-	-
Cable TV fees	-	-
Internet fees	-	-
Telephone Service	-	-
Merchandising	39,880	229,689
Miscellaneous	181,047	173,266
Return from investment in AMU-Skylink LC	-	-
Total operating revenue	7,530,051	7,197,686
Operating expenses		
Generation and power purchased	4,017,640	3,300,063
Transmission-distribution maintenance	399,292	279,977
Meter reading supplies and labor	156,500	178,760
Sales	37,292	37,218
General and other	649,592	629,837
Administration and general	368,975	284,185
Rebates and other expenses	177,179	74,886
Merchandise, jobbing and construction	10,684	9,984
Property tax and insurance	186,953	183,477
Depreciation	1,571,792	1,552,234
Sales and use tax	1,855	4,634
Source of supply	-	-
Maintenance of mains, services and meters	-	-
Maintenance of distribution and equipment	-	-
Headend programming	-	-
Customer accounts	-	-
Total operating expenses	7,577,754	6,535,255
Income (loss) from operations	\$ (47,703)	\$ 662,431

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ -	\$ -	\$ -	\$ -	\$ 6,385,187	\$ 5,933,088
-	-	-	-	765,421	704,959
-	-	-	-	51,943	55,346
-	-	-	-	106,573	101,338
738,179	703,589	-	-	738,179	703,589
-	-	990,068	926,266	990,068	926,266
-	-	663,327	630,372	663,327	630,372
-	-	1,086,484	1,073,760	1,086,484	1,073,760
9,732	14,117	6,521	-	56,133	243,806
17,585	8,950	130,408	58,728	329,040	240,944
-	-	(62,730)	-	(62,730)	-
<u>765,496</u>	<u>726,656</u>	<u>2,814,078</u>	<u>2,689,126</u>	<u>11,109,625</u>	<u>10,613,468</u>
-	-	-	-	4,017,640	3,300,063
-	-	-	-	399,292	279,977
-	-	-	-	156,500	178,760
-	-	-	-	37,292	37,218
-	-	-	-	649,592	629,837
237,498	187,236	539,971	506,552	1,146,444	977,973
-	-	-	-	177,179	74,886
21,140	19,084	35,867	85,962	67,691	115,030
-	-	85,571	79,083	272,524	262,560
110,411	106,596	355,380	373,202	2,037,583	2,032,032
-	-	4,051	4,719	5,906	9,353
49,122	161,391	-	-	49,122	161,391
132,491	121,205	-	-	132,491	121,205
-	-	167,696	157,149	167,696	157,149
-	-	1,247,541	1,180,666	1,247,541	1,180,666
51,712	36,740	74,005	60,765	125,717	97,505
<u>602,374</u>	<u>632,252</u>	<u>2,510,082</u>	<u>2,448,098</u>	<u>10,690,210</u>	<u>9,615,605</u>
\$ 163,122	\$ 94,404	\$ 303,996	\$ 241,028	\$ 419,415	\$ 997,863

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

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

**DECEMBER 31:**

	<u>ENTERPRISE</u>	
	<u>ELECTRIC</u>	
	<u>2008</u>	<u>2007</u>
Non-operating income (expense) and transfers		
Interest income	\$ 255,609	\$ 378,746
Interest expense	(230,656)	(190,536)
Miscellaneous	74,028	79,231
Donations	(58,358)	(39,635)
Transfers to City - in lieu of property tax	(336,134)	(352,971)
Gain (Loss) on disposition of assets	2,735	35,667
Total other income (expense)	<u>(292,776)</u>	<u>(89,498)</u>
Change in Net Assets	(340,479)	572,933
Total net assets, beginning	<u>25,410,554</u>	<u>24,837,621</u>
Total net assets, ending	<u><u>\$ 25,070,075</u></u>	<u><u>\$ 25,410,554</u></u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ 8,284	\$ 9,197	\$ 4,280	\$ 11,063	\$ 268,173	\$ 399,006
-	-	(230,720)	(258,312)	(461,376)	(448,848)
24,450	24,128	7,253	2,889	105,731	106,248
-	-	-	-	(58,358)	(39,635)
(38,899)	(36,928)	(128,376)	(113,028)	(503,409)	(502,927)
-	-	-	5,000	2,735	40,667
<u>(6,165)</u>	<u>(3,603)</u>	<u>(347,563)</u>	<u>(352,388)</u>	<u>(646,504)</u>	<u>(445,489)</u>
156,957	90,801	(43,567)	(111,360)	(227,089)	552,374
<u>2,489,646</u>	<u>2,398,845</u>	<u>(1,028,764)</u>	<u>(917,404)</u>	<u>26,871,436</u>	<u>26,319,062</u>
<u>\$ 2,646,603</u>	<u>\$ 2,489,646</u>	<u>\$ (1,072,331)</u>	<u>\$ (1,028,764)</u>	<u>\$ 26,644,347</u>	<u>\$ 26,871,436</u>

