

**ALGONA MUNICIPAL UTILITIES**

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

**December 31, 2009**

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

## Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis		4-8
Basic Financial Statements:		
Proprietary Fund Financial Statements	<u>Exhibit</u>	
Statements of Fund Net Assets	A	9-10
Statements of Revenue and Expenses and Changes in Fund Net Assets	B	11-12
Statements of Cash Flows	C	13-14
Notes to Financial Statements		15-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual – All Proprietary Funds		34
Notes to Required Supplementary Information – Budgetary Reporting		35
Schedule of Funding Progress For Retiree Health Plan		36
Other Supplementary Information:		
Comparative Summaries of Electricity Distributed and Billed - Unaudited	<u>Schedule</u>	
Comparative Summaries of Water Pumped and Billed - Unaudited	1	37
Comparative Summaries of Cable, Internet, and Telephone - Unaudited	2	38
	3	39
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		40-41
Schedule of Findings		42-44

**OFFICIALS  
ALGONA MUNICIPAL UTILITIES**

**December 31, 2009**

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	James Modrell	May 2013
Chairman Pro Tem	Jay Geving	May 2015
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

---

**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, 2009 and 2008, which collectively comprise the Utilities' basic financial statements 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 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 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, 2009 and 2008, and the respective changes in financial position 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 May 12, 2010 on our consideration of Algona Municipal Utilities' 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 considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. 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 37 through 39 are presented for additional analysis and are 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 express no opinion on them.

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

May 12, 2010

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

Algona Municipal Utilities (AMU) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2009. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2009 FINANCIAL HIGHLIGHTS

- ◆ AMU's revenues increased by 15.2%, or approximately \$1,689,000 from calendar year 2008 to calendar year 2009.
- ◆ Expenses increased by 16.9%, or approximately \$1,803,000, in 2009 from 2008.
- ◆ AMU's net assets decreased 1.6%, or approximately \$426,000 during 2009.

### 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 2008 to 2009. Current assets decreased approximately \$4.1 million from 2008 to 2009, due primarily to the completion of the bond refunding in 2009. Total assets decreased by approximately \$4.5 million and liabilities decreased by \$4.1 million resulting in the decrease in net assets of approximately \$400,000 dollars during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2009	2008
Current and other assets	\$ 8,382	\$ 12,484
Capital assets (net of depreciation)	26,546	27,014
Total assets	34,928	39,498
Long-term debt outstanding	5,911	9,895
Other liabilities	2,799	2,959
Total liabilities	8,710	12,854
Net assets:		
Invested in capital assets, net of related debt	20,861	20,735
Restricted	274	274
Unrestricted	5,083	5,635
Total net assets	\$ 26,218	\$ 26,644

## INDIVIDUAL MAJOR FUND ANALYSIS

As AMU completed the year, its enterprise funds reported a combined fund balance of \$26.2 million, a decrease of approximately \$400,000 under last year's total of \$26.6 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 \$9.35 million, an increase of approximately \$1.5 million from 2008. Usage actually decreased during 2009 by 5 million kWh (101 million in 2009 compared to 106 in 2008). Revenues increased in 2009 despite the decreased usage due to a rate increase in the 3<sup>rd</sup> quarter of 2009 coupled with increased revenue derived from sales of purchased power on the open market totaling \$1.4 million.

Operating expenses were also up in 2009 by approximately \$1.4 million. Purchased power alone increased \$1.0 million during 2009. In February 2009, Algona Municipal Utilities joined North Iowa Municipal Electric Cooperative Association (NIMECA). This changed the way power is purchased and sold and directly affected revenues and expenses. NEAL 4 operations and maintenance expenses were up by \$300,000 due to repairs on the plant completed in the 4<sup>th</sup> quarter. The electric utilities expenses were also inflated due to the Sutherland project being cancelled necessitating the expensing of the project costs incurred to date.

For the year the Electric Utility net assets decreased to \$24,781,009, a decrease of \$289,000.

- At year end, the Water Fund had approximately \$839,000 in total revenues which was up from \$798,000 in 2008; an increase of \$41,000. The Water Fund's operating expenses for 2009 increased by \$143,000 to \$745,000. Operating expenses increased in 2009 due to normal operations. 2008 expenses were lower than normal due to a reimbursement of expenses originally paid from the Water Fund on behalf of the Electric Fund. Net assets for the year increased approximately \$51,000 to \$2,697,514.
- In the Communications Fund for the year, revenues were up by \$57,000 (\$2,883,000 in 2009 and \$2,826,000 – 2008). Customer counts are as follows: Cable – 1,872 and 1,812; Internet – 1,637 and 1,558; Telephone – 1,649 and 1,682; for the years ended December 31, 2009 and 2008, respectively. The fund's operating expense for the year was \$2,753,000, up from \$2,510,000 (an increase of \$243,000). The increased operating expenses were due mainly to increased program acquisition costs of \$124,000. For the year, a net loss of \$188,000 was recorded, which resulted in deficit net assets of \$1,260,318.

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,	
	2009	2008
Revenues:		
Program revenues:		
Charges for service	\$ 12,799	\$ 11,110
General revenues:		
Unrestricted investment earnings	174	268
Other general revenues	102	108
Total revenues	<u>13,075</u>	<u>11,486</u>
Program expenses:		
Business type activities	<u>13,501</u>	<u>11,713</u>
Total expenses	<u>13,501</u>	<u>11,713</u>
Increase (Decrease) in net assets	(426)	(227)
Net assets beginning of year	<u>26,644</u>	<u>26,871</u>
Net assets end of year	<u>\$ 26,218</u>	<u>\$ 26,644</u>

## BUDGETARY HIGHLIGHTS

AMU did not amend their budget during 2009 and expenses were within budget limitations.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2009, AMU had approximately \$26.5 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a decrease (including additions and deletions net of depreciation) of approximately \$469,000 or less than 2 percent under last year.

Capital Assets of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2009	2008
Land	\$ 319	\$ 319
Construction in progress	2,727	2,540
Buildings and improvements	2,130	2,017
Equipment and vehicles	853	720
Infrastructure	20,517	21,418
Total	\$ 26,546	\$ 27,014

The largest additions to capital assets included a 69kv line extension, a storage building, a 2010 International truck and a 2007 Jeep Grand Cherokee. AMU had depreciation expense of \$2,080,566 in fiscal year 2009 and total accumulated depreciation of \$34,957,678 at December 31, 2009.

