

BOARD OF WATERWORKS AND
ELECTRIC LIGHT AND POWER PLANT TRUSTEES - ATLANTIC, IOWA
D/B/A ATLANTIC MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2012 AND 2011

ATLANTIC MUNICIPAL UTILITIES

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ATLANTIC MUNICIPAL UTILITIES
Officials
December 31, 2012

<u>Trustees</u>	<u>Term Expires</u>
Lawrence E. Turner, Chairperson	April, 2013
Keith C. Stork, Vice-Chairperson	April, 2015
Frank W. Greiner	April, 2015
Sharon L. Winchell	April, 2017
Joyce A. Jensen	April, 2017

Management Personnel

General Manager
Steve J. Tjepkes

Comptroller
Jennifer Saathoff

Director of Electric Operations
Gregory J. Smith

Director of Water Operations
Jon H. Martens

Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

Report on the Financial Statements

We have audited the accompanying statements of net assets of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of December 31, 2012 and 2011 and the related statements of income and changes in net assets, and cash flows for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Utilities' management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Atlantic Municipal Utilities

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Municipal Utilities as of December 31, 2012 and 2011 and the results of its activities, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 4 through 4c and on page 29 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 which 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 U.S. generally accepted auditing standards, 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Atlantic Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended December 31, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 1 and 30 through 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2013 on our consideration of Atlantic Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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 important for assessing the results of our audit.

General, Ben, Kohn & W. P. C.

Atlantic, Iowa
March 8, 2013



Atlantic Municipal Utilities

Management's Discussion and Analysis Audited Financial Statements Years Ended December 31, 2012 and 2011

This section of the Utility's annual Financial Statements presents an analysis of the Utility's financial performance during the calendar year ended December 31, 2012. This information is presented in conjunction with the audited basic financial statements, which follow this section. The Utility is organized into two operating departments, electric and water. This discussion and analysis points out the highlights of each department.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2012

- The Utility's net assets increased as a result of 2012 operating income and non-operating revenues. The Electric Department's net assets increased by \$277,417, or 1.3%, from \$21,836,353 to \$22,113,770. The Water Department's net assets increased by \$105,617, or 2.6%, from \$4,127,666 to \$4,233,283.
- An Electric rate increase of approximately 7.5% for all customer classes was approved in December 2012, effective February 2013.
- An Electric rate increase of approximately 14% for all customer classes was effective October 2011.
- A Water rate increase of approximately 10% for all customer classes was approved in December 2012, effective February 2013.
- Electric Department operating revenues increased 10.8% to \$8,891,985, while operating expenses increased 6.2% to \$8,588,929.
- Water Department operating revenues increased 13.0% to \$1,315,965, while operating expenses increased 20.6% to \$1,203,903.
- The Electric Department delivered approximately 106,709,000 kilowatt hours (kWh) of electricity to its retail customers in 2012, compared to approximately 108,943,000 kWh in 2011.
- The Water Department delivered approximately 281,627,000 gallons of water to its retail customers in 2012, compared to approximately 246,891,000 gallons in 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements of the Utility report information utilizing generally accepted accounting practices for electric and water utilities. In general, these practices follow the Federal Energy Regulatory Commission's (FERC) prescribed Uniform System of Accounts for the Electric Department. Practices for the Water Department follow suggested guidelines from the National Association of Regulatory Commissioners (NARUC). There are three major reports for each Department.

The *Statements of Net Assets* include all of each Department's assets and liabilities, and provide information about the nature and amounts of investments in resources, assets, and the obligations to Utility creditors. They also provide the basis for making a variety of financial assessments about the Utility's financial position. Supporting schedules of the Department's debt are included in the "Other Supplementary Information" section of the report.

The *Statements of Income and Changes in Net Assets* provide information about each Department's revenues and expenses. This report measures the success of the Department's operations. It can be used to determine whether or not the Department has successfully recovered all its costs through its rates, fees and other forms of revenues. It also provides a measure of the Department's, and Utility's, profitability and creditworthiness. Details of the Department's revenues and expenses are included in the "Other Supplementary Information" section of the report. This statement also provides information about the equity, or net assets, of the Department.