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

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

	ENTERPRISE	
	ELECTRIC	
	2008	2007
Cash flows from operating activities:		
Cash receipts from customers	\$ 7,344,671	\$ 7,130,694
Cash receipts from interfund services	128,622	128,622
Other operating cash receipts	52,425	44,644
Cash payments to suppliers	(4,839,073)	(4,451,861)
Cash payments to employees	(997,755)	(924,772)
Cash payments for interfund services	-	-
	<u>1,688,890</u>	<u>1,927,327</u>
Cash flows from noncapital financing activities		
Transfer to the City of Algona in-lieu of property tax	(347,901)	(363,780)
Donations	(58,358)	(39,635)
	<u>(406,259)</u>	<u>(403,415)</u>
Cash flows from capital and related financing activities		
Deferred compensation payments	(35,253)	(38,548)
Deferred compensation deposits	25,135	32,297
Acquisition and construction of capital assets	(1,613,912)	(2,331,637)
Repayment of revenue bonds	(375,000)	(355,000)
Proceeds from bond issuances	2,735,000	-
Cash payments for interest	(239,844)	(199,144)
	<u>496,126</u>	<u>(2,892,032)</u>
Cash flows from investing activities:		
Interest received during the year	288,826	404,192
Principal received on economic development loan	10,000	10,000
Issuance of new economic development loans	(35,000)	-
Proceeds from redemption of investments	4,691,275	2,156,251
Purchase of investments	(4,500,000)	(1,677,901)
Proceeds from sale of fixed asset	2,750	37,981
Miscellaneous income	74,028	79,231
	<u>531,879</u>	<u>1,009,754</u>
Net cash provided by investing activities	\$ 531,879	\$ 1,009,754

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ 759,538	\$ 779,504	\$ 2,918,159	\$ 2,584,687	\$ 11,022,368	\$ 10,494,885
-	-	-	-	128,622	128,622
-	-	49,330	43,798	101,755	88,442
(193,898)	(270,468)	(1,577,002)	(1,525,943)	(6,609,973)	(6,248,272)
(282,962)	(276,664)	(446,768)	(421,300)	(1,727,485)	(1,622,736)
-	-	(128,622)	(128,622)	(128,622)	(128,622)
<u>282,678</u>	<u>232,372</u>	<u>815,097</u>	<u>552,620</u>	<u>2,786,665</u>	<u>2,712,319</u>
(37,526)	(29,822)	(113,135)	(96,114)	(498,562)	(489,716)
-	-	-	-	(58,358)	(39,635)
<u>(37,526)</u>	<u>(29,822)</u>	<u>(113,135)</u>	<u>(96,114)</u>	<u>(556,920)</u>	<u>(529,351)</u>
-	-	-	-	(35,253)	(38,548)
-	385	-	3,270	25,135	35,952
(216,420)	(147,273)	(250,072)	(279,279)	(2,080,404)	(2,758,189)
-	-	(175,369)	(172,839)	(550,369)	(527,839)
-	-	-	250,000	2,735,000	250,000
-	-	(254,740)	(258,312)	(494,584)	(457,456)
<u>(216,420)</u>	<u>(146,888)</u>	<u>(680,181)</u>	<u>(457,160)</u>	<u>(400,475)</u>	<u>(3,496,080)</u>
8,770	9,337	4,280	11,063	301,876	424,592
-	-	-	-	10,000	10,000
-	-	-	-	(35,000)	-
-	90,000	-	-	4,691,275	2,246,251
(28,000)	(72,635)	(200,000)	(3,270)	(4,728,000)	(1,753,806)
-	-	-	5,000	2,750	42,981
<u>24,450</u>	<u>24,126</u>	<u>7,253</u>	<u>2,889</u>	<u>105,731</u>	<u>106,246</u>
\$ 5,220	\$ 50,828	\$ (188,467)	\$ 15,682	\$ 348,632	\$ 1,076,264

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

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

	ENTERPRISE	
	ELECTRIC	
	2008	2007
Net increase (decrease) in cash and cash equivalents	\$ 2,310,636	\$ (358,366)
Cash and cash equivalents-beginning of year	1,096,031	1,454,397
Cash and cash equivalents-end of year	<u>3,406,667</u>	<u>1,096,031</u>
Restricted funds	481,080	470,268
Current assets	<u>2,925,587</u>	<u>625,763</u>
	<u>3,406,667</u>	<u>1,096,031</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Income (Loss) from operations	(47,703)	662,431
Adjustments to reconcile operating income to Net cash provided by operating activities:		
Depreciation	1,571,792	1,552,234
Loss on investment in AMU-Skylink LC	-	-
Change in accounts receivable	29,632	110,698
Change in unbilled usage	(33,965)	(4,424)
Change in accounts receivable - interfund	-	-
Change in prepaid expenses	(1,277)	(1,239)
Change in inventory	(232,682)	(242,857)
Change in accounts payable and retainages payable	382,448	(175,664)
Change in checks in excess of bank balance	-	-
Change in accrued taxes	1,655	(9,630)
Change in accrued wages and compensated absences	18,990	35,778
Change in deferred revenue	-	-
	<u>\$ 1,688,890</u>	<u>\$ 1,927,327</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2008	2007	2008	2007	2008	2007
\$ 33,952	\$ 106,490	\$ (166,686)	\$ 15,028	\$ 2,177,902	\$ 91,690
169,140	62,650	455,787	440,759	1,720,958	1,264,306
203,092	169,140	289,101	455,787	3,898,860	1,720,958
-	-	-	-	481,080	470,268
203,092	169,140	289,101	455,787	3,417,780	1,250,690
203,092	169,140	289,101	455,787	3,898,860	1,720,958
163,122	94,404	303,996	241,028	419,415	997,863
110,411	106,596	355,380	373,202	2,037,583	2,032,032
-	-	62,730	-	62,730	-
(1,392)	55,018	83,381	(79,481)	111,621	86,235
(4,566)	(2,170)	-	-	(38,531)	(6,594)
-	-	-	-	-	-
(1,007)	(257)	8,242	(1,163)	5,958	(2,659)
9,979	9,374	(16,419)	8,404	(239,122)	(225,079)
(2,266)	(10,793)	6,747	(13,609)	386,929	(200,066)
-	(14,746)	-	-	-	(14,746)
521	(3,154)	(2,709)	(1,469)	(533)	(14,253)
7,876	(1,900)	6,449	6,868	33,315	40,746
-	-	7,300	18,840	7,300	18,840
\$ 282,678	\$ 232,372	\$ 815,097	\$ 552,620	\$ 2,786,665	\$ 2,712,319