### LONG TERM DEBT/LIABILITIES

At December 31, 2009, AMU had approximately \$3,529,000 in revenue bonds outstanding compared to \$7,478,000 at December 31, 2008, as shown below. AMU's liability for deferred compensation increased from approximately \$120,000 to \$162,000.

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,	
	2009	2008
Revenue bonds	\$ 3,529	\$ 7,478
Deferred compensation	162	120
Total	\$ 3,691	\$ 7,598

At December 31, 2009 and 2008 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 Utilities' appointed officials consider many factors when setting the calendar year 2010 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 2010. Amounts available for appropriation in the operating budget are \$14 million, a decrease of 29 percent from the 2009 budget. The budget is likely to closer reflect the cash receipts received as estimated based on 2009 results and usage from customers. Budgeted disbursements are expected to decrease by approximately \$4.23 million. Again, the 2010 budget was set to more closely reflect the actual results as estimated based on 2009 results and expenditures on improvements to the Utility Infrastructure. The 2009 Budget included the issuance of \$8 million in revenue bonds to finance AMU's portion of the proposed Alliant Energy Sutherland Generation Station, and the related expenditures for the capital calls. However, in 2009 the Sutherland Project was cancelled by Alliant Energy.

If these estimates are realized, the Utilities' budgetary operating balance is expected to increase by the close of 2010.

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 was nearly 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 and aging infrastructure, AMU continues to look at new diversified generation projects. AMU, through the North Iowa Municipal Electric Cooperative Association (NIMECA), became a class B member of Basin Electric Cooperative for generation and transmission dispatching and supplemental power along with ancillary services.

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

## **CONTACTING THE UTILITIES' 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	
	2009	2008
Utility plant:		
Property and equipment	\$ 47,738,022	\$ 46,763,083
Less accumulated depreciation	(29,838,188)	(28,371,930)
	<u>17,899,834</u>	<u>18,391,153</u>
Construction in progress	2,594,503	2,443,318
Utility Plant - Net	<u>20,494,337</u>	<u>20,834,471</u>
Restricted funds		
Cash and cash equivalents	379,225	481,080
Short-term investments	137,606	372,689
	<u>516,831</u>	<u>853,769</u>
Current Assets:		
Cash and cash equivalents	780,459	2,925,587
Accounts receivable (net of allowance for doubtful accounts)	568,532	503,682
Unbilled usage	193,026	170,711
Accounts receivable -interfund	128,622	128,622
Investments	186,646	1,974,901
Inventory	919,202	899,150
Prepaid expenses	67,619	23,299
Accrued interest receivable	2	9,408
Accrued interest receivable - interfund loan	123,152	147,980
	<u>2,967,260</u>	<u>6,783,340</u>
Other assets:		
Investment in joint venture	175,662	-
Interfund loan receivable	3,440,000	3,440,000
Economic development loans receivable	316,500	322,500
	<u>3,932,162</u>	<u>3,762,500</u>
Total assets	<u>\$ 27,910,590</u>	<u>\$ 32,234,080</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ 5,138,688	\$ 4,984,581	\$ 5,900,121	\$ 5,767,379	\$ 58,776,831	\$ 57,515,043
(2,907,228)	(2,796,874)	(2,212,262)	(1,872,130)	(34,957,678)	(33,040,934)
2,231,460	2,187,707	3,687,859	3,895,249	23,819,153	24,474,109
115,573	96,145	16,875	821	2,726,951	2,540,284
2,347,033	2,283,852	3,704,734	3,896,070	26,546,104	27,014,393
-	-	-	-	379,225	481,080
3,332	4,819	21,101	16,130	162,039	393,638
3,332	4,819	21,101	16,130	541,264	874,718
280,003	203,092	148,990	289,101	1,209,452	3,417,780
62,711	50,305	201,122	173,211	832,365	727,198
25,546	26,342	-	-	218,572	197,053
-	-	-	-	128,622	128,622
-	100,250	-	-	186,646	2,075,151
44,475	30,136	31,097	35,275	994,774	964,561
17,831	10,281	36,678	7,724	122,128	41,304
-	504	-	-	2	9,912
-	-	-	-	123,152	147,980
430,566	420,910	417,887	505,311	3,815,713	7,709,561
-	-	92,845	137,270	268,507	137,270
-	-	-	-	3,440,000	3,440,000
-	-	-	-	316,500	322,500
-	-	92,845	137,270	4,025,007	3,899,770
\$ 2,780,931	\$ 2,709,581	\$ 4,236,567	\$ 4,554,781	\$ 34,928,088	\$ 39,498,442

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

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

	ENTERPRISE	
	ELECTRIC	
	2009	2008
Liabilities:		
Current liabilities:		
Accounts payable	\$ 95,820	\$ 448,987
Accounts payable - City of Algona	234,474	166,760
Accounts payable - interfund	-	-
Checks in excess of bank balance	-	-
Retainage and contracts payable	-	-
Accrued taxes	136,451	129,795
Accrued wages and compensated absences	188,894	178,194
Accrued interest payable	6,950	86,080
Deferred revenue	-	-
Revenue bonds payable	465,000	840,000
	<u>1,127,589</u>	<u>1,849,816</u>
Noncurrent liabilities		
Revenue bonds payable - net of current portion	1,825,000	5,215,000
Interfund loan - payable	-	-
Accrued OPEB	39,386	-
	<u>1,864,386</u>	<u>5,215,000</u>
Other liabilities		
Deferred compensation liability	137,606	99,189
	<u>137,606</u>	<u>99,189</u>
Total liabilities	<u>3,129,581</u>	<u>7,164,005</u>
Fund Net Assets		
Invested in capital assets, net of related debt	18,250,062	17,995,551
Restricted - Bond Covenant	273,500	273,500
Unrestricted (deficit)	6,257,447	6,801,024
Total Net Assets	<u>\$ 24,781,009</u>	<u>\$ 25,070,075</u>