The *Statements of Cash Flows* provide information about each Department's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes from operations, investments, and financing activities. It indicates where the Department's cash came from, how it was used, and the change in cash balances from the previous fiscal year.

Additional information regarding AMU's financial and operating status are contained in the *Required Supplementary Information*, and *Other Supplementary Information*. These sections of the report provide information including comparisons of budgeted versus actual expenditures, details regarding long-term debt outstanding, and a number of supporting schedules.

The *Comments and Recommendations* section of the report comments on AMU's internal control and compliance with various state statutes.

FINANCIAL ANALYSIS OF THE UTILITY

A summary of the Electric & Water Departments Net Assets is presented in *Table 1, Condensed Statement of Net Assets* below.

Table 1: Condensed Statements of Net Assets

	Electric Dept.			Water Dept.		
	2012	2011	Dollar Change	2012	2011	Dollar Change
Current and Other Assets	\$6,936,927	\$7,114,294	(\$177,367)	\$1,276,769	\$1,421,822	(\$145,053)
Capital Assets, net	22,649,819	22,558,923	90,896	4,300,081	4,291,403	8,678
Total Assets	\$29,586,746	\$29,673,217	(\$86,471)	\$5,576,850	\$5,713,225	(\$136,375)
Long-Term Debt	\$5,820,000	\$6,345,000	(\$525,000)	\$710,855	\$930,855	(\$220,000)
Current and Other Liabilities	1,652,976	1,491,864	161,112	632,712	654,704	(\$21,992)
Total Liabilities	\$7,472,976	\$7,836,864	(\$363,888)	\$1,343,567	\$1,585,559	(\$241,992)
Total Net Assets	\$22,113,770	\$21,836,353	\$277,417	\$4,233,283	\$4,127,666	\$105,617
Total Liabilities & Net Assets	\$29,586,746	\$29,673,217	(\$86,471)	\$5,576,850	\$5,713,225	(\$136,375)

Electric Department

Annual capital expenditures totaled approximately \$1,419,000 in 2012. Depreciation expense and capital retirements were slightly less at approximately \$1,328,000, thus Net Capital Assets increased by \$90,896. All of AMU's capital additions were funded with cash from general operating reserves, and no additional debt was issued.

Special Purpose Funds, Current Assets, and Other Assets decreased by \$177,367, due to use of cash for capital improvements. Total Assets decreased from \$29,673,217 to \$29,586,746 or 0.3%.

Total long-term debt of the Electric Department decreased from \$6,345,000 to \$5,820,000, a decline of \$525,000.

Current and Other Liabilities increased from \$1,491,864 to \$1,652,976, a change of \$161,112, or 10.8%, primarily as a result of an increase in accounts payable of \$83,596.

Total Operating Revenue for the Electric Department increased by \$864,877, or 10.8%. Operating Revenue increased by \$489,623, or 6.4%. Energy sales to retail customers increased \$716,749, or 11.7%, due largely to a full year of a rate increase that became effective October 2011, while Wholesale sales to other utilities declined, decreasing from \$1,211,807 to \$937,976, a decrease of \$273,831, or 22.6%. The Utility sells generation from its share of the jointly owned Walter Scott Energy Center Unit 3 (W/S#3) into the Midwest Independent System Operator (MISO) market and purchases any local power needs above current purchase power contract requirements from MISO. Sales to other utilities is shown net of these MISO power purchases. The value of energy in the MISO market is still extremely low, due to the continuing national and global economic recession. Other operating revenue increased by \$375,254, or 103.2%. The Utility is a transmission owner in MISO and receives revenue from MISO for its share of transmission revenue collected by MISO. These transmission revenue collections increased from \$291,007 to \$662,703 in 2012 due to significant capital improvements in the Spruce Substation becoming part of the cost reimbursement formula in MISO.