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Reporting Entity

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

B. Basis of Presentation

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

AMU reports the following major proprietary funds:

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

Enterprise:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements were within budgeted limits for the year ended December 31, 2008.

E. Utility Plant and Depreciation

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

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

Revenues are based on billing rates applied to customers' consumption. Unbilled usage represents revenues based upon estimated consumption for the period between the last billing dates at the end of the year. Deferred revenue represents amounts billed for cable tv, internet, telephone, and data services that had not yet been delivered at the end of the year. The allowance method is used to account for uncollectible accounts receivable. As of December 31, 2008 and 2007, \$9,320 and \$12,571 respectively of accounts receivable were older than 90 days. These past due accounts are primarily associated with the electric utility. AMU charges 1.5% per month on past due accounts.

G. Inventory

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

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

H. Joint Plant Ownership

Under a joint ownership agreement with other utilities, AMU has a 2.937% undivided interest in a 640 MW electric generation station known as George Neal Generating Station Unit No. 4. As of December 31, 2008 and 2007, AMU's interest in this plant represents a total investment of \$10,898,691 and \$10,580,284 included in property and equipment respectively. Accumulated depreciation associated with the Utility's ownership in this plant totaled \$(9,264,704) and \$(8,562,607) at December 31, 2008 and 2007 respectively. Operating costs and depreciation associated with this plant are reflected in the statement of income.

AMU also has a 4.18% undivided interest in the Lehigh-Webster Transmission System. As of December 31, 2008 and 2007, AMU's interest in the system represents a total investment of \$364,770 included in property and equipment. Accumulated depreciation associated with the AMU's ownership in this plant totaled \$(364,770) and \$(351,907) at December 31, 2008 and 2007 respectively. Operating costs and depreciation associated with this system are reflected in the statement of income.

I. Interest Capitalization

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

J. Rate Matters

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

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

K. Use of Estimates

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

L. Cash and Cash Equivalents

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

**NOTE 2 - CASH AND INVESTMENTS**

AMU's deposits at December 31, 2008 and 2007 (which include certificates of deposit totaling \$1,500,000 and \$2,500,000 respectively) were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - CASH AND INVESTMENTS-continued**

AMU had investments in the Iowa Public Agency Investments Trust at December 31, 2008 and 2007, which are valued at and amortized cost of \$18,562 and \$555,918 respectively pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

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

Reconciliation of the Utility’s cash and cash equivalents and temporary cash and investments for the years ended December 31, 2008 and 2007 is as follows:

		December 31, 2008			
		Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents					
Restricted		\$481,080	-	-	\$ 481,080
Current assets		2,925,587	203,092	289,101	3,417,780
		<u>3,406,667</u>	<u>203,092</u>	<u>289,101</u>	<u>3,898,860</u>
Investments					
Restricted		372,689	4,819	16,130	393,638
Unrestricted		1,974,901	100,250	-	2,075,151
		<u>2,347,590</u>	<u>105,069</u>	<u>16,130</u>	<u>2,468,789</u>
Total cash and cash equivalents and investments		<u>\$ 5,754,257</u>	<u>308,161</u>	<u>305,231</u>	<u>\$ 6,367,649</u>
		December 31, 2007			
		Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents					
Restricted		\$ 470,268	-	-	\$ 470,268
Current assets		625,763	169,140	455,787	1,250,690
		<u>1,096,031</u>	<u>169,140</u>	<u>455,787</u>	<u>1,720,958</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - CASH AND INVESTMENTS-continued**

Investments				
Restricted	645,514	3,215	24,756	673,485
Unrestricted	1,937,901	72,250	-	2,010,151
	<u>2,583,415</u>	<u>75,465</u>	<u>24,756</u>	<u>2,683,636</u>
Total cash and cash equivalents and investments	<u>\$ 3,679,446</u>	<u>244,605</u>	<u>480,543</u>	<u>\$ 4,404,594</u>

**NOTE 3 – INTERFUND LOAN**

The Board of Trustees passed resolutions creating an interfund loan account dedicated to the financing and operation of the AMU broadband telecommunications network. Management authorized interfund loans not to exceed \$5,540,000. All monies transferred shall be repaid to the originating account within 180 months with interest at the rate of 3.58% (5% through June 30, 2008) per annum. In accordance with Iowa Senate file 224, Sec. 3, AMU passed a resolution effective June 30, 2004 forgiving \$2,100,000 of the previously authorized interfund loans.

As of December 31, 2008 and 2007 the outstanding balance on the interfund loan was \$3,440,000.

This interfund loan is reflected on the Electric Department Balance Sheet as an Other Asset. It is reflected on the Communication Department's Balance Sheets as an Other Liability. Accrued interest as of December 31, 2008 and 2007 of \$147,980 and \$172,000 is also reflected on the Electric Department's Balance Sheet as Accrued Interest Receivable – Interfund Loan and the Communication Department's Balance Sheet as Accrued Interest Payable - Interfund Loan.