See Notes to Financial Statements

## Exhibit A - continued

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ 17,723	\$ (267)	\$ 93,902	\$ 68,018	\$ 207,445	\$ 516,738
10,846	12,456	116,297	124,627	361,617	303,843
-	-	128,622	128,622	128,622	128,622
-	-	-	-	-	-
-	3,529	-	-	-	3,529
3,200	2,913	67,901	59,595	207,552	192,303
40,684	39,528	47,661	49,927	277,239	267,649
-	-	123,152	147,980	130,102	234,060
-	-	205,976	169,500	205,976	169,500
-	-	653,163	182,943	1,118,163	1,022,943
<u>72,453</u>	<u>58,159</u>	<u>1,436,674</u>	<u>931,212</u>	<u>2,636,716</u>	<u>2,839,187</u>
-	-	585,754	1,239,770	2,410,754	6,454,770
-	-	3,440,000	3,440,000	3,440,000	3,440,000
7,632	-	13,356	-	60,374	-
<u>7,632</u>	<u>-</u>	<u>4,039,110</u>	<u>4,679,770</u>	<u>5,911,128</u>	<u>9,894,770</u>
<u>3,332</u>	<u>4,819</u>	<u>21,101</u>	<u>16,130</u>	<u>162,039</u>	<u>120,138</u>
<u>83,417</u>	<u>62,978</u>	<u>5,496,885</u>	<u>5,627,112</u>	<u>8,709,883</u>	<u>12,854,095</u>
2,347,033	2,283,852	264,734	456,070	20,861,829	20,735,473
-	-	-	-	273,500	273,500
350,481	362,751	(1,525,052)	(1,528,401)	5,082,876	5,635,374
<u>\$ 2,697,514</u>	<u>\$ 2,646,603</u>	<u>\$ (1,260,318)</u>	<u>\$ (1,072,331)</u>	<u>\$ 26,218,205</u>	<u>\$ 26,644,347</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	
	2009	2008
Operating revenues:		
Sale of electricity:		
Residential and commercial	\$ 6,613,116	\$ 6,385,187
Sales for resale	2,138,587	765,421
Service provided to City of Algona	62,262	51,943
Sales to other utilities	110,689	106,573
Sale of water	-	-
Cable TV fees	-	-
Internet fees	-	-
Telephone Service	-	-
Merchandising	25,987	39,880
Miscellaneous	155,334	181,047
Return from investment in AMU-Skylink LC	-	-
Total operating revenue	9,105,975	7,530,051
Operating expenses:		
Generation and power purchased	5,219,716	4,017,640
Transmission-distribution maintenance	465,457	399,292
Meter reading supplies and labor	148,582	156,500
Sales	39,644	37,292
General and other	676,210	649,592
Administration and general	529,089	368,975
Rebates and other expenses	118,276	177,179
Merchandise, jobbing and construction	13,404	10,684
Property tax and insurance	193,078	186,953
Depreciation	1,588,658	1,571,792
Sales and use tax	2,492	1,855
Source of supply	-	-
Maintenance of mains, services and meters	-	-
Maintenance of distribution and equipment	-	-
Headend programming	-	-
Customer accounts	-	-
Total operating expenses	8,994,606	7,577,754
Income (loss) from operations	\$ 111,369	\$ (47,703)

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ -	\$ -	\$ -	\$ -	\$ 6,613,116	\$ 6,385,187
-	-	-	-	2,138,587	765,421
-	-	-	-	62,262	51,943
-	-	-	-	110,689	106,573
783,518	738,179	-	-	783,518	738,179
-	-	1,035,826	990,068	1,035,826	990,068
-	-	712,666	663,327	712,666	663,327
-	-	1,053,250	1,086,484	1,053,250	1,086,484
16,201	9,732	654	6,521	42,842	56,133
13,900	17,585	121,170	130,408	290,404	329,040
-	-	(44,425)	(62,730)	(44,425)	(62,730)
<u>813,619</u>	<u>765,496</u>	<u>2,879,141</u>	<u>2,814,078</u>	<u>12,798,735</u>	<u>11,109,625</u>
-	-	-	-	5,219,716	4,017,640
-	-	-	-	465,457	399,292
-	-	-	-	148,582	156,500
-	-	-	-	39,644	37,292
-	-	-	-	676,210	649,592
240,336	237,498	575,605	539,971	1,345,030	1,146,444
-	-	-	-	118,276	177,179
26,556	21,140	61,342	35,867	101,302	67,691
-	-	93,467	85,571	286,545	272,524
112,149	110,411	379,759	355,380	2,080,566	2,037,583
-	-	1,126	4,051	3,618	5,906
195,261	49,122	-	-	195,261	49,122
114,721	132,491	-	-	114,721	132,491
-	-	177,545	167,696	177,545	167,696
-	-	1,393,465	1,247,541	1,393,465	1,247,541
56,753	51,712	70,933	74,005	127,686	125,717
<u>745,776</u>	<u>602,374</u>	<u>2,753,242</u>	<u>2,510,082</u>	<u>12,493,624</u>	<u>10,690,210</u>
\$ 67,843	\$ 163,122	\$ 125,899	\$ 303,996	\$ 305,111	\$ 419,415

**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>2009</u>	<u>2008</u>
Non-operating income (expense) and transfers		
Interest income	\$ 169,055	\$ 255,609
Interest expense	(104,625)	(230,656)
Miscellaneous	50,095	74,028
Donations	(99,084)	(58,358)
Transfers to City - in lieu of property tax	(444,143)	(336,134)
Gain (Loss) on disposition of assets	28,267	2,735
Total other income (expense)	<u>(400,435)</u>	<u>(292,776)</u>
Change in Net Assets	(289,066)	(340,479)
Total net assets, beginning	<u>25,070,075</u>	<u>25,410,554</u>
Total net assets, ending	<u>\$ 24,781,009</u>	<u>\$ 25,070,075</u>

