

ALGONA MUNICIPAL UTILITIES

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

December 31, 2011

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

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**OFFICIALS
ALGONA MUNICIPAL UTILITIES**

December 31, 2011

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	Jay Geving	May 2015
Chairman Pro Tem	Walter Krahenbuhl	May 2017
Trustee	Allan Bonde	May 2012
Trustee	Karen Schaaf	May 2014
Trustee	Julie Murphy	May 2013
General Manager	John Bilsten	
Comptroller	Brien Rindone	

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Algona Municipal Utilities
Algona, Iowa

We have audited the accompanying financial statements of each major fund of Algona Municipal Utilities, (a component unit of the City of Algona) as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Utilities' basic financial statements listed 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 each major fund of Algona Municipal Utilities at December 31, 2011 and 2010, 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 18, 2012 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 9 and 38 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted 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 41 through 43 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 18, 2012

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, 2011. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- ◆ AMU's revenues increased by 1%, or approximately \$145,000 from calendar year 2010 to calendar year 2011.
- ◆ Expenses increased by 7%, or approximately \$996,000, in 2011 from 2010.
- ◆ AMU's net assets decreased .5%, or approximately \$134,000 during 2011.

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 2010 to 2011. Current assets (including restricted cash) increased approximately \$13.3 million from 2010 to 2011, due primarily to the completion of the electric bond issuance in 2011. Total assets increased by approximately \$14.2 million and liabilities increased by \$14.3 million resulting in the decrease in net assets of approximately \$134,000 dollars during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2011	2010
Current and other assets	\$ 25,437	\$ 11,904
Capital assets (net of depreciation)	26,430	25,717
Total assets	51,867	37,621
Long-term debt outstanding	21,597	8,380
Other liabilities	3,469	2,306
Total liabilities	25,066	10,686
Net assets:		
Invested in capital assets, net of related debt	20,515	20,453
Restricted	576	398
Unrestricted	5,710	6,084
Total net assets	\$ 26,801	\$ 26,935

INDIVIDUAL MAJOR FUND ANALYSIS

As AMU completed the year, its enterprise funds reported a combined fund balance of \$26.8 million, a decrease of approximately \$134,000 under last year's total of \$26.95 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 \$10.42 million, a decrease of approximately \$220,000 from 2010. Sales to customers actually increased about \$300,000, while the Sales for Resale decreased \$170,000. The main change in revenues was due to the \$300,000 USDA grant received in 2010.

Operating expenses were up in 2011 by approximately \$650,000. The main areas of focus for the increases were purchased power related costs, Neal 4 operations, and outside services employed. The purchased power costs increased \$200,000 during 2011. Neal 4 operations and maintenance expenses were up by \$110,000. Outside services employed increased by \$180,000, due to engineering costs.

For the year the Electric Utility net assets decreased \$152,000.

- At year end, the Water Fund had approximately \$950,000 in total revenues which was up from

\$912,000 in 2010; an increase of \$38,000. The Water Fund's operating expenses for 2011 decreased by \$5,000 to \$754,000. Total Revenues increased due to an increase in Sales to Customers. The operating expenses decreased in 2011 due to normal operations.

The Water Utility net assets increased approximately \$82,000 to approximately \$2.9 million in 2011.

- In the Communications Fund for the year, revenues were up by \$233,000 (\$3,331,000 in 2011 and \$3,098,000 – 2010). The customer counts are as follows: Cable – 1,911 and 1,859; Internet – 1,784 and 1,681; Telephone – 1,632 and 1,603; for the years ended December 31, 2011 and 2010, respectively. The fund's operating expense for the year was \$2,944,000, up from \$2,889,000 (an increase of \$55,000). The increased operating expenses were due mainly to increased write-offs of uncollectible accounts. For the year, a net loss of \$63,600 was recorded, which resulted in deficit net assets of \$1,435,226.

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,	
	2011	2010
Revenues:		
Program revenues:		
Charges for service	\$ 14,493	\$ 14,135
General revenues:		
Unrestricted investment earnings	144	150
Other general revenues	156	363
Total revenues	<u>14,793</u>	<u>14,648</u>
Program expenses:		
Business type activities	14,927	13,931
Total expenses	<u>14,927</u>	<u>13,931</u>
Increase (decrease) in net assets	(134)	717
Net assets beginning of year	<u>26,935</u>	<u>26,218</u>
Net assets end of year	<u>\$ 26,801</u>	<u>\$ 26,935</u>

BUDGETARY HIGHLIGHTS

AMU did not amend their budget during 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2011, AMU had approximately \$26.4 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 \$630,000, or 2 percent, over 2010.

	Capital Assets of Business Type Activities at Year End (Expressed in Thousands)	
	Year ended December 31,	
	2011	2010
Land	\$ 319	\$ 319
Construction in progress	1,128	2,561
Buildings and improvements	2,044	2,242
Equipment and vehicles	803	827
Infrastructure	22,136	19,768
Total	\$ 26,430	\$ 25,717

The largest additions to capital assets included modifications and repainting of the West Water Tower; the completion of the 2400 volt conversion project; improvements to the Water Treatment Plant including the Aerator replacement, replacement of high service pumps, and construction of a backwash holding tank; and upgrades to our Electric distribution system.

LONG TERM DEBT/LIABILITIES

At December 31, 2011, AMU had approximately \$19,051,237 in revenue bonds outstanding compared to \$5,520,000 at December 31, 2010, as shown below. AMU's liability for deferred compensation decreased from approximately \$178,000 to \$176,000.

The Electric Utility issued revenue bonds of \$14,245,000 to finance many capital projects over 2012-2014. The bonds were issued to provide funds to pay costs of improvements and extensions to the municipal electric utility, including Lehigh-Webster transmission improvements, a pro-rata share of the costs of improvements to the George Neal Generating Station Unit 4 facilities currently owned, the installation of smart programmable thermostat systems in participating residential homes and small commercial facilities, and conversion to underground electric lines in the downtown alley area, including new fiber communications facilities for use by the municipal electric utility.

	Outstanding Debt of Business Type Activities at Year End (Expressed in Thousands)	
	Year ended December 31,	
	2011	2010
Revenue bonds	\$ 19,051	\$ 5,520
Deferred compensation	176	178
Total	\$ 19,227	\$ 5,698

At December 31, 2011 and 2010 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% per year and to be repaid within 180 months.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Algona Municipal Utility's appointed officials consider many factors when setting the calendar year 2012 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 2012. Amounts available for appropriation in the operating budget are \$15.5 million, a decrease of 45 percent from the 2011 budget. The budget is likely to closer reflect the cash receipts received as estimated based on 2011 results and projected usage from customers. Budgeted disbursements are expected to increase by approximately \$1.75 million. Again, the 2012 budget was set to more closely reflect the actual results as estimated based on 2011 results and expenditures on improvements to the Utility Infrastructure.

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. During 2012 and 2013, Algona Municipal Utilities Electric and Communications department will complete an extensive reconstruction project encompassing a 24 block area of downtown Algona. The project includes conversion from overhead to underground electric, construction of fiber to premise and joint paving of alleys in an 8 block area. The completed project will increase efficiency and reliability within the electric distribution system. The fiber to the premise portion of the project will increase bandwidth potential for the ever growing demand of Internet bandwidth. The improvements being done at the George Neal Generating Station #4 will extend the life of the plant over 25 years and also reduce the environmental impact. Each year, the water distribution system replaces undersized water mains and continues to loop the distribution system. These improvements to the water distribution system increased fire protection, enhance water quality and provide increased water pressure and flow to a growing water distribution system.