**NOTE 4 – ECONOMIC DEVELOPMENT LOAN FUND**

AMU has established through board designation a revolving loan fund in conjunction with the City of Algona. To date \$330,000 has been lent to the City of Algona to fund the program.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – ECONOMIC DEVELOPMENT LOAN FUND - continued**

From these funds, money was lent by the City of Algona for various economic development projects. This money is to be repaid by the City of Algona as they receive payments from the various borrowers. As of December 31, 2008 and 2007 the balance due AMU under the program was \$322,500 and \$297,500 respectively.

**NOTE 5 – REVENUE BONDS PAYABLE**

The following is a summary of changes in long-term debt for the year ended December 31, 2008 and 2007.

**Electric Utility:**

	Bal. 1/1/08	Issued	Repaid	Bal. 12/31/08
Business type activities:				
Revenue Bonds – issued August 20, 2008	-	2,735,000	-	\$ 2,735,000
Revenue Bonds – issued August 24, 2000	\$ 3,695,000	-	375,000	\$ 3,320,000
	<u>\$ 3,695,000</u>	<u>2,735,000</u>	<u>375,000</u>	<u>\$ 6,055,000</u>

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

**Communications Utility:**

	Bal. 1/1/08	Issued	Repaid	Bal. 12/31/07
Business type activities:				
Revenue Bonds – issued January 12, 2005	\$ 219,648	-	103,227	\$ 116,421
Revenue Bonds – issued November 30, 2005	681,147	-	36,122	645,025
Revenue Bonds – issued December 13, 2005	449,076	-	23,956	425,120
Revenue Bonds – issued October 3, 2007	248,211	-	12,064	236,147
	<u>\$ 1,598,082</u>	<u>-</u>	<u>175,369</u>	<u>\$ 1,422,713</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 – REVENUE BONDS PAYABLE - continued**

**Communications Utility - continued:**

	Bal. 1/1/07	Issued	Repaid	Bal. 12/31/07
Business type activities:				
Revenue Bonds – issued January 12, 2005	\$ 327,036	-	107,388	\$ 219,648
Revenue Bonds – issued November 30, 2005	717,434	-	36,287	681,147
Revenue Bonds – issued December 13, 2005	476,451	-	20,920	449,076
	-	250,000	1,789	248,211
	<u>\$ 1,520,921</u>	<u>250,000</u>	<u>172,839</u>	<u>\$ 1,598,082</u>

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

Year Ending December 31,	Electric Series 2000		Electric Series 2008		Total	
	Interest 4.75-5.35%		Interest 3.25-4.00%			
	Principal	Interest	Principal	Interest	Principal	Interest
2009	395,000	162,285	445,000	97,675	840,000	259,960
2010	420,000	141,805	465,000	83,213	885,000	225,018
2011	445,000	119,853	480,000	68,100	925,000	187,953
2012	470,000	96,402	500,000	51,300	970,000	147,702
2013	500,000	71,175	525,000	33,800	1,025,000	104,975
2014	530,000	44,005	320,000	12,800	850,000	56,805
2015	560,000	14,980	-	-	560,000	14,980
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
	<u>\$3,320,000</u>	<u>650,505</u>	<u>2,735,000</u>	<u>346,888</u>	<u>6,055,000</u>	<u>1,183,314</u>

Year Ending December 31,	Communications Jan. 12, 2005 Interest 3.74%		Communications Nov. 30, 2005 Interest 6.0%		Communications Dec 13, 2005 Interest 5.09%		Communications Oct. 3, 2007 Interest 5.45%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2009	106,815	2,857	37,850	38,368	26,524	21,135	11,754	12,923	182,943
2010	9,606	85	607,175	36,000	27,906	19,753	12,420	11,606	657,107	67,444
2011	-	-	-	-	29,360	18,299	13,124	10,891	42,484	29,190
2012	-	-	-	-	30,889	16,770	198,849	10,727	229,738	27,497
2013	-	-	-	-	32,499	15,160	-	-	32,499	15,160
2014	-	-	-	-	34,192	13,467	-	-	34,192	13,467
2015	-	-	-	-	35,974	11,685	-	-	35,974	11,685
2016	-	-	-	-	37,848	9,811	-	-	37,848	9,811
2017	-	-	-	-	39,820	7,839	-	-	39,820	7,839
2018	-	-	-	-	41,895	5,764	-	-	41,895	5,764
2019	-	-	-	-	44,078	3,581	-	-	44,078	3,581
2020	-	-	-	-	44,135	1,285	-	-	44,135	1,285
	<u>116,421</u>	<u>2,942</u>	<u>645,025</u>	<u>74,368</u>	<u>425,120</u>	<u>144,549</u>	<u>236,147</u>	<u>46,147</u>	<u>1,422,713</u>	<u>268,006</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 – REVENUE BONDS PAYABLE - continued**

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

- A. The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to the Electric Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- C. A reserve fund shall be established and maintained at a level equal to or less than \$273,500 and \$500,000 at December 31, 2008 and 2007 respectively. The reserve was fully funded at December 31, 2008 and 2007.

The revenue bonds Series 2000 were redeemed in full in January 2009 with the proceeds of the revenue bonds issued in 2008 as required by the issuance of the new issuance.

**NOTE 6 – INTEREST COSTS**

During the years ended December 31, 2008 and 2007, the interest incurred and expensed by the Electric Fund was \$230,656 and \$190,536 respectively.