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ 3,754	\$ 8,284	\$ 1,223	\$ 4,280	\$ 174,032	\$ 268,173
-	-	(197,465)	(230,720)	(302,090)	(461,376)
20,927	24,450	2,931	7,253	73,953	105,731
-	-	-	-	(99,084)	(58,358)
(41,913)	(38,899)	(120,575)	(128,376)	(606,631)	(503,409)
300	-	-	-	28,567	2,735
<u>(16,932)</u>	<u>(6,165)</u>	<u>(313,886)</u>	<u>(347,563)</u>	<u>(731,253)</u>	<u>(646,504)</u>
50,911	156,957	(187,987)	(43,567)	(426,142)	(227,089)
<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>
<u>\$ 2,697,514</u>	<u>\$ 2,646,603</u>	<u>\$ (1,260,318)</u>	<u>\$ (1,072,331)</u>	<u>\$ 26,218,205</u>	<u>\$ 26,644,347</u>

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

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

	ENTERPRISE	
	ELECTRIC	
	2009	2008
Cash flows from operating activities:		
Cash receipts from customers	\$ 8,753,057	\$ 7,344,671
Cash receipts from interfund services	239,311	128,622
Other operating cash receipts	26,712	52,425
Cash payments to suppliers	(6,502,671)	(4,839,073)
Cash payments to employees	(1,264,074)	(997,755)
Cash payments for interfund services	-	-
Net cash provided by operating activities	<u>1,252,335</u>	<u>1,688,890</u>
Cash flows from noncapital financing activities:		
Transfer to the City of Algona in-lieu of property tax	(376,429)	(347,901)
Donations	(99,084)	(58,358)
Net cash (used) by noncapital financing activities	<u>(475,513)</u>	<u>(406,259)</u>
Cash flows from capital and related financing activities:		
Deferred compensation payments	(22,787)	(35,253)
Deferred compensation deposits	61,204	25,135
Acquisition and construction of capital assets	(1,251,296)	(1,613,912)
Repayment of revenue bonds	(3,765,000)	(375,000)
Proceeds from bond issuances	-	2,735,000
Cash payments for interest	(183,755)	(239,844)
Net cash provided/(used) by capital and related financing activities	<u>(5,161,634)</u>	<u>496,126</u>
Cash flows from investing activities:		
Interest received during the year	203,289	288,826
Principal received on economic development loan	6,000	10,000
Issuance of new economic development loans	-	(35,000)
Proceeds from redemption of investments	1,995,437	4,691,275
Purchase of investments	(147,761)	(4,500,000)
Proceeds from sale of fixed asset	30,769	2,750
Miscellaneous income	50,095	74,028
Net cash provided by investing activities	<u>\$ 2,137,829</u>	<u>\$ 531,879</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ 802,009	\$ 759,538	\$ 2,884,107	\$ 2,918,159	\$ 12,439,173	\$ 11,022,368
-	-	-	-	239,311	128,622
-	-	48,024	49,330	74,736	101,755
(330,311)	(193,898)	(1,802,258)	(1,577,002)	(8,635,240)	(6,609,973)
(190,980)	(282,962)	(422,099)	(446,768)	(1,877,153)	(1,727,485)
(110,689)	-	(128,622)	(128,622)	(239,311)	(128,622)
<u>170,029</u>	<u>282,678</u>	<u>579,152</u>	<u>815,097</u>	<u>2,001,516</u>	<u>2,786,665</u>
(43,523)	(37,526)	(128,905)	(113,135)	(548,857)	(498,562)
-	-	-	-	(99,084)	(58,358)
<u>(43,523)</u>	<u>(37,526)</u>	<u>(128,905)</u>	<u>(113,135)</u>	<u>(647,941)</u>	<u>(556,920)</u>
-	-	-	-	(22,787)	(35,253)
-	-	-	-	61,204	25,135
(175,330)	(216,420)	(188,423)	(250,072)	(1,615,049)	(2,080,404)
-	-	(183,796)	(175,369)	(3,948,796)	(550,369)
-	-	-	-	-	2,735,000
-	-	(222,293)	(254,740)	(406,048)	(494,584)
<u>(175,330)</u>	<u>(216,420)</u>	<u>(594,512)</u>	<u>(680,181)</u>	<u>(5,931,476)</u>	<u>(400,475)</u>
4,258	8,770	1,223	4,280	208,770	301,876
-	-	-	-	6,000	10,000
-	-	-	-	-	(35,000)
118,250	-	-	-	2,113,687	4,691,275
(18,000)	(28,000)	-	(200,000)	(165,761)	(4,728,000)
300	-	-	-	31,069	2,750
<u>20,927</u>	<u>24,450</u>	<u>2,931</u>	<u>7,253</u>	<u>73,953</u>	<u>105,731</u>
\$ <u>125,735</u>	\$ <u>5,220</u>	\$ <u>4,154</u>	\$ <u>(188,467)</u>	\$ <u>2,267,718</u>	\$ <u>348,632</u>

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

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

	ENTERPRISE	
	ELECTRIC	
	2009	2008
Net increase (decrease) in cash and cash equivalents	\$ (2,246,983)	\$ 2,310,636
Cash and cash equivalents-beginning of year	3,406,667	1,096,031
Cash and cash equivalents-end of year	<u>1,159,684</u>	<u>3,406,667</u>
Restricted funds	379,225	481,080
Current assets	<u>780,459</u>	<u>2,925,587</u>
	<u>1,159,684</u>	<u>3,406,667</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Income (Loss) from operations	111,369	(47,703)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,588,658	1,571,792
Loss on investment in AMU-Skylink LC	-	-
Change in accounts receivable	(64,580)	29,632
Change in unbilled usage	(22,315)	(33,965)
Change in accounts receivable - interfund	-	-
Change in prepaid expenses	(44,320)	(1,277)
Change in inventory	(20,052)	(232,682)
Change in accounts payable and retainages payable	(353,167)	382,448
Change in checks in excess of bank balance	-	-
Change in accrued taxes	6,656	1,655
Change in accrued wages and compensated absences	10,700	18,990
Change in deferred revenue	-	-
Change in OPEB liability	<u>39,386</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 1,252,335</u>	<u>\$ 1,688,890</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2009	2008	2009	2008	2009	2008
\$ 76,911	\$ 33,952	\$ (140,111)	\$ (166,686)	\$ (2,310,183)	\$ 91,690
203,092	169,140	289,101	455,787	3,898,860	1,264,306
280,003	203,092	148,990	289,101	1,588,677	3,898,860
-	-	-	-	379,225	481,080
280,003	203,092	148,990	289,101	1,209,452	3,417,780
280,003	203,092	148,990	289,101	1,588,677	3,898,860
67,843	163,122	125,899	303,996	305,111	419,415
112,149	110,411	379,759	355,380	2,080,566	2,037,583
-	-	44,425	62,730	44,425	62,730
(12,406)	(1,392)	(27,911)	83,381	(104,897)	111,621
796	(4,566)	-	-	(21,519)	(38,531)
-	-	-	-	-	-
(7,550)	(1,007)	(28,954)	8,242	(80,824)	5,958
(14,339)	9,979	4,178	(16,419)	(30,213)	(239,122)
14,461	(2,266)	25,884	6,747	(312,822)	386,929
-	-	-	-	-	-
287	521	8,306	(2,709)	15,249	(533)
1,156	7,876	(2,266)	6,449	9,590	33,315
-	-	36,476	-	36,476	-
7,632	-	13,356	7,300	60,374	7,300
\$ 170,029	\$ 282,678	\$ 579,152	\$ 815,097	\$ 2,001,516	\$ 2,786,665