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), entered into a 40 year contract in the Whelan Energy Center Unit 2 (WEC2). WEC2 is a new 220 MW, pulverized coal-fired generating plant near Hastings, Nebraska. The project is owned by Public Power Generating Agency (PPGA), an interlocal agency established in Nebraska for the sole purpose of constructing and operating WEC2. Heartland Consumers Power District (Heartland) is a member of PPGA and has an 80 MW entitlement in the output of WEC2. NIMECA has agreed to purchase 20 MW from Heartland for its member utilities including Algona. The agreement is extendable for an additional period. NIMECA member allocation began with 3MW's in 2011 and will grow each year to 20MW's in 2019. NIMECA members may increase the allocation if necessary due to load growth.

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 West 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	
	2011	2010
Utility plant:		
Property and equipment	\$ 50,038,766	\$ 48,272,789
Less accumulated depreciation	(31,272,961)	(31,053,784)
	<u>18,765,805</u>	<u>17,219,005</u>
Construction in progress	1,053,000	2,472,000
Utility Plant - Net	<u>19,818,805</u>	<u>19,691,005</u>
Restricted funds		
Cash and cash equivalents	14,687,304	382,750
Short-term investments	156,293	142,787
	<u>14,843,597</u>	<u>525,537</u>
Current Assets:		
Cash and cash equivalents	1,239,365	1,805,894
Accounts receivable (net of allowance for doubtful accounts)	672,917	527,489
Unbilled usage	166,603	177,622
Accounts receivable -interfund	128,622	128,622
Investments	-	-
Inventory	1,140,664	886,475
Prepaid expenses	61,589	125,535
Accrued interest receivable	-	-
Accrued interest receivable - interfund loan	123,152	123,152
	<u>3,532,912</u>	<u>3,774,789</u>
Other assets:		
Investment in joint venture	175,662	175,662
Interfund loan receivable	3,440,000	3,440,000
Deferred charges - debt issuance cost	186,101	-
Economic development loans receivable	533,867	531,429
	<u>4,335,630</u>	<u>4,147,091</u>
Total assets	<u>\$ 42,530,944</u>	<u>\$ 28,138,422</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2011	2010	2011	2010	2011	2010
\$ 5,962,661	\$ 5,304,250	\$ 6,274,025	\$ 6,207,558	\$ 62,275,452	\$ 59,784,597
(2,876,187)	(3,020,698)	(2,824,016)	(2,553,278)	(36,973,164)	(36,627,760)
3,086,474	2,283,552	3,450,009	3,654,280	25,302,288	23,156,837
50,951	58,819	24,065	29,840	1,128,016	2,560,659
3,137,425	2,342,371	3,474,074	3,684,120	26,430,304	25,717,496
\$ 309,164	\$ 133,959	-	-	14,996,468	516,709
4,350	4,303	15,520	31,062	176,163	178,152
313,514	138,262	15,520	31,062	15,172,631	694,861
674,544	1,638,273	1,081,859	1,157,297	2,995,768	4,601,464
61,709	68,319	207,581	170,822	942,207	766,630
25,361	27,805	-	-	191,964	205,427
40,572	-	-	-	169,194	128,622
-	-	-	-	-	-
33,272	33,596	19,492	21,859	1,193,428	941,930
21,329	17,428	18,970	11,852	101,888	154,815
-	-	-	-	-	-
-	-	-	-	123,152	123,152
856,787	1,785,421	1,327,902	1,361,830	5,717,601	6,922,040
-	-	210,396	139,749	386,058	315,411
-	-	-	-	3,440,000	3,440,000
-	-	-	-	186,101	-
-	-	-	-	533,867	531,429
-	-	210,396	139,749	4,546,026	4,286,840
\$ 4,307,726	\$ 4,266,054	\$ 5,027,892	\$ 5,216,761	\$ 51,866,562	\$ 37,621,237

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF NET ASSETS - continued
DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2011	2010
Liabilities:		
Current liabilities:		
Accounts payable	\$ 744,240	\$ 162,316
Accounts payable - City of Algona	123,450	91,663
Accounts payable - interfund	40,572	-
Accrued taxes	138,939	122,478
Accrued wages and compensated absences	229,698	216,889
Accrued interest payable	48,917	5,676
Deferred revenue	-	-
Revenue bonds payable	825,000	480,000
	2,150,816	1,079,022
Noncurrent liabilities		
Revenue bonds payable - net of current portion	14,765,000	1,345,000
Interfund loan - payable	-	-
Accrued OPEB	118,158	78,772
	14,883,158	1,423,772
Other liabilities		
Deferred compensation liability	156,293	142,787
	17,190,267	2,645,581
Total liabilities		
Fund Net Assets		
Invested in capital assets, net of related debt	18,473,805	17,866,005
Restricted - bond covenant	442,304	273,500
Unrestricted (deficit)	6,424,568	7,353,336
Total net assets	\$ 25,340,677	\$ 25,492,841

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2011	2010	2011	2010	2011	2010
\$ 19,265	\$ 7,430	\$ 125,790	\$ 98,431	\$ 889,295	\$ 268,177
12,184	2,872	134,935	126,910	270,569	221,445
-	-	128,622	128,622	169,194	128,622
3,139	2,871	63,159	65,100	205,237	190,449
43,439	42,960	62,787	50,081	335,924	309,930
2,249	6,850	123,152	123,152	174,318	135,678
-	-	172,848	172,848	172,848	172,848
75,000	65,000	175,100	156,441	1,075,100	701,441
<u>155,276</u>	<u>127,983</u>	<u>986,393</u>	<u>921,585</u>	<u>3,292,485</u>	<u>2,128,590</u>
1,230,000	1,305,000	1,981,137	2,169,019	17,976,137	4,819,019
-	-	3,440,000	3,440,000	3,440,000	3,440,000
22,896	15,264	40,068	26,712	181,122	120,748
<u>1,252,896</u>	<u>1,320,264</u>	<u>5,461,205</u>	<u>5,635,731</u>	<u>21,597,259</u>	<u>8,379,767</u>
4,350	4,303	15,520	31,062	176,163	178,152
<u>1,412,522</u>	<u>1,452,550</u>	<u>6,463,118</u>	<u>6,588,378</u>	<u>25,065,907</u>	<u>10,686,509</u>
2,007,425	2,342,371	34,074	244,120	20,515,304	20,452,496
134,164	124,680	-	-	576,468	398,180
753,615	346,453	(1,469,300)	(1,615,737)	5,708,883	6,084,052
<u>\$ 2,895,204</u>	<u>\$ 2,813,504</u>	<u>\$ (1,435,226)</u>	<u>\$ (1,371,617)</u>	<u>\$ 26,800,655</u>	<u>\$ 26,934,728</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	
	2011	2010
Operating revenues:		
Sale of electricity:		
Residential and commercial	\$ 7,294,060	\$ 6,976,511
Sales for resale	2,611,900	2,779,925
Service provided to City of Algona	63,663	68,127
Sales to other utilities	94,850	104,558
Sale of water	-	-
Cable TV fees	-	-
Internet fees	-	-
Telephone service	-	-
Merchandising	28,592	82,910
Miscellaneous	162,418	134,839
Return from investment in AMU-Skylink LC	-	-
Total operating revenue	10,255,483	10,146,870
Operating expenses:		
Generation and power purchased	6,555,504	6,207,028
Transmission-distribution maintenance	408,999	382,288
Meter reading supplies and labor	164,999	162,527
Sales	38,265	38,492
General and other	765,622	688,504
Administration and general	490,471	314,869
Rebates and other expenses	119,051	140,018
Merchandise, jobbing and construction	18,012	56,699
Property tax and insurance	224,201	183,624
Depreciation	1,413,598	1,315,506
Sales and use tax	1,456	2,456
Source of supply	-	-
Maintenance of mains, services and meters	-	-
Maintenance of distribution and equipment	-	-
Headend programming	-	-
Customer accounts	-	-
Total operating expenses	10,200,178	9,492,011
Income from operations	\$ 55,305	\$ 654,859