During the years ended December 31, 2008 and 2007, the interest incurred by the Communication Fund was \$230,720 and \$258,312 respectively. The Electric Fund recognized interest income of \$147,980 and \$172,000 from the interfund loan during 2008 and 2007.

**ALGONA MUNICIPAL UTILITIES  
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**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – RESTRICTED FUNDS**

As of December 31, 2008 and 2007 Restricted Funds related to the Electric Department consisted of the following.

	December 31, 2008		
	Cash and Cash		
	Equivalents	Investments	Total
Bond sinking fund	\$ 481,080	\$ -	\$ 481,080
Bond reserve fund	-	273,500	273,500
Total restricted bond funds	481,080	273,500	754,580
Deferred compensation fund	-	99,189	99,189
	<u>\$ 481,080</u>	<u>\$ 372,689</u>	<u>\$ 853,769</u>

  

	December 31, 2007		
	Cash and Cash		
	Equivalents	Investments	Total
Bond sinking fund	\$ 470,268	\$ -	\$ 470,268
Bond reserve fund	-	500,000	500,000
Total restricted bond funds	470,268	500,000	970,268
Deferred compensation fund	-	145,514	145,514
	<u>\$ 459,218</u>	<u>\$ 645,514</u>	<u>\$ 1,115,782</u>

The bond funds are restricted as stated in Note 5.

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

AMU has a fiduciary responsibility over this restricted fund and the fund assets remain the property of AMU until paid. The restricted funds set aside for this program were \$45,785 and \$75,708 at December 31, 2008 and 2007 respectively. The remaining deferred compensation fund assets are maintained in a 457(b) plan.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – RESTRICTED FUNDS - continued**

The Water and Communications funds had restricted funds of \$4,819 and \$16,130 as of December 31, 2008 and \$3,215 and \$24,756 as of December 31, 2007. These funds were all held in the 457(b) deferred compensation plan offered AMU employees.

**NOTE 8 - PENSION AND RETIREMENT BENEFITS**

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

Plan members are required to contribute 4.10% (3.9% through June 30, 2008) of their annual salary and AMU is required to contribute 6.35% (6.05% through June 30, 2008) of annual covered payroll. Contribution requirements are established by State statute. AMU's contributions to IPERS for the years ended December 31, 2008, 2007 and 2006 were \$112,457, \$98,196 and \$89,212 respectively, equal to the required contributions for each year.

**NOTE 9 - TRANSFERS TO CITY IN LIEU OF PROPERTY TAXES**

By resolution of AMU's Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Algona, Iowa. For the years ended December 31, 2008 and 2007, transfers totaled 5% of gross sales less actual property taxes paid and services rendered to the City of Algona, Iowa.

**NOTE 10 – RISK MANAGEMENT**

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 – RISK MANAGEMENT - continued**

disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years. The Utility assumes liability for any deductibles and claims in excess of coverage limitations.

**NOTE 11 - JOINT VENTURES**

AMU has an 11.1% ownership interest in the Iowa Distributed Wind Generation Project (IDWGP). IDWGP is a consortium of seven municipal electric utilities that jointly own and operate three 750 KW wind turbine generators at a site six miles southeast of the City of Algona. AMU, through a contractual relationship with IDWGP, provides operating, maintenance, and site management for the project. In addition, AMU currently purchases the majority of the electricity produced by the project.

AMU has a 50% ownership interest in AMU-Skylink LC (an LLC). AMU-Skylink LC is a LLC with private for profit members that has constructed a tower to provide Algona residents with wireless telephone access. AMU's investment in AMU-Skylink LC is classified as follows in the financial statements. As of December 31, 2008, AMU-Skylink LC had total assets of \$325,465, total liabilities of \$50,924, and net assets of \$274,541. For the year ended December 31, 2008 AMU-Skylink LC had a net loss of \$125,459.

**NOTE 12 – COMPENSATED ABSENCES**

AMU employees accumulate a limited amount of earned but unused vacation. The Utility's approximate liability for earned vacation payments payable to employees at December 31, 2008 and 2007 is as follows:

Type of Benefit	Electric	Water	Communication	Total
December 31, 2008				
Vacation	\$ 59,752	9,961	15,353	\$ 85,066
December 31, 2007				
Vacation	\$ 54,974	8,617	14,974	\$ 78,565

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2008 and 2007 was as follows:

**December 31, 2008**

				<b>Electric Fund</b>				
<b>Proprietary Activities</b>				Balance			Balance	
Capital	Assets	not	being	Beginning	Increases	Decreases	End	
depreciated:				Of Year			of Year	
Land				\$ 257,428	-	-	\$ 257,428	
Construction in progress				1,502,897	940,421	-	2,443,318	
				<u>\$ 1,760,325</u>	<u>940,421</u>	<u>-</u>	<u>\$ 2,700,746</u>	
Capital Assets being depreciated:								
	Buildings and improvements			\$ 2,532,968	-	-	\$ 2,532,968	
	Equipment and vehicles			2,337,462	90,728	-	2,428,190	
	Infrastructure			40,961,734	591,093	8,330	41,544,497	
Total capital assets being depreciated				<u>45,832,164</u>	<u>681,821</u>	<u>8,330</u>	<u>46,505,655</u>	
Less accumulated depreciation for:								
	Buildings and improvements			608,841	61,862	-	670,703	
	Equipment and vehicles			1,650,905	148,092	-	1,798,997	
	Infrastructure, road network			24,548,720	1,361,840	8,330	25,902,230	
Total accumulated depreciation				<u>26,808,466</u>	<u>1,571,794</u>	<u>8,330</u>	<u>28,371,930</u>	
Total capital assets being depreciated, net				<u>19,023,698</u>			<u>18,133,725</u>	
Business type activities capital assets, net				<u>\$20,784,023</u>			<u>\$ 20,834,471</u>	