**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 AMU's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of AMU to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on AMU. AMU has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

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

AMU reports the following major proprietary funds:

Enterprise:

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

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 principles. 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 Principles 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 principal operating revenues of AMU are charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements were within budgeted limits for the year ended December 31, 2009.

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

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, 2009 and 2008, \$11,149 and \$9,320 respectively of accounts receivable were older than 90 days. The 2009 past due accounts are primarily associated with the communications and the 2008 accounts are associated with the electric utility. AMU charges 1.5% per month on past due accounts.

G. Inventory

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

H. Joint Plant Ownership

Under a joint ownership agreement with other utilities, AMU has a 2.937% undivided interest in a 640 MW electric generation station known as George Neal Generating Station Unit No. 4. As of December 31, 2009 and 2008, AMU's interest in this plant represents a total investment of \$10,968,421 and \$10,898,691 included in property and equipment respectively. Accumulated depreciation associated with the Utility's ownership in this plant totaled \$(9,638,671) and \$(9,264,704) at December 31, 2009 and 2008 respectively. Operating costs and depreciation associated with this plant are reflected in the statement of income.

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

**NOTES TO FINANCIAL STATEMENTS**

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

AMU also has a 4.18% undivided interest in the Lehigh-Webster Transmission System. As of December 31, 2009 and 2008, 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 \$(364,770) at December 31, 2009 and 2008 respectively. Operating costs and depreciation associated with this system are reflected in the statement of income.

AMU has an 11.1% undivided 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. As of December 31, 2009 and 2008, AMU's interest in the system represents a total investment of \$164,418 included in property and equipment. Accumulated depreciation associated with the AMU's ownership in this plant totaled \$(94,037) and \$(86,217) at December 31, 2009 and 2008 respectively. 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.

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.

K. 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.

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

**NOTES TO FINANCIAL STATEMENTS**

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

L. Contracts

AMU joined, through a contractual agreement, the North Iowa Municipal Electric Cooperative Association (NIMECA) in 2009. NIMECA is a cooperative consisting of 12 member municipalities that consolidates the electric resources of its members and serves as a joint power supply.

**NOTE 2 - CASH AND INVESTMENTS**

AMU's deposits at December 31, 2009 and 2008 (which include certificates of deposit totaling \$0 and \$1,500,000 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 ensure 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.

AMU had investments in the Iowa Public Agency Investments Trust at December 31, 2009 and 2008, which are valued at an amortized cost of \$186,646 and \$18,562 respectively pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk – 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.

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

**NOTES TO FINANCIAL STATEMENTS**

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

Reconciliation of the Utilities' cash and cash equivalents and temporary cash and investments for the years ended December 31, 2009 and 2008 is as follows:

	December 31, 2009			
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Restricted	379,225	-	-	379,225
Current assets	780,459	280,003	148,990	1,209,452
	<u>1,159,684</u>	<u>280,003</u>	<u>148,990</u>	<u>1,588,677</u>
Investments				
Restricted	137,606	3,332	21,101	162,039
Unrestricted	186,646	-	-	186,646
	<u>324,252</u>	<u>3,332</u>	<u>21,101</u>	<u>348,685</u>
Total cash and cash equivalents and investments	<u>\$ 1,483,936</u>	<u>283,335</u>	<u>170,091</u>	<u>\$ 1,937,362</u>

	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>

**NOTE 3 – INTERFUND LOAN**

Management originally authorized interfund loans not to exceed \$5,540,000 dedicated to finance the construction of the AMU broadband telecommunications network. 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.

As of December 31, 2009 and 2008 the outstanding balance on the interfund loan was \$3,440,000.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – INTERFUND LOAN**-continued

This interfund loan is reflected on the Electric Department Balance Sheet as an Other Asset. It is reflected on the Communication Department’s Balance Sheet as a Noncurrent Liability. Accrued interest as of December 31, 2009 and 2008 of \$123,152 and \$147,980 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.

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, 2009 and 2008 the balance due AMU under the program was \$316,500 and \$322,500 respectively.

In connection with grant funds to be received from USDA Rural Development, AMU has established a new revolving loan fund by placing \$60,000 in a separate bank account.

**NOTE 5 – REVENUE BONDS PAYABLE**

The following is a summary of changes in long-term debt for the year ended December 31, 2009 and 2008.