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2011	2010	2011	2010	2011	2010
\$ -	\$ -	\$ -	\$ -	\$ 7,294,060	\$ 6,976,511
-	-	-	-	2,611,900	2,779,925
-	-	-	-	63,663	68,127
-	-	-	-	94,850	104,558
895,033	860,214	-	-	895,033	860,214
-	-	1,103,906	1,083,581	1,103,906	1,083,581
-	-	806,180	754,247	806,180	754,247
-	-	1,284,177	1,138,770	1,284,177	1,138,770
5,914	17,196	2,236	475	36,742	100,581
12,900	15,000	106,516	121,601	281,834	271,440
-	-	20,647	(3,096)	20,647	(3,096)
<u>913,847</u>	<u>892,410</u>	<u>3,323,662</u>	<u>3,095,578</u>	<u>14,492,992</u>	<u>14,134,858</u>
-	-	-	-	6,555,504	6,207,028
-	-	-	-	408,999	382,288
-	-	-	-	164,999	162,527
-	-	-	-	38,265	38,492
-	-	-	-	765,622	688,504
245,444	260,762	641,761	639,182	1,377,676	1,214,813
-	-	-	-	119,051	140,018
19,661	26,573	48,375	69,892	86,048	153,164
-	-	81,647	84,846	305,848	268,470
124,605	113,470	405,627	362,321	1,943,830	1,791,297
-	2	4,796	1,122	6,252	3,580
177,594	166,748	-	-	177,594	166,748
127,275	127,026	-	-	127,275	127,026
-	-	147,959	163,167	147,959	163,167
-	-	1,477,563	1,487,335	1,477,563	1,487,335
59,150	64,635	135,981	81,506	195,131	146,141
<u>753,729</u>	<u>759,216</u>	<u>2,943,709</u>	<u>2,889,371</u>	<u>13,897,616</u>	<u>13,140,598</u>
\$ 160,118	\$ 133,194	\$ 379,953	\$ 206,207	\$ 595,376	\$ 994,260

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

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

DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2011	2010
Non-operating income (expense) and transfers		
Interest income	\$ 134,552	\$ 144,226
Interest expense	(68,698)	(81,938)
Grant income	-	300,000
Miscellaneous	127,019	26,345
Donations	(65,297)	(45,761)
Transfers to City - in lieu of property tax	(331,904)	(304,633)
Gain (loss) on disposition of assets	(3,141)	18,734
Total other income (expense)	<u>(207,469)</u>	<u>56,973</u>
Change in net assets	(152,164)	711,832
Total net assets, beginning	<u>25,492,841</u>	<u>24,781,009</u>
Total net assets, ending	<u><u>\$ 25,340,677</u></u>	<u><u>\$ 25,492,841</u></u>

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2011	2010	2011	2010	2011	2010
\$ 5,633	\$ 5,873	\$ 3,349	\$ (179)	\$ 143,534	\$ 149,920
-	(6,850)	(215,869)	(188,891)	(284,567)	(277,679)
-	-	-	-	-	300,000
25,090	13,849	4,019	3,011	156,128	43,205
(59)	-	-	-	(65,356)	(45,761)
(38,145)	(30,076)	(144,486)	(131,447)	(514,535)	(466,156)
(70,937)	-	(90,575)	-	(164,653)	18,734
<u>(78,418)</u>	<u>(17,204)</u>	<u>(443,562)</u>	<u>(317,506)</u>	<u>(729,449)</u>	<u>(277,737)</u>
81,700	115,990	(63,609)	(111,299)	(134,073)	716,523
<u>2,813,504</u>	<u>2,697,514</u>	<u>(1,371,617)</u>	<u>(1,260,318)</u>	<u>26,934,728</u>	<u>26,218,205</u>
<u>\$ 2,895,204</u>	<u>\$ 2,813,504</u>	<u>\$ (1,435,226)</u>	<u>\$ (1,371,617)</u>	<u>\$ 26,800,655</u>	<u>\$ 26,934,728</u>

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

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

	ENTERPRISE	
	ELECTRIC	
	2011	2010
Cash flows from operating activities:		
Cash receipts from customers	\$ 9,869,010	\$ 9,887,227
Cash receipts from interfund services	223,472	233,180
Other operating cash receipts	28,592	82,910
Cash payments to suppliers	(6,999,120)	(7,084,712)
Cash payments to employees	(1,286,551)	(997,078)
Cash payments for interfund services	-	-
Net cash provided by operating activities	<u>1,835,403</u>	<u>2,121,527</u>
Cash flows from noncapital financing activities:		
Transfer to the City of Algona in-lieu of property tax	(300,117)	(447,444)
Donations	(65,297)	(45,761)
Net cash (used) by noncapital financing activities	<u>(365,414)</u>	<u>(493,205)</u>
Cash flows from capital and related financing activities:		
Deferred compensation payments	(15,051)	-
Deferred compensation deposits	28,557	48,675
Acquisition and construction of capital assets	(1,535,443)	(527,457)
Repayment of revenue bonds	(480,000)	(465,000)
Proceeds from bond issuances	14,065,230	-
Grant received	-	300,000
Proceeds from sale of assets	12,608	-
Cash payments for interest	(68,100)	(83,212)
Net cash provided (used) by capital and related financing activities	<u>12,007,801</u>	<u>(726,994)</u>
Cash flows from investing activities:		
Interest received during the year	134,552	144,224
Principal received on economic development loan	43,962	50,071
Issuance of new economic development loans	(46,400)	(300,000)
Proceeds from redemption of investments	15,051	186,646
Purchase of investments	(28,557)	-
Proceeds from sale of fixed asset	12,608	20,346
Miscellaneous income	129,019	26,345
Net cash provided (used) by investing activities	<u>\$ 260,235</u>	<u>\$ 127,632</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2011	2010	2011	2010	2011	2010
\$ 922,900	\$ 884,543	\$ 3,239,486	\$ 3,044,449	\$ 14,031,396	\$ 13,816,219
-	-	-	-	223,472	233,180
-	-	47,417	48,301	76,009	131,211
(328,438)	(297,418)	(1,967,141)	(1,737,812)	(9,294,699)	(9,119,942)
(189,199)	(233,202)	(416,237)	(605,960)	(1,891,987)	(1,836,240)
(94,850)	(104,558)	(128,622)	(128,622)	(223,472)	(233,180)
<u>310,413</u>	<u>249,365</u>	<u>774,903</u>	<u>620,356</u>	<u>2,920,719</u>	<u>2,991,248</u>
(28,833)	(38,050)	(136,461)	(120,834)	(465,411)	(606,328)
(59)	-	-	-	(65,356)	(45,761)
<u>(28,892)</u>	<u>(38,050)</u>	<u>(136,461)</u>	<u>(120,834)</u>	<u>(530,767)</u>	<u>(652,089)</u>
-	-	-	-	(15,051)	-
-	-	-	-	28,557	48,675
(989,427)	(108,808)	(286,156)	(341,699)	(2,811,026)	(977,964)
(65,000)	-	(169,223)	(868,457)	(714,223)	(1,333,457)
-	1,370,000	-	1,955,000	14,065,230	3,325,000
-	-	-	-	-	300,000
-	-	-	-	12,608	-
(46,341)	-	(215,869)	(188,891)	(330,310)	(272,103)
<u>(1,100,768)</u>	<u>1,261,192</u>	<u>(671,248)</u>	<u>555,953</u>	<u>10,235,785</u>	<u>1,090,151</u>
5,633	5,873	3,349	(179)	143,534	149,918
-	-	-	-	43,962	50,071
-	-	-	-	(46,400)	(300,000)
-	-	-	-	15,051	186,646
-	-	(50,000)	(50,000)	(78,557)	(50,000)
-	-	-	-	12,608	20,346
<u>25,090</u>	<u>13,849</u>	<u>4,019</u>	<u>3,011</u>	<u>158,128</u>	<u>43,205</u>
<u>\$ 30,723</u>	<u>\$ 19,722</u>	<u>\$ (42,632)</u>	<u>\$ (47,168)</u>	<u>\$ 248,326</u>	<u>\$ 100,186</u>