**Water Fund**

<b>Proprietary Activities</b>				Balance			Balance	
Capital	Assets	not	being	Beginning	Increases	Decreases	End	
depreciated:				Of Year			of Year	
Land				\$ 12,306	-	-	\$ 12,306	
Construction in progress				21,340	74,805	-	96,145	
				<u>\$ 33,646</u>	<u>74,805</u>	<u>-</u>	<u>\$ 108,451</u>	

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 – CAPITAL ASSETS - continued**

<b>Water Fund - Continued</b>				
Capital Assets being depreciated:				
Equipment and vehicles	\$ 264,101	22,929	-	\$ 287,030
Infrastructure	4,566,559	118,686	-	4,685,245
Total capital assets being depreciated	4,830,660	141,615	-	4,972,275
Less accumulated depreciation for:				
Equipment and vehicles	168,644	18,435	-	187,079
Infrastructure, road network	2,517,819	91,976	-	2,609,795
Total accumulated depreciation	2,686,463	110,411	-	2,796,874
Total capital assets being depreciated, net	2,144,197			2,175,401
Business type activities capital assets, net	\$ 2,177,843			\$ 2,283,852

**Communications Fund**

<b>Proprietary Activities</b>	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 49,635	-	-	\$49,635
Construction in progress	71,264	-	70,443	821
	\$ 120,899	-	70,443	\$50,456
Capital Assets being depreciated:				
Buildings and improvements	\$ 202,184	3,685	-	\$ 205,869
Equipment and vehicles	164,099	4,989	-	169,088
Infrastructure	5,030,948	311,839	-	5,342,787
Total capital assets being depreciated	5,397,231	320,513	-	5,717,744
Less accumulated depreciation for:				
Buildings and improvements	48,524	8,517	-	57,041
Equipment and vehicles	134,676	10,222	-	144,898
Infrastructure, road network	1,333,552	336,639	-	1,670,191
Total accumulated depreciation	1,516,752	355,378	-	1,872,130
Total capital assets being depreciated, net	3,880,479			3,845,614
Business type activities capital assets, net	\$ 4,001,378			\$ 3,896,070

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 – CAPITAL ASSETS - continued**

**December 31, 2007**

**Electric Fund**

<b>Proprietary Activities</b>	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 257,428	-	-	\$ 257,428
Construction in progress	149,773	1,353,124	-	1,502,897
	<u>\$ 407,201</u>	<u>1,353,124</u>	<u>-</u>	<u>\$ 1,760,325</u>
Capital Assets being depreciated:				
Buildings and improvements	\$ 2,524,345	8,623	-	\$ 2,532,968
Equipment and vehicles	2,303,203	34,259	-	2,337,462
Infrastructure	40,114,222	935,631	88,119	40,961,734
Total capital assets being depreciated	<u>44,941,770</u>	<u>978,513</u>	<u>88,119</u>	<u>45,832,164</u>
Less accumulated depreciation for:				
Buildings and improvements	547,074	61,767	-	608,841
Equipment and vehicles	1,489,770	161,135	-	1,650,905
Infrastructure, road network	23,305,193	1,329,332	85,805	24,548,720
Total accumulated depreciation	<u>25,342,037</u>	<u>1,552,234</u>	<u>85,805</u>	<u>26,808,466</u>
Total capital assets being depreciated, net	<u>19,599,733</u>			<u>19,023,698</u>
Business type activities capital assets, net	<u>\$20,006,934</u>			<u>\$ 20,784,023</u>

**Water Fund**

<b>Proprietary Activities</b>	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	2,881	18,459	-	21,340
	<u>\$ 15,187</u>	<u>18,459</u>	<u>-</u>	<u>\$ 33,646</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 – CAPITAL ASSETS - continued**

<b>Water Fund - continued</b>				
Capital Assets being depreciated:				
Equipment and vehicles	\$ 217,469	46,632	-	\$ 264,101
Infrastructure	4,484,375	82,184	-	4,566,559
Total capital assets being depreciated	4,701,844	128,816	-	4,830,660
Less accumulated depreciation for:				
Equipment and vehicles	155,250	13,394	-	168,644
Infrastructure, road network	2,424,617	93,202	-	2,517,819
Total accumulated depreciation	2,579,867	106,596	-	2,686,463
Total capital assets being depreciated, net	2,121,977			2,144,197
Business type activities capital assets, net	\$ 2,137,164			\$ 2,177,843

**Communications Fund**

<b>Proprietary Activities</b>	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Capital Assets not being depreciated:				
Land	\$ 49,635	-	-	\$49,635
Construction in progress	1,122	70,142	-	71,264
	\$ 50,757	70,142	-	\$120,899
Capital Assets being depreciated:				
Buildings and improvements	\$ 202,184	-	-	\$ 202,184
Equipment and vehicles	152,256	11,843	-	164,099
Infrastructure	4,833,654	197,294	-	5,030,948
Total capital assets being depreciated	5,188,094	209,137	-	5,397,231
Less accumulated depreciation for:				
Buildings and improvements	40,437	8,087	-	48,524
Equipment and vehicles		9,200	-	134,676
	125,476			
Infrastructure, road network	977,637	355,915	-	1,333,552
Total accumulated depreciation	1,143,550	373,202	-	1,516,752
Total capital assets being depreciated, net	4,044,544			3,880,479
Business type activities capital assets, net	\$ 4,095,301			\$ 4,001,378