**Electric Utility:**

	Balance 1/1/09	Issued	Repaid	Balance 12/31/09
Business type activities:				
Revenue Bonds – issued August 20, 2008	\$ 2,735,000	-	\$ 445,000	\$ 2,290,000
Revenue Bonds – issued August 24, 2000	3,320,000	-	3,320,000	-
	<u>\$ 6,055,000</u>	<u>-</u>	<u>\$ 3,765,000</u>	<u>\$ 2,290,000</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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

**Electric Utility - continued:**

	Balance 1/1/08	Issued	Repaid	Balance 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>

**Communications Utility:**

	Balance 1/1/09	Issued	Repaid	Balance 12/31/09
Business type activities:				
Revenue Bonds–issued January 12, 2005	\$ 116,421	-	98,453	\$ 17,968
Revenue Bonds–issued November 30, 2005	645,025	-	42,399	602,626
Revenue Bonds–issued December 13, 2005	425,120	-	29,329	395,791
Revenue Bonds–issued October 3, 2007	236,147	-	13,615	222,532
	<u>\$ 1,422,713</u>	<u>-</u>	<u>183,796</u>	<u>\$ 1,238,917</u>

	Balance 1/1/08	Issued	Repaid	Balance 12/31/08
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>

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

Year Ending	Electric Series 2008	
	Principal	Interest
December 31,		
2010	465,000	83,213
2011	480,000	68,100
2012	500,000	51,300
2013	525,000	33,800
2014	320,000	12,800
	<u>2,290,000</u>	<u>249,213</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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

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
2010	17,968	85	602,626	36,000	25,101	19,753	10,559	11,606	656,254	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
	17,968	85	602,626	36,000	395,791	123,414	222,532	33,224	1,238,917	192,723

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. The reserve was fully funded at December 31, 2009 and 2008.

The revenue bonds Series 2000 were redeemed in full in January 2009 with the proceeds of the revenue bonds issued in 2008.

**NOTE 6 – INTEREST COSTS**

During the years ended December 31, 2009 and 2008, the interest incurred and expensed by the Electric Fund was \$104,625 and \$230,656 respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 – INTEREST COSTS**-continued

During the years ended December 31, 2009 and 2008, the interest incurred by the Communication Fund was \$197,465 and \$230,720 respectively. The Electric Fund recognized interest income of \$123,152 and \$147,980 from the interfund loan during 2009 and 2008.

**NOTE 7 – RESTRICTED FUNDS**

As of December 31, 2009 and 2008 Restricted Funds related to the Electric Department consisted of the following.

	December 31, 2009		
	Cash and Cash		
	Equivalents	Investments	Total
Bond sinking fund	\$ 45,725	\$ -	\$ 45,725
Bond reserve fund	273,500	-	273,500
Total restricted bond funds	319,225	-	319,225
Revolving loan fund	60,000	-	60,000
Deferred compensation fund	-	137,606	137,606
	<u>\$ 379,225</u>	<u>\$ 411,106</u>	<u>\$ 516,831</u>
	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>

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 \$37,216 and \$45,785 at December 31, 2009 and 2008 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 \$3,332 and \$21,101 as of December 31, 2009 and \$4,819 and \$16,130 as of December 31, 2008. 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 4.30% (4.10% through June 30, 2009) of their annual salary and AMU is required to contribute 6.65% (6.35% through June 30, 2009) of annual covered payroll. Contribution requirements are established by State statute. AMU's contributions to IPERS for the years ended December 31, 2009, 2008 and 2007 were \$125,058, \$112,457, and \$98,196 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, 2009 and 2008, 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 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 - JOINT VENTURES**

AMU is a member in the Iowa Public Power Agency (IPPA). IPPA was formed under Iowa Code chapter 28E for the purpose of enabling smaller municipal utilities to own an interest in electric transmission lines. During 2009, AMU provided approximately \$148,000 of equity funding to the IPPA bringing AMU's total equity position at December 31, 2009 to \$175,662 (classified as Investment in Joint Venture). This funding was to assist the IPPA purchase a \$3.5 million share in a transmission line project, in partnership with MidAmerican Energy. The transmission line is expected to be placed in service in 2010.

AMU has a 50% ownership interest in AMU-Skylink LC (an LLC). AMU-Skylink LC is a LLC with a private for-profit member that has constructed a tower to provide Algona residents with wireless telephone access. AMU's investment in AMU-Skylink LC is classified as an investment in AMU Skylink on the Communication Fund balance sheet and is valued at \$92,845 and \$137,270 as of December 31, 2009 and 2008. Condensed financial information for AMU-Skylink LC as of December 31, 2008 and 2009 is as follows:

	December 31, 2009	December 31, 2008
Total assets	\$ 240,937	\$ 325,465
Total liabilities	55,247	50,924
Member equity	185,690	274,541
	\$ 240,937	\$ 325,465

**NOTE 12 – COMPENSATED ABSENCES**

AMU employees accumulate a limited amount of earned but unused vacation. The Utilities' approximate liability for earned vacation payments payable to employees at December 31, 2009 and 2008 is as follows:

Type of Benefit	Electric	Water	Communication	Total
December 31, 2009				
Vacation	\$ 61,625	10,149	16,221	\$ 87,995
December 31, 2008				
Vacation	\$ 59,752	9,961	15,353	\$ 85,066

**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, 2009 and 2008 was as follows:

**December 31, 2009**  
**Electric Fund**

<b>Proprietary Activities</b>	Balance			Balance
	Beginning		Decreases	End
	of Year	Increases		of Year
Capital assets not being depreciated:				
Land	\$ 257,428	-	1,062	\$ 256,366
Construction in progress	2,443,318	386,320	235,135	2,594,503
	<u>2,700,746</u>	<u>386,320</u>	<u>236,197</u>	<u>2,850,869</u>
Capital assets being depreciated:				
Buildings and improvements	2,532,968	145,560	-	2,678,528
Equipment and vehicles	2,428,190	246,869	98,931	2,576,127
Infrastructure	41,544,497	709,671	27,168	42,227,001
Total capital assets being depreciated	<u>46,505,655</u>	<u>1,102,100</u>	<u>126,099</u>	<u>47,481,656</u>
Less accumulated depreciation for:				
Buildings and improvements	670,703	65,013	-	735,716
Equipment and vehicles	1,798,997	142,486	95,231	1,846,252
Infrastructure, road network	25,902,230	1,381,159	27,169	27,256,220
Total accumulated depreciation	<u>28,371,930</u>	<u>1,588,658</u>	<u>122,400</u>	<u>29,838,188</u>
Total capital assets being depreciated, net	<u>18,133,725</u>			<u>17,899,834</u>
Business type activities capital assets, net	<u>\$20,834,471</u>			<u>\$20,494,337</u>