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

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

	ENTERPRISE	
	ELECTRIC	
	2011	2010
Net increase (decrease) in cash and cash equivalents	\$ 13,738,025	\$ 1,028,960
Cash and cash equivalents-beginning of year	2,188,644	1,159,684
Cash and cash equivalents-end of year	<u>15,926,669</u>	<u>2,188,644</u>
Restricted funds	14,687,304	382,750
Current assets	<u>1,239,365</u>	<u>1,805,894</u>
	<u>15,926,669</u>	<u>2,188,644</u>
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	55,305	654,859
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,413,598	1,315,506
Loss (gain) from investment in AMU-Skylink LC	-	-
Change in accounts receivable	(145,428)	41,043
Change in unbilled usage	11,019	15,404
Change in accounts receivable - interfund	-	-
Change in prepaid expenses	63,946	(57,916)
Change in inventory	(254,189)	32,727
Change in accounts payable and retainages payable	622,496	66,496
Change in accrued taxes	16,461	(13,973)
Change in accrued wages and compensated absences	12,809	27,995
Change in deferred revenue	-	-
Change in OPEB liability	<u>39,386</u>	<u>39,386</u>
Net cash provided by operating activities	<u>\$ 1,835,403</u>	<u>\$ 2,121,527</u>

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2011	2010	2011	2010	2011	2010
\$ (788,524)	\$ 1,492,229	\$ (75,438)	\$ 1,008,307	\$ 12,874,063	\$ 91,690
1,772,232	280,003	1,157,297	148,990	5,118,173	1,264,306
983,708	1,772,232	1,081,859	1,157,297	17,992,236	5,118,173
309,164	133,959	-	-	14,996,468	516,709
674,544	1,638,273	1,081,859	1,157,297	2,995,768	4,601,464
983,708	1,772,232	1,081,859	1,157,297	17,992,236	5,118,173
160,118	133,194	379,953	206,207	595,376	994,260
124,605	113,470	405,627	362,321	1,943,830	1,791,297
-	-	(20,647)	3,096	(20,647)	3,096
6,610	(5,608)	(36,759)	30,300	(175,577)	65,735
2,443	(2,259)	-	-	13,462	13,145
-	-	-	-	-	-
(3,901)	403	(7,118)	24,826	52,927	(32,687)
11,835	10,879	2,367	9,238	(239,987)	52,844
324	(10,293)	27,359	4,521	650,179	60,724
268	(329)	(1,941)	(2,801)	14,788	(17,103)
479	2,276	12,706	2,420	25,994	32,691
-	-	-	(33,128)	-	(33,128)
7,632	7,632	13,356	13,356	60,374	60,374
\$ 310,413	\$ 249,365	\$ 774,903	\$ 620,356	\$ 2,920,719	\$ 2,991,248

**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 accounting principles generally accepted in the United States. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

AMU applies all applicable GASB pronouncements, as well as Financial Accounting Standards Board pronouncements unless those pronouncements conflict with or contradict GASB pronouncements. .

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of 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.

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, Deferred Revenue, and 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, 2011 and 2010, \$8,238 and \$7,615 respectively of accounts receivable were older than 90 days. The 2011 and 2010 past due accounts are primarily associated with the electric utility. AMU charges 1.5% per month on past due accounts.

The balance of the allowance for doubtful accounts as of December 31 2011 and 2010 were as follows:

	Electric	Water	Communications
December 31, 2011	\$ 31,400	\$ 3,900	\$ 71,572
December 31, 2010	\$ 29,500	\$ 3,200	\$ 7,400

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. Bond Issue Costs

Unamortized bond issue costs are amortized over the life of the bonds using the same percentage as the principal paid in a given year to the total debt by issue.

I. 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, 2011 and 2010, AMU's interest in this plant represents a total investment of \$11,172,848 and \$11,024,227 included in property and equipment respectively. Accumulated depreciation associated with the Utilities' ownership in this plant totaled \$(9,886,772) and \$(9,762,609) at December 31, 2011 and 2010 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, 2011 and 2010, 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, 2011 and 2010 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, 2011 and 2010, 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 \$(109,677) and \$(101,857) at December 31, 2011 and 2010 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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

J. 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.

K. Net Assets

Net assets reflect the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt consists of capital assets net of related accumulated depreciation, reduced by the balance of long term debt used to acquire or construct those assets. Net assets are reported as restricted when there are limitations placed on their use through external restrictions imposed by creditors, grantors, or laws and regulations increased by unspent debt proceeds of bonds issuance net of related debt. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets net of related debt or restricted.

AMU's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. 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.

M. 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.

N. 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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS

AMU's deposits at December 31, 2011 and 2010 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, 2011 and 2010, which are valued at an amortized cost of \$18,836 and \$18,829 respectively pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Credit Risk – The Electric Utility had \$14,340,696 included as cash on the Statement of Net Assets at December 31, 2011 that were held in a money market rated AAAM by Stanadard & Poors.