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 – CAPITAL ASSETS - continued**

Depreciation expense was charged to the following functions:

Proprietary activities:	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Electric	\$ 1,571,792	\$ 1,552,234
Water	110,411	106,596
Communications	<u>355,380</u>	<u>373,202</u>
	<u>\$ 2,037,583</u>	<u>\$ 2,032,032</u>

**NOTE 14 – JOINT LEASE AGREEMENT**

Algona Municipal Utilities constructed a distribution system to facilitate the implementation of the data services offered to area residents and businesses. Portions of this system and the office facilities maintained by the Electric utility are leased under a forty-year operating lease, requiring annual payments of \$128,622. As of December 31, 2008 and 2007, \$128,622 in lease payments due under this agreement was included in accounts payable. The future minimum lease payments are as follows:

<u>Year Ending</u>	
2009	128,622
2010	128,622
2011	128,622
2012	128,622
2013	128,622
2014-2018	643,110
2019-2023	643,110
2024-2028	643,110
2029-2033	643,110
2034-2038	643,110
2039-2043	643,110
2042-2043	<u>257,244</u>
Total	<u>\$ 4,501,770</u>

**NOTE 15 – DEFICIT NET ASSETS**

The Communications Fund has a deficit balance of \$1,072,331 and \$1,028,764 as of December 31, 2008 and 2007 respectively.

## **Required Supplementary Information**

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2008

	Proprietary Funds	<u>Budgeted Amounts</u>	Final to Net
	Actual	Original	Variance
Receipts:			
Charges for service	\$11,252,745	\$ 11,237,000	15,745
Miscellaneous	420,357	753,000	(332,643)
	<u>11,673,102</u>	<u>11,990,000</u>	<u>(316,898)</u>
Disbursements:			
Program			
Business type activities	12,420,047	12,781,380	361,333
	<u>12,420,047</u>	<u>12,781,380</u>	<u>361,333</u>
Other financing activities			
Proceeds of long term debt	2,735,000	-	2,735,000
Change in Net Assets	1,988,055	(791,380)	2,779,435
Balance beginning of year	4,702,094	5,806,056	(1,103,962)
Balance end of year	<u>\$ 6,690,149</u>	<u>\$ 5,014,676</u>	<u>1,675,473</u>

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

	Financial Statements	Adjustments	Budget
Revenues	\$11,486,264	\$ 186,838	\$ 11,673,102
Disbursements	11,713,353	706,694	12,420,047
Other financing sources	-	2,735,000	2,735,000
Net income(Loss)	<u>\$ (227,089)</u>	<u>\$ 2,215,144</u>	<u>\$ 1,988,055</u>

See accompanying independent auditor's report

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**

YEAR ENDED DECEMBER 31, 2008

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

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

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

Disbursements were within budgeted limits for the year ended December 31, 2008.

## **Other Supplementary Information**

**ALGONA MUNICIPAL UTILITIES**

**Schedule 1**

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Sale of electricity:			
Sales to consumers	\$ 6,385,187	\$ 5,933,088	\$ 6,405,054
Sales to other utilities	158,516	156,684	179,326
Sales for resale	<u>765,421</u>	<u>704,959</u>	<u>839,579</u>
 Total electricity sales	 <u><u>7,309,124</u></u>	 <u><u>6,794,731</u></u>	 <u><u>7,423,959</u></u>
 Kilowatt hours:			
Wind generation	5,292,000	5,038,600	6,088,600
Generated	113,595,010	116,811,870	121,047,310
Purchases	<u>10,229,000</u>	<u>8,541,100</u>	<u>5,205,000</u>
Available for sale	<u>129,116,010</u>	<u>130,391,570</u>	<u>132,340,910</u>
 Billed to consumers	101,544,218	102,037,782	99,571,261
Sales to other utilities	4,499,974	4,759,968	4,569,047
Sales for resale	18,923,000	19,471,000	25,626,000
Distribution loss	4,148,818	4,122,820	2,574,602
Distribution loss percent	3.77%	3.72%	2.41%
 Revenue billed per KWH to consumers	0.0629	0.0581	0.0643
 Peak hour demand in KW	21,500	21,970	21,620
 Services provided to the City			
Street lighting:			
Energy	\$ 49,829	\$ 47,748	\$ 59,902
Operation and Maintenance	2,114	7,598	13,144
	<u>51,943</u>	<u>55,346</u>	<u>73,046</u>
 Energy for Public Buildings, Parks and Other uses	 <u>106,573</u>	 <u>101,338</u>	 <u>106,280</u>
	<u>\$ 158,516</u>	<u>\$ 156,684</u>	<u>\$ 179,326</u>
 Year to date KWH sales			
Residential	31,416,995	31,938,160	30,956,739
Commercial	70,459,883	70,490,562	68,975,402
Area Lighting	1,315,991	1,399,138	1,409,208
Station Power	1,527,360	1,585,250	1,514,390
City	<u>1,323,963</u>	<u>1,384,640</u>	<u>1,284,569</u>
Total number of KWH sales	<u><u>106,044,192</u></u>	<u><u>106,797,750</u></u>	<u><u>104,140,308</u></u>