**Water Fund**

<b>Proprietary Activities</b>	Balance			Balance
	Beginning		Decreases	End
	of Year	Increases		of Year
Capital assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	96,145	19,428	-	115,573
	<u>108,451</u>	<u>19,428</u>	<u>-</u>	<u>127,879</u>
Capital assets being depreciated:				
Equipment and vehicles	287,030	-	1,796	285,234
Infrastructure	4,685,245	155,903	-	4,841,148
Total capital assets being depreciated	<u>4,972,275</u>	<u>155,903</u>	<u>1,796</u>	<u>5,126,382</u>
Less accumulated depreciation for:				
Equipment and vehicles	187,079	18,672	1,795	203,956
Infrastructure, road network	2,609,795	93,477	-	2,703,272
Total accumulated depreciation	<u>2,796,874</u>	<u>112,149</u>	<u>1,795</u>	<u>2,907,228</u>
Total capital assets being depreciated, net	<u>2,175,401</u>			<u>2,231,460</u>
Business type activities capital assets, net	<u>\$ 2,283,852</u>			<u>\$ 2,347,033</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 – CAPITAL ASSETS**-continued

**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	821	16,054	-	16,875
	50,456	16,054	-	66,510
Capital Assets being depreciated:				
Buildings and improvements	205,869	49,000	-	254,869
Equipment and vehicles	169,088	26,000	20,123	174,965
Infrastructure	5,342,787	97,368	19,504	5,420,651
Total capital assets being depreciated	5,717,744	172,368	39,627	5,850,486
Less accumulated depreciation for:				
Buildings and improvements	57,041	9,874	-	66,915
Equipment and vehicles	144,898	8,303	20,123	133,078
Infrastructure, road network	1,670,191	361,582	19,504	2,012,269
Total accumulated depreciation	1,872,130	379,759	39,627	2,212,262
Total capital assets being depreciated, net	3,845,614			3,638,224
Business type activities capital assets, net	\$ 3,896,070			\$ 3,704,734

**December 31, 2008**

**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	1,502,897	940,421	-	2,443,318
	1,760,325	940,421	-	2,700,746
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	45,832,164	681,821	8,330	46,505,655
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	26,808,466	1,571,794	8,330	28,371,930
Total capital assets being depreciated, net	19,023,698			18,133,725
Business type activities capital assets, net	\$20,784,023			\$20,834,471

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 – CAPITAL ASSETS**-continued

<b>Water Fund</b>				
<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	21,340	74,805	-	96,145
	33,646	74,805	-	108,451
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

<b>Communications Fund</b>				
<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

Depreciation expense was charged to the following functions:

<b>Proprietary activities:</b>	December 31, 2009	December 31, 2008
Electric	\$ 1,588,658	\$ 1,571,792
Water	112,149	110,411
Communications	379,759	355,380
	<u>\$ 2,080,566</u>	<u>\$ 2,037,583</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, 2009 and 2008, \$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>	
2010	\$ 128,622
2011	128,622
2012	128,622
2013	128,622
2014	128,622
2015-2019	643,110
2020-2024	643,110
2025-2029	643,110
2030-2034	643,110
2035-2039	643,110
2040-2043	514,488
Total	<u>\$ 4,373,148</u>

**NOTE 15 – DEFICIT NET ASSETS**

The Communications Fund has a deficit balance of \$1,260,318 and \$1,072,331 as of December 31, 2009 and 2008 respectively.

**NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

AMU implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions* during the year ended

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)-continued**

December 31, 2009.

Plan Description. AMU operates a single-employer retiree benefit plan which provides medical/dental benefits for retirees and their spouses. There are 34 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/dental coverage is administered by Wellmark. Retirees receive 1 year of full health/dental benefits for every 10 years of service to AMU, which results in an explicit subsidy. Retirees under age 65 pay the same premium for the medical/dental benefit as active employees, which results in an implicit subsidy. The explicit and implicit subsidies result in an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by AMU. AMU currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. AMU’s annual OPEB cost is calculated based on the annual required contribution (ARC) of AMU, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the AMU’s annual OPEB cost for the year ended December 31, 2009, the amount actually contributed to the plan and changes in AMU’s net OPEB obligation:

	Electric	Water	Communications	Total
Annual required contribution	\$ 39,386	\$ 7,632	\$ 13,356	\$ 60,374
Interest on net OPEB obligation	-	-	-	-
Adjustment to annual required contribution	-	-	-	-
Annual OPEB cost	39,386	7,632	13,356	60,374
Net OPEB obligation beginning of year	-	-	-	-
Net OPEB obligation end of year	39,386	7,632	13,356	60,374

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2009.

For the year ended December 31, 2009, AMU did not contribute to the medical plan.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)-continued**

AMU’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of December 31, 2009 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 60,374	\$ 0	\$ 60,374

Funded Status and Funding Progress. As of January 1, 2009, the most recent actuarial valuation date for the period January 1, 2009 through December 31, 2009, the actuarial accrued liability was \$412,009, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$412,009. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,682,843 and the ratio of the UAAL to covered payroll was 24.5%. As of December 31, 2009, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the January 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on AMU's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)-continued**

Mortality rates are from the RP2000 Combined Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed based on national averages.

Projected claim costs of the medical plan are \$898 per month for retirees less than age 65 and \$545 per month for retirees who have attained age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**NOTE 17 – SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through May 12, 2010, the date the financial statements were issued.

**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, 2009

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
<b>Receipts:</b>			
Charges for service	\$ 12,759,391	\$ 11,433,000	1,326,391
Miscellaneous	276,552	402,000	(125,448)
Other financing sources	-	8,000,000	(8,000,000)
	<u>13,035,943</u>	<u>19,835,000</u>	<u>(6,799,057)</u>
<b>Disbursements:</b>			
Program			
Business type activities	17,472,230	17,535,765	(63,535)
Transfers Out	-	585,000	(585,000)
	<u>17,472,230</u>	<u>18,120,765</u>	<u>(648,535)</u>
Change in Net Assets	(4,436,287)	1,714,235	(6,150,522)
Balance beginning of year	6,690,149	5,760,548	929,601
Balance end of year	<u>\$ 2,253,862</u>	<u>\$ 7,474,783</u>	<u>(5,220,921)</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 principles used for financial reporting and those used to prepare the budget is presented below.