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. Reconciliation of the Utilities' cash and cash equivalents and temporary cash and investments for the years ended December 31, 2011 and 2010 is as follows:

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS - continued

	December 31, 2011			
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Restricted	14,687,304	309,164	-	14,996,468
Current assets	1,239,365	674,544	1,081,859	2,995,768
	15,926,669	983,708	1,081,859	17,992,236
Investments				
Restricted	156,293	4,350	15,520	176,163
Unrestricted	-	-	-	-
	156,293	4,350	15,520	176,163
Total cash and cash equivalents and investments	<u>\$ 16,082,962</u>	<u>988,058</u>	<u>1,097,379</u>	<u>\$ 18,168,399</u>

	December 31, 2010			
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Restricted	382,750	133,959	-	516,709
Current assets	1,805,894	1,638,273	1,157,297	4,601,464
	2,188,644	1,772,232	1,157,297	5,118,173
Investments				
Restricted	142,787	4,303	31,062	178,152
	142,787	4,303	31,062	178,152
Total cash and cash equivalents and investments	<u>\$ 2,331,431</u>	<u>1,776,535</u>	<u>1,188,359</u>	<u>\$ 5,296,325</u>

NOTE 3 – INTERFUND LOAN

Management authorized interfund loans from the Electric Fund to the Communications Fund 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% per annum. As of December 31, 2011 and 2010 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 Balance Sheet as a Noncurrent Liability. Accrued interest as of December 31, 2011 and 2010 of \$123,152 and

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – INTERFUND LOAN - continued

\$123,152 is also reflected on the Electric Department Balance Sheet as Accrued Interest Receivable – Interfund Loan and the Communication Department Balance Sheet as Accrued Interest Payable - Interfund Loan.

NOTE 4 – ECONOMIC DEVELOPMENT LOAN FUND

AMU has established a revolving loan fund in conjunction with the City of Algona. To date, \$330,000 has been lent to the City of Algona under this 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, 2011 and 2010 the balance due AMU under the program was \$235,000 and \$235,000 respectively.

In 2010, the USDA Rural Development (USDA) granted an additional \$300,000 to AMU to fund a new revolving loan program. AMU matched the grant with \$60,000, which is set aside and restricted to be used in this program.

The original \$300,000 received by AMU from the USDA was lent to the Algona YMCA. AMU is to collect the loan payments from YMCA and relend the proceeds in accordance with the regulations stipulated in the grant agreement. The outstanding balance under this loan at December 31, 2011 and 2010 was \$253,571 and \$300,000 respectively. An additional \$46,400 was lent to the YMCA in 2011 for a lighting project. The balance due under this new loan was \$45,295 at December 31, 2011. AMU matched the grant with \$60,000, which is set aside and restricted to be used in this program.

NOTE 5 – REVENUE BONDS PAYABLE

The following is a summary of changes in long-term debt for the year ended December 31, 2011 and 2010.

Electric Utility:

	Balance 1/1/11	Issued	Repaid	Balance 12/31/11
Business type activities:				
Revenue Bonds – Series 2008	\$ 1,825,000	-	\$ 480,000	\$ 1,345,000
Revenue Bonds – Series 2011	-	14,245,000	-	14,245,000
	<u>\$ 1,825,000</u>	<u>14,245,000</u>	<u>\$ 480,000</u>	<u>\$ 15,590,000</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – REVENUE BONDS PAYABLE-continued

	Balance 1/1/10	Issued	Repaid	Balance 12/31/10
Business type activities:				
Revenue Bonds – Series 2008	\$ 2,290,000		465,000	\$ 1,825,000
	\$ 2,290,000	-	465,000	\$ 1,825,000

Water Utility:

	Balance 1/1/11	Issued	Repaid	Balance 12/31/11
Business type activities:				
Revenue Bonds – issued October 5, 2010	\$ 1,370,000	-	65,000	\$ 1,305,000
	\$ 1,370,000	-	65,000	\$ 1,305,000

	Balance 1/1/10	Issued	Repaid	Balance 12/31/10
Business type activities:				
Revenue Bonds – issued October 5, 2010	\$ -	1,370,000	-	\$ 1,370,000
	\$ -	1,370,000	-	\$ 1,370,000

Communications Utility:

	Balance 1/1/11	Issued	Repaid	Balance 12/31/11
Business type activities:				
Revenue Bonds–Series 2005	370,460	-	29,484	340,976
Revenue Bonds–Series 2010	1,955,000	-	139,739	1,815,261
	\$ 2,325,460	-	169,223	\$ 2,156,237

	Balance 1/1/10	Issued	Repaid	Balance 12/31/10
Business type activities:				
Revenue Bonds–issued January 12, 2005	\$ 17,968	-	17,968	\$ -
Revenue Bonds–issued November 30, 2005	602,626	-	602,626	-
Revenue Bonds–issued December 13, 2005	395,791	-	25,331	370,460
Revenue Bonds–issued October 3, 2007	222,532	-	222,532	-
Revenue Bonds–issued December 30, 2010	-	1,955,000	-	1,955,000
	\$ 1,238,917	1,955,000	868,457	\$ 2,325,460

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – REVENUE BONDS PAYABLE-continued

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

Year Ending December 31,	Electric Series 2008 Interest 3.25%-4.00%		Electric Series 2011 Interest 2.0%-4.0%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2012	500,000	51,300	325,000	435,745	825,000
2013	525,000	33,800	345,000	426,838	870,000	460,638
2014	320,000	12,800	580,000	419,938	900,000	432,738
2015	-	-	920,000	408,338	920,000	408,338
2016	-	-	940,000	389,938	940,000	389,938
2017	-	-	960,000	371,138	960,000	371,138
2018	-	-	985,000	349,538	985,000	349,538
2019	-	-	1,010,000	324,912	1,010,000	324,912
2020	-	-	1,045,000	297,138	1,045,000	297,138
2021	-	-	1,080,000	265,788	1,080,000	265,788
2022	-	-	1,120,000	230,688	1,120,000	230,688
2023	-	-	1,160,000	191,488	1,160,000	191,488
2024	-	-	1,205,000	147,988	1,205,000	147,988
2025	-	-	1,260,000	102,800	1,260,000	102,800
2026	-	-	1,310,000	52,400	1,310,000	52,400
	1,345,000	97,900	14,245,000	4,414,675	15,590,000	4,512,575

Year Ending December 31,	Water Series 2010 Interest 3.94%-3.98%	
	Principal	Interest
2012	75,000	38,802
2013	75,000	37,303
2014	75,000	35,082
2015	80,000	34,302
2016	85,000	32,702
2017	85,000	30,790
2018	90,000	28,665
2019	95,000	26,190
2020	95,000	23,340
2021	100,000	20,300
2022	105,000	16,900
2023	110,000	13,120
2024	115,000	9,050
2025	120,000	4,680
	1,305,000	351,226

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 5 – REVENUE BONDS PAYABLE-continued

Year Ending December 31,	Communications Series 2005 Interest 5.09%		Communications Series 2010 Interest 5.45%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2012	30,889	16,770	144,211	70,070	175,100
2013	32,499	15,160	150,019	64,263	182,518	79,423
2014	34,192	13,467	156,076	58,206	190,268	71,673
2015	35,974	11,685	1,364,955	51,887	1,400,929	63,572
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	43,781	1,285	-	-	43,781	1,285
	340,976	85,362	1,815,261	244,426	2,156,237	329,788

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

Series 2008 and 2011 Electric Revenue Bonds:

- 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 \$1,362,800. The reserve was fully funded at December 31, 2011 and 2010.
- D. Rates will be charged at a level sufficient to produce “Net Revenues” of not less than 125% of the principal and interest due on the bonds.

Series 2010 Water Revenue Bonds:

- A. Sufficient monthly transfers shall be made to the Water Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- B. A reserve fund shall be established and maintained at a level equal to or less than \$117,886. The reserve was fully funded at December 31, 2010.
- C. Rates will be charged at a level sufficient to generate “Net Revenues” of not less than 125% of the principal and interest requirements on the bonds.