Unaudited - See Accompanying Independent Auditor's Report

**ALGONA MUNICIPAL UTILITIES**

**Schedule 2**

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total Revenue billed	<u>\$ 738,179</u>	<u>\$ 703,589</u>	<u>\$ 659,072</u>
Cubic Foot			
Pumped	42,021,053	40,864,933	39,740,400
Billed	32,789,792	34,580,033	33,669,587
City of Algona	337,400	339,150	724,450
System loss	8,893,861	5,945,750	5,346,363
Percent loss	21.17%	14.55%	13.45%
Revenue billed per cubic foot	0.0225	0.0203	0.0196
Peak day-cubic footage pumped	164,040	166,147	189,400
Services provided to City			
Water for parks, disposal plant and public buildings	8,156	7,688	12,053
Public fire protection	18,090	17,850	17,700
	<u>\$ 26,246</u>	<u>\$ 25,538</u>	<u>\$ 29,753</u>

Unaudited - See Accompanying Independent Auditor's Report

**ALGONA MUNICIPAL UTILITIES**

**Schedule 3**

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenue:			
Cable TV	990,068	926,266	\$ 937,696
Internet	663,327	630,372	589,008
Telephone	1,086,484	1,073,760	804,618
Cell phone	3,982	-	-
Miscellaneous	63,695	58,728	5,492
	<u>2,807,556</u>	<u>2,689,126</u>	<u>2,336,814</u>
 Customers			
Cable TV	1,812	1,739	1,746
Internet	1,558	1,446	1,384
Telephone	1,682	1,584	1,502
 Average monthly revenue per customer			
Cable TV	45.53	44.39	44.75
Internet	35.48	36.33	35.47
Telephone	53.83	56.49	44.64
 Services Provided to City			
Cable TV	1,738	1,738	1,441
Internet	3,464	3,535	3,404
Telephone	977	1,030	954
	<u>\$ 6,179</u>	<u>\$ 6,303</u>	<u>\$ 5,799</u>

Unaudited - See Accompanying Independent Auditor's Report



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

To the Board of Trustees of the  
Algona Municipal Utilities:

We have audited the financial statements of Algona Municipal Utilities, component units of the City of Algona, Iowa, as of and for the year ended December 31, 2008, and have issued our report thereon dated June 15, 2009. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Planning**

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects AMU's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote

likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by AMU's internal control. We consider the deficiencies described in 08-II-A, 08-II-B, and 08-II-C of the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the deficiencies noted at 08-II-B and 08-II-C are material weaknesses. We do not believe that the deficiency described in 08-II-A is a material weakness. Prior year significant deficiencies have been resolved except for 08-II-A.

### **Compliance and Other Matters**

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

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

Comments involving statutory and other legal matters about AMU's operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of AMU. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

June 15, 2009

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

**SCHEDULE OF FINDINGS**

**Part I: Summary of the Independent Auditor's Results**

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

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

**SCHEDULE OF FINDINGS**

**Part II: Findings Related to the General Purpose Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT CONTROL DEFICIENCIES:**

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

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

Response - We believe that we have complied with the written policy covering credit card usage except for the one instance noted above. We will continue to comply with the policy as it is written.

Conclusion - Response accepted.

08-II-B Accounts Payable Controls – We noted that the preliminary year end trial balance did not have accounts payable listed and that there was no accounts payable subsidiary ledger available for testing at the time of field work. Testing revealed accounts payable in excess of \$500,000 for AMU as a whole which is material and could affect decision making that is based on the financial statements.

Recommendation – Subsidiary ledgers that track accounts payable by vender provide control totals that can be traced to the financial statements and that assist in ensuring that periodic financial statements are reflective of the overall financial position at a point in time.

Response – We have in the past utilized the accounts payable subsidiary ledger and intend on renewing the use of this control procedure in the future.

Conclusion - Response accepted.

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

**SCHEDULE OF FINDINGS**

**Part II: Findings Related to the General Purpose Financial Statements: continued**

08-II-C Year End Audit Adjustments – We identified adjusting journal entries that posted amounts to the financial statements that were material to the financial statements. A sound internal control system is able to identify adjustments that are necessary prior to year end and prior to presenting account balances for testing.

Recommendation – Significant account balances such as but not limited to accounts receivable, inventory, cash, accounts payable, and notes payable are able to be reconciled on a monthly basis from the detail subsidiary ledger, bank statements, or amortization schedules. We recommend assigning these reconciliation duties along with the responsibility to review the completed reconciliation every month.

Response – We agree and have performed reconciliations on significant accounts and will address our procedures to ensure these processes are completed monthly in a timely manner.

Conclusion - Response accepted.

**Part III: Other Findings Related to Statutory Reporting:**

III-A-08 Certified Budget - Disbursements during the year ended December 31, 2008 were within budgeted limits.

III-B-08 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.

III-D-08 Business Transactions – No transactions with AMU officials or employees were noted.

III-E-08 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-08 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.

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

**SCHEDULE OF FINDINGS**

**Part III: Other Findings Related to Statutory Reporting: continued**

- III-G-08     Revenue Bonds – No violations of revenue bond resolution requirements were noted.
- III-H-08     Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility’s investment policy.
- III-I-08     Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.
- III-J-08     Financial Condition – The Communication fund had a deficit fund balance of \$1,072,331 at December 31, 2008.

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

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

Conclusion – Response accepted.