	Financial Statements	Adjustments	Budget
Revenues	\$ 13,075,287	\$ (39,344)	\$ 13,035,943
Disbursements	13,501,429	3,970,801	17,472,230
Other financing sources	-	-	-
Net income (loss)	<u>\$ (426,142)</u>	<u>\$ (4,010,145)</u>	<u>\$ (4,436,287)</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, 2009

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, 2009.

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

**SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
(In Thousands)**

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets  (a)	Actuarial Accrued Liability  (b)	Unfunded AAL (UAAL)  (c)	Funded Ratio  (a/b)	Covered Payroll  (c)	UAAL as a Percentage of Covered Payroll  (b-a)/c
January 1, 2009	-0-	\$412	\$412	0.00%	\$1,682	24.5%

See Note 16 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

## **Other Supplementary Information**

**ALGONA MUNICIPAL UTILITIES**

**Schedule 1**

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Sale of electricity:			
Sales to consumers	\$ 6,613,116	\$ 6,385,187	\$ 5,933,088
Sales to other utilities	172,951	158,516	156,684
Sales for resale	<u>2,138,587</u>	<u>765,421</u>	<u>704,959</u>
 Total electricity sales	 <u><u>8,924,654</u></u>	 <u><u>7,309,124</u></u>	 <u><u>6,794,731</u></u>
 Kilowatt hours:			
Wind generation	5,049,663	5,292,000	5,038,600
Generated	105,006,772	113,595,010	116,811,870
Purchases	<u>39,605,426</u>	<u>10,229,000</u>	<u>8,541,100</u>
Available for sale	<u>149,661,861</u>	<u>129,116,010</u>	<u>130,391,570</u>
 Billed to consumers	96,496,474	101,544,218	102,037,782
Sales to other utilities	4,674,238	4,499,974	4,759,968
Sales for resale	45,952,486	18,923,000	19,471,000
Distribution loss	2,538,663	4,148,818	4,122,820
Distribution loss percent	2.45%	3.77%	3.72%
 Revenue billed per kWh to consumers	\$ 0.0685	\$ 0.0629	\$ 0.0581
 Peak hour demand in kilowatts	22,070	21,500	21,970
 Services provided to the City			
Street lighting:			
Energy	\$ 59,373	\$ 49,829	\$ 47,748
Operation and Maintenance	2,889	2,114	7,598
	<u>62,262</u>	<u>51,943</u>	<u>55,346</u>
 Energy for Public Buildings, Parks and Other uses	 <u>110,689</u>	 <u>106,573</u>	 <u>101,338</u>
	<u><u>\$ 172,951</u></u>	<u><u>\$ 158,516</u></u>	<u><u>\$ 156,684</u></u>
 Year to date kWh sales			
Residential	30,551,956	31,416,995	31,938,160
Commercial	66,274,348	70,459,883	70,490,562
Area Lighting	1,309,254	1,315,991	1,399,138
Station Power	1,607,120	1,527,360	1,585,250
City	<u>1,428,034</u>	<u>1,323,963</u>	<u>1,384,640</u>
Total number of kWh sales	<u><u>101,170,712</u></u>	<u><u>106,044,192</u></u>	<u><u>106,797,750</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>2009</u>	<u>2008</u>	<u>2007</u>
Total revenue billed	<u>\$ 783,518</u>	<u>\$ 738,179</u>	<u>\$ 703,589</u>
Cubic Foot			
Pumped	38,561,227	42,021,053	40,864,933
Billed	30,558,618	32,789,792	34,580,033
City of Algona	464,400	337,400	339,150
System loss	7,538,209	8,893,861	5,945,750
Percent loss	19.55%	21.17%	14.55%
Revenue billed per cubic foot	\$ 0.0256	\$ 0.0225	\$ 0.0203
Peak day-cubic footage pumped	181,560	164,040	166,147
Services provided to City			
Water for parks, disposal plant and public buildings	\$ 11,357	\$ 8,156	\$ 7,688
Public fire protection	18,270	18,090	17,850
	<u>\$ 29,627</u>	<u>\$ 26,246</u>	<u>\$ 25,538</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>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenue:			
Cable TV	\$ 1,035,826	\$ 990,068	\$ 926,266
Internet	712,666	663,327	630,372
Telephone	1,053,250	1,086,484	1,073,760
Cell phone	41,036	34,301	-
Miscellaneous	36,363	39,898	58,728
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total operating revenue	<u>\$ 2,879,141</u>	<u>\$ 2,814,078</u>	<u>\$ 2,689,126</u>
 Customers			
Cable TV	1,872	1,812	1,739
Internet	1,637	1,558	1,446
Telephone	1,649	1,682	1,584
Cell phone	468	295	-
 Average monthly revenue per customer			
Cable TV	46.11	45.53	44.39
Internet	36.28	35.48	36.33
Telephone	53.22	53.83	56.49
 Services provided to City			
Cable TV	\$ 1,747	\$ 1,738	\$ 1,738
Internet	4,278	3,464	3,535
Telephone	923	977	1,030
	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>\$ 6,948</u>	<u>\$ 6,179</u>	<u>\$ 6,303</u>

Unaudited - See Accompanying Independent Auditor's Report



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

---

**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, 2009, and have issued our report thereon dated May 12, 2010. 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 Planning**

In planning and performing our audit, we considered AMU's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 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.

Comments involving statutory and other legal matters about AMU's operations for the year ended December 31, 2009, 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 findings 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.*

May 12, 2010

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

**SCHEDULE OF FINDINGS**

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

- (a) Unqualified opinions were issued on the financial statements for the business type activities and each major fund.
- (b) No significant control deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance, which is material to the financial statements.

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

**SCHEDULE OF FINDINGS**

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT CONTROL DEFICIENCIES:**

No matters were noted.

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

**SCHEDULE OF FINDINGS**

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

- III-A-09     Certified Budget - Disbursements during the year ended December 31, 2009 were within budgeted limits.
- III-B-09     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-09     Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.
- III-D-09     Business Transactions – No transactions with AMU officials or employees were noted.
- III-E-09     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-09     Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.
- III-G-09     Revenue Bonds – No violations of revenue bond resolution requirements were noted.
- III-H-09     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 Utilities' investment policy.
- III-I-09     Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.
- III-J-09     Financial Condition – The Communications Fund had a deficit fund balance of \$1,260,318 at December 31, 2009.

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.