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 5 – REVENUE BONDS PAYABLE-continued

Series 2010 Communications Revenue Bonds:

- A. Sufficient monthly transfers shall be made to the Communications Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- B. Rates will be charged at a level sufficient to generate “Net Revenues” of not less than 110% of the principal and interest requirements on the bonds.

NOTE 6 – INTEREST COSTS

During the years ended December 31, 2011 and 2010, the interest incurred and expensed by the Electric Fund was \$66,700 and \$81,938 respectively. The Electric Fund incurred \$36,312 in interest that was capitalized in 2011.

During the years ended December 31, 2011 and 2010, the interest incurred and expensed by the Water Fund was \$-0- and \$6,850 respectively. The Water Fund incurred \$41,740 in interest that was capitalized in 2011.

During the years ended December 31, 2011 and 2010, the interest incurred by the Communication Fund was \$215,869 and \$188,891 respectively. The Electric Fund recognized interest income of \$123,152 and \$123,152 from the interfund loan during 2011 and 2010.

NOTE 7 – RESTRICTED FUNDS

As of December 31, 2011 Restricted Funds consisted of the following.

	Electric	Water	Communication	Total
Bond Sinking	109,337	9,484	-	118,821
Bond Reserve	1,362,800	124,680	-	1,487,480
Unspent Bond proceeds	13,094,054	175,000	-	13,269,054
Restricted note funds	14,566,191	309,164	-	14,875,355
Revolving loan fund	121,113	-	-	121,113
Deferred Compensation	156,293	4,350	15,520	176,163
	<u>14,843,597</u>	<u>313,514</u>	<u>15,520</u>	<u>15,172,631</u>

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 7 – RESTRICTED FUNDS - continued

As of December 31, 2010 Restricted Funds consisted of the following.

	Electric	Water	Communication	Total
Bond Sinking	45,679	9,279	-	54,958
Bond Reserve	273,500	124,680	-	398,180
Restricted note funds	319,179	133,959	-	453,138
Revolving loan fund	63,571	-	-	63,571
Deferred Compensation	142,787	4,303	31,062	178,152
	<u>525,537</u>	<u>138,262</u>	<u>31,602</u>	<u>694,861</u>

The Bond Funds are restricted as stated in Note 5. The deferred compensation fund assets are maintained in a 457(b) plan.

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 5.38% (4.50% through June 30, 2011) of their annual salary and AMU is required to contribute 8.07% (6.95% through June 30, 2011) of annual covered payroll. Contribution requirements are established by state statute. AMU's contributions to IPERS for the years ended December 31, 2011, 2010, and 2009 were \$148,301, \$130,042, and \$125,058 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, effective for 2010 and all following years, the Utility will make an annual Payment in Lieu of Taxes (PILOT) to the City using the following formula to determine annual transfer of funds:

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

NOTES TO FINANCIAL STATEMENTS

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

Electric Transfer: Electric sales are based on the past 5 years average sales in dollars for retail electric divided by the equivalent kWh to get a \$/kWh amount. This creates a base sales amount for the PILOT. This amount will then be multiplied by the current year retail kWh sales to get the sales before transfer number. The current year City Free Services and the annual Power Cost Adjustment amount are subtracted from the Sales before Transfer to determine the Revenues Subject to the 5% PILOT. The December Cash Transfer and City Property Taxes paid are subtracted to determine the final amount Due to the City.

Water Transfer: Water sales are based on the past 5 years average sales in dollars for retail water divided by the equivalent cubic feet to get a \$/cubic foot amount. This creates a base amount for the PILOT. This amount will then be multiplied by the current year retail cubic foot sales to get the sales before transfer number. The current year City Free Services amount is subtracted from the Sales before Transfer to determine the Revenues Subject to the 5% PILOT. The December Cash Transfer and City Property Taxes paid are subtracted to determine the final amount due to the City.

Communications Transfer: Communications sales are based on the gross revenue for cable TV minus wholesale headend service revenue, Internet sales, and Telephone sales to determine the sales before transfer number. The current year City Free Services amount is subtracted from the Sales before Transfer to determine the Revenues Subject to the 5% PILOT. The December Cash Transfer and City Property Taxes paid are subtracted to determine the final amount due to the City.

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.

NOTE 11 - JOINT VENTURES

AMU has a 15% ownership interest 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. AMU's total equity position at December 31, 2011 and 2010 is approximately \$175,662 (classified as

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 11 - JOINT VENTURES -continued

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. Audited statements for the IPPA are available upon request at the AMU business office.

Condensed financial information for IPPA as of December 31, 2011 and 2010 is as follows:

	December 31, 2011	December 31, 2010
Total assets	\$ 3,924,611	\$ 4,145,721
Total liabilities	3,121,383	3,215,889
Member equity	803,228	929,832
	\$ 3,924,611	\$ 4,145,721
Revenues	555,365	475,741
Expenses	(303,201)	(289,497)
Change in net assets	\$ 252,164	\$ 186,244

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 reported as an Investment in Joint Venture on the Communication Fund balance sheet and is valued at \$210,396 and \$139,749 as of December 31, 2011 and 2010. Audited statements for AMU-Skylink LC are available upon request at the AMU business office. Condensed financial information for AMU-Skylink LC as of December 31, 2011 and 2010 is as follows:

	December 31, 2011	December 31, 2010
Total assets	\$ 511,149	\$ 324,095
Total liabilities	90,357	42,088
Member equity	420,792	282,007
	\$ 511,149	\$ 324,095
Revenues	333,709	252,539
Expenses	(292,415)	(256,223)
Net income	\$ 41,294	\$ (3,659)

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

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, 2011 and 2010 is as follows:

Type of Benefit	Electric	Water	Communications	Total
December 31, 2011: Vacation	\$ 69,291	11,195	18,229	\$ 98,715
December 31, 2010: Vacation	\$ 68,048	11,099	16,943	\$ 96,090

NOTE 13 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 was as follows:

December 31, 2011

Electric Fund

Proprietary Activities	Balance			Balance End of Year
	Beginning of Year	Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 256,366	-	-	\$ 256,366
Construction in progress	2,472,000	947,905	2,366,905	1,053,000
	2,728,366	947,905	2,366,905	1,309,366
Capital assets being depreciated:				
Buildings and improvements	2,730,473	-	-	2,730,473
Equipment and vehicles	2,620,891	148,757	575,294	2,194,354
Infrastructure	42,665,059	2,826,681	634,167	44,857,573
Total capital assets being depreciated	48,016,423	2,975,438	1,209,461	49,782,400
Less accumulated depreciation for:				
Buildings and improvements	802,765	67,110	-	869,875
Equipment and vehicles	1,980,510	146,795	574,314	1,552,991
Infrastructure, road network	28,270,509	1,199,693	620,107	28,850,095
Total accumulated depreciation	31,053,784	1,413,598	1,194,421	31,272,961
Total capital assets being depreciated, net	16,962,639			18,509,439
Business type activities capital assets, net	\$19,691,005			\$19,818,805

Water Fund

Proprietary Activities	Balance			Balance End of Year
	Beginning of Year	Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 13 – CAPITAL ASSETS - continued

Construction in progress	58,819	50,951	58,819	50,951
	<u>71,125</u>	<u>50,951</u>	<u>58,819</u>	<u>63,257</u>
Capital assets being depreciated:				
Equipment and vehicles	328,652	13,907	59,931	282,628
Infrastructure	4,963,292	985,113	280,678	5,667,727
Total capital assets being depreciated	<u>5,291,944</u>	<u>999,020</u>	<u>340,609</u>	<u>5,950,355</u>
Less accumulated depreciation for:				
Equipment and vehicles	221,507	19,106	59,931	180,682
Infrastructure, road network	2,799,191	105,499	209,185	2,695,505
Total accumulated depreciation	<u>3,020,698</u>	<u>124,605</u>	<u>269,116</u>	<u>2,876,187</u>
Total capital assets being depreciated, net	<u>2,271,246</u>			<u>3,074,168</u>
Business type activities capital assets, net	<u>\$ 2,342,371</u>			<u>\$ 3,137,425</u>

Communications Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	29,840	24,065	29,840	24,065
	<u>79,475</u>	<u>24,065</u>	<u>29,840</u>	<u>73,700</u>
Capital assets being depreciated:				
Buildings and improvements	271,793	-	-	271,793
Equipment and vehicles	172,482	14,716	-	187,198
Infrastructure	5,713,648	285,340	233,589	5,765,399
Total capital assets being depreciated	<u>6,157,923</u>	<u>300,056</u>	<u>233,589</u>	<u>6,224,390</u>
Less accumulated depreciation for:				
Buildings and improvements	77,543	10,708	-	88,251
Equipment and vehicles	118,923	8,449	-	127,372
Infrastructure, road network	2,356,812	386,470	134,889	2,608,393
Total accumulated depreciation	<u>2,553,278</u>	<u>405,627</u>	<u>134,889</u>	<u>2,824,016</u>
Total capital assets being depreciated, net	<u>3,638,224</u>			<u>3,400,374</u>
Business type activities capital assets, net	<u>\$ 3,704,734</u>			<u>\$ 3,474,074</u>

December 31, 2010

Electric Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 256,366	-	-	\$ 256,366
Construction in progress	2,594,503	289,062	411,565	2,472,000
	<u>2,850,869</u>	<u>289,062</u>	<u>411,565</u>	<u>2,728,366</u>

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 13 – CAPITAL ASSETS - continued

Capital assets being depreciated:				
Buildings and improvements	2,678,528	51,945	-	2,730,473
Equipment and vehicles	2,576,127	44,764	-	2,620,891
Infrastructure	42,227,001	539,580	101,522	42,665,059
Total capital assets being depreciated	<u>47,481,656</u>	<u>636,289</u>	<u>101,522</u>	<u>48,016,423</u>
Less accumulated depreciation for:				
Buildings and improvements	735,716	67,049	-	802,765
Equipment and vehicles	1,846,252	134,258	-	1,980,510
Infrastructure, road network	27,256,220	1,114,199	99,910	28,270,509
Total accumulated depreciation	<u>29,838,188</u>	<u>1,315,506</u>	<u>99,910</u>	<u>31,053,784</u>
Total capital assets being depreciated, net	<u>17,643,468</u>			<u>16,962,639</u>
Business type activities capital assets, net	<u>\$20,494,337</u>			<u>\$19,691,005</u>

Water Fund

Proprietary Activities	Balance Beginning			Balance End
Capital assets not being depreciated:	of Year	Increases	Decreases	of Year
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	115,573	47,189	-	58,819
	<u>127,879</u>	<u>47,189</u>	<u>-</u>	<u>71,125</u>
Capital assets being depreciated:				
Equipment and vehicles	285,234	43,418	-	328,652
Infrastructure	4,841,148	122,144	-	4,963,292
Total capital assets being depreciated	<u>5,126,382</u>	<u>165,562</u>	<u>-</u>	<u>5,291,944</u>
Less accumulated depreciation for:				
Equipment and vehicles	203,956	17,551	-	221,507
Infrastructure, road network	2,703,272	95,919	-	2,799,191
Total accumulated depreciation	<u>2,907,228</u>	<u>113,470</u>	<u>-</u>	<u>3,020,698</u>
Total capital assets being depreciated, net	<u>2,219,154</u>			<u>2,271,246</u>
Business type activities capital assets, net	<u>\$ 2,347,033</u>			<u>\$ 2,342,371</u>

Communications Fund

Proprietary Activities	Balance Beginning			Balance End
Capital assets not being depreciated:	of Year	Increases	Decreases	of Year
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	16,875	29,840	16,875	29,840
	<u>66,510</u>	<u>29,840</u>	<u>16,875</u>	<u>79,475</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – CAPITAL ASSETS - continued

Capital assets being depreciated:				
Buildings and improvements	254,869	16,924	-	271,793
Equipment and vehicles	174,966	18,824	21,308	172,482
Infrastructure	5,420,651	292,997	-	5,713,648
Total capital assets being depreciated	<u>5,850,486</u>	<u>328,745</u>	<u>21,308</u>	<u>6,157,923</u>
Less accumulated depreciation for:				
Buildings and improvements	66,915	10,628	-	77,543
Equipment and vehicles	91,850	48,378	21,305	118,923
Infrastructure, road network	2,053,497	303,315	-	2,356,812
Total accumulated depreciation	<u>2,212,262</u>	<u>362,321</u>	<u>21,305</u>	<u>2,553,278</u>
Total capital assets being depreciated, net	<u>3,638,224</u>			<u>3,604,645</u>
Business type activities capital assets, net	<u>\$ 3,704,734</u>			<u>\$ 3,684,120</u>

Depreciation expense was charged to the following functions:

Proprietary activities:	December 31, 2011	December 31, 2010
Electric	\$ 1,413,598	\$ 1,315,506
Water	124,605	113,470
Communications	405,627	362,321
	<u>\$ 1,943,830</u>	<u>\$ 1,791,297</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, 2011 and 2010, \$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>	
2012	\$ 128,622
2013	128,622
2014	128,622
2015	128,622
2016	128,622
2017-2021	643,110
2022-2026	643,110

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 14 – JOINT LEASE AGREEMENT -continued

2027-2031	643,110
2032-2036	643,110
2037-2041	643,110
2042-2043	257,244
Total	\$ 4,115,904

NOTE 15 – DEFICIT NET ASSETS

The Communications Fund has a deficit balance of \$1,435,226 and \$1,371,617 as of December 31, 2011 and 2010 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 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, 2011 and 2010, the amount actually contributed to the plan and changes in AMU’s net OPEB obligation:

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NOTES TO FINANCIAL STATEMENTS

NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continued

	Electric	Water	Communications	Total
Annual required contribution	\$ 39,386	\$ 7,632	\$ 13,356	\$ 60,374
Interest on net OPEB obligation	1,600	300	550	2,450
Adjustment to annual required contribution	(1,600)	(300)	(550)	(2,450)
Annual OPEB cost	39,386	7,632	13,356	60,374
Net OPEB obligation beginning of year	78,772	15,264	26,712	120,748
Net OPEB obligation end of year	118,158	22,896	40,068	181,122

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 years ended December 31, 2011 and 2010.

For the years ended December 31, 2011 and 2010, AMU did not contribute to the medical plan.

AMU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of December 31, 2011 and 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	\$ 60,374	0%	\$ 181,122
December 31, 2010	\$ 60,374	0%	\$ 120,748
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 periods from January 1, 2011 through December 31, 2011 and January 1, 2010 through December 31, 2010, 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 \$1.8 million and the ratio of the UAAL to covered payroll was 22% for 2011 and 23% for 2010. As of December 31, 2011 and 2010, 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

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) - continued

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.

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

Subsequent to December 31, 2011, AMU has signed a contract to bury overhead electric service in certain City alleyways and make improvements to sewer and storm sewers in those areas. The approximate contract cost for this project is \$1.6 million. Approximately \$800,000 of the total cost will be paid by the City of Algona, for the sewer and storm sewer portion of the contract.

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through May 18, 2012, 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, 2011

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
	Receipts:		
Charges for service	\$ 14,031,396	\$ 14,446,000	(414,604)
Miscellaneous	657,713	646,000	11,713
Other financing sources	14,065,230	12,500,000	1,565,230
	<u>28,754,339</u>	<u>27,592,000</u>	<u>1,162,339</u>
Disbursements:			
Program			
Business type activities	15,880,276	20,096,741	4,216,465
Transfers out	-	502,000	665,000
	<u>15,880,276</u>	<u>20,598,741</u>	<u>4,881,465</u>
Change in net assets	12,874,063	6,993,259	5,880,804
Balance beginning of year	<u>5,118,173</u>	<u>7,907,695</u>	<u>(2,789,522)</u>
Balance end of year	<u>\$ 17,992,236</u>	<u>\$ 14,900,954</u>	<u>3,091,282</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 accounting principles generally accepted in the United States used for financial reporting and those used to prepare the budget is presented below.

	Financial Statements	Adjustments	Budget
Revenues	\$ 14,792,654	\$ 13,961,685	\$ 28,754,339
Disbursements	14,926,726	953,550	15,880,276
Other financing sources	-	-	-
Net income	<u>\$ (134,072)</u>	<u>\$ 13,008,135</u>	<u>\$ 12,874,063</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, 2011

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 functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

**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

Year Ended December 31	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		(a)	(b)	(c)	(a/b)	(c)	(b-a)/c
2011	January 1, 2009	-0-	\$412	\$412	0.00%	\$1,900	21.7%
2010	January 1, 2009	-0-	\$412	\$412	0.00%	\$1,800	22.9%
2009	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 Information

ALGONA MUNICIPAL UTILITIES

Schedule 1

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

	2011	2010	2009
Sale of electricity:			
Sales to consumers	\$ 7,293,859	\$ 6,976,511	\$ 6,613,116
Sales to other utilities	158,513	172,685	172,835
Sales for resale	2,611,900	2,779,925	2,138,587
	<hr/>	<hr/>	<hr/>
Total electricity sales	10,064,272	9,929,121	8,924,538
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Kilowatt hours:			
Wind generation	5,039,658	5,414,064	5,049,663
Generated	136,291,041	147,441,387	109,392,543
Purchases	40,330,486	35,021,336	39,605,426
System losses (transmission)	(3,276,633)	(3,146,534)	(4,385,771)
Available for sale	178,384,552	184,730,253	149,661,861
	<hr/>	<hr/>	<hr/>
Billed to consumers	105,640,353	104,747,725	96,496,474
Sales to other utilities	4,572,294	4,909,921	4,674,238
Sales for resale	64,123,797	74,412,947	45,952,486
Distribution loss	4,048,108	659,660	2,538,663
Distribution loss percent	3.54%	0.60%	2.45%
Revenue billed per kWh to consumers	\$ 0.0690	\$ 0.0666	\$ 0.0685
Peak hour demand in kilowatts	23,395	23,350	22,070
Services provided to the City			
Street lighting:			
Energy	\$ 63,683	\$ 68,147	\$ 62,262
Operation and Maintenance	15,812	21,222	18,091
	<hr/>	<hr/>	<hr/>
	79,495	89,369	80,353
Other Maintenance Costs	8,233	8,404	6,184
Energy for Public Buildings, Parks and Other uses	94,850	104,558	110,689
	<hr/>	<hr/>	<hr/>
	\$ 182,578	\$ 202,331	\$ 197,226
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Year to date kWh sales			
Residential	31,717,225	32,746,988	30,551,956
Commercial	73,042,066	71,147,901	66,274,348
Area Lighting	1,242,163	1,317,932	1,309,254
Station Power	1,749,218	1,705,762	1,607,120
City	1,269,473	1,518,087	1,428,034
Total number of kWh sales	109,020,145	108,436,670	101,170,712
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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>2011</u>	<u>2010</u>	<u>2009</u>
Total revenue billed	<u>\$ 895,033</u>	<u>\$ 860,214</u>	<u>\$ 783,518</u>
Cubic Foot			
Pumped	40,116,171	40,261,093	38,561,227
Billed	30,833,241	31,915,245	30,558,618
City of Algona	936,332	490,338	464,400
System loss	8,346,598	7,855,510	7,538,209
Percent loss	20.81%	19.51%	19.55%
Revenue billed per cubic foot	\$ 0.0290	\$ 0.0270	\$ 0.0256
Peak day-cubic footage pumped	173,133	159,374	181,560
Services provided to City			
Water for parks, disposal plant and public buildings	\$ 20,952	\$ 12,543	\$ 11,357
Public fire protection	19,620	18,450	18,270
	<u>\$ 40,572</u>	<u>\$ 30,993</u>	<u>\$ 29,627</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,**

	2011	2010	2009
Operating revenue:			
Cable TV	\$ 1,104,165	\$ 1,083,069	\$ 1,035,824
Internet	807,486	754,851	712,748
Telephone	1,274,572	1,128,424	1,053,141
Cell phone	83,278	77,040	41,036
Miscellaneous	94,247	77,206	56,334
Total operating revenue	\$ 3,363,748	\$ 3,120,590	\$ 2,899,083
Customers			
Cable TV	1,911	1,859	1,872
Internet	1,784	1,681	1,637
Telephone	1,632	1,603	1,649
Cell phone	532	519	468
Average monthly revenue per customer			
Cable TV	48.15	48.55	46.11
Internet	37.72	37.42	36.28
Telephone	65.08	58.66	53.22
Services provided to City			
Cable TV	\$ 1,786	\$ 1,786	\$ 1,747
Internet	4,378	4,173	4,278
Telephone	1,143	1,054	923
	\$ 7,307	\$ 7,013	\$ 6,948

Unaudited - See Accompanying Independent Auditor's Report

**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, a component unit of the City of Algona, Iowa, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 18, 2012. 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

Management of AMU is responsible for establishing and maintaining effective internal control over financial reporting. 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, 2011, 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 Algona Municipal Utilities, and other parties to whom Algona Municipal Utilities may report including federal awarding agencies and pass-through entities. The report is not intended and should not be used by anyone other than these parties.

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

May 18, 2012

**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 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-11 Certified Budget - Disbursements for the year ended December 31, 2011 were within the budgeted limits.
- III-B-11 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-11 Travel Expense – No disbursements of AMU money for travel expenses of spouses of Utility officials or employees were noted.
- III-D-11 Business Transactions – No transactions with AMU officials or employees were noted.
- III-E-11 Bond Coverage – Surety bond coverage of Utility 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-11 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.
- III-G-11 Revenue Bonds – No violations of revenue bond resolution requirements were noted.
- III-H-11 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-11 Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.
- III-J-11 Financial Condition – The Communications Fund had a deficit fund balance of \$1,435,226 at December 31, 2011.

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.