Total Operating Expenses for the Electric Department increased, from \$8,086,568 the prior year, to \$8,588,929 in 2012. Increased expenses include increased production costs at W/S#3 (\$167,895) and increased transmission expenses (\$122,274) due mainly to increased transmission costs paid to MISO.

Other Income and Deductions netted to \$25,639 deduction in net income compared to \$230,627 deduction in net income in 2011. Other income included \$213,601 of grant revenue received to install approximately #800 advanced electric meters and the related communication network and software necessary to integrate the information available from the customer meters into the Utility's customer information system (CIS).

The Electric Department's Net Income for the year was \$277,417, compared to a net loss of \$290,087 in 2011, an improvement of \$567,504.

Water Department

Annual capital expenditures totaled approximately \$219,000 in 2012. Depreciation expense and capital retirements were slightly less at approximately \$210,000, thus Net Capital Assets increased by \$8,678. All of AMU's capital additions were funded with cash from general operating reserves, and no additional debt was issued.

Special Purpose Funds, Current Assets, and Other Assets decreased by \$145,053, to \$1,276,769. Total Assets decreased from \$5,713,225 to \$5,576,850, or 2.4%.

Total long-term debt of the Water Department decreased from \$930,855 to \$710,855, a decline of \$220,000.

Current and Other Liabilities decreased from \$654,704 to \$632,712, a decline of \$21,992, or 3.4%.

Total Operating Revenue of the Water Department increased by 13%, with revenues totaling \$1,315,965 in 2012, compared to \$1,164,986 in 2011. Sales of water increased by 14%, with a total of 281.6 million gallons sold.

Total Operating Expenses for the Water Department increased \$205,745, or 20.6% in 2012. Increased expenses include additional water distribution costs of \$85,387 due to maintenance and painting of both water towers and an increase in Payment in lieu of taxes of \$78,391 due to increased costs of providing water services to the City of Atlantic.

Net Income for the year was \$105,257, compared to \$140,258 in 2011.

Net Assets of the water utility increased by \$105,617, to \$4,233,283. (Note: Includes Contributions In Aid Of Construction and amortizations of said contributions).

A summary of the Utility's Operating Revenues, Expenses, Net Income and Net Assets is presented in *Table 2 Condensed Statements of Income and Changes in Net Assets*, below. The summary shows the operating data of both the electric and water departments.

Table 2 Condensed Statements of Income and Changes in Net Assets						
	Electric Dept.			Water Dept.		
	2012	2011	Dollar Change	2012	2011	Dollar Change
Operating Revenue	\$8,152,939	\$7,663,316	\$489,623	\$1,289,602	\$1,145,074	\$144,528
Other Operating Revenue	739,046	363,792	375,254	26,363	19,912	6,451
Total Operating Revenue	8,891,985	8,027,108	864,877	1,315,965	1,164,986	150,979
Other Operating Expenses	7,261,218	6,761,216	500,002	1,004,411	806,396	198,015
Depreciation	1,327,711	1,325,352	2,359	199,492	191,762	7,730
Total Operating Expenses	8,588,929	8,086,568	502,361	1,203,903	998,158	205,745
Operating Income (Loss)	303,056	(59,460)	362,516	112,062	166,858	(54,796)
Other Income and (Deductions), net	(25,639)	(230,627)	204,988	(6,805)	(26,570)	19,765
Net Income	277,417	(290,087)	567,504	105,257	140,258	(35,001)
Adjustments, net	-	-	-	360	282,607	(282,247)
Increase in Net Assets	277,417	(290,087)	567,504	105,617	422,865	(317,248)
Net Assets, Beginning of Year	21,836,353	22,126,440	(290,087)	4,127,666	3,704,801	422,865
Net Assets, End of Year	\$22,113,770	\$21,836,353	\$277,417	\$4,233,283	\$4,127,666	\$105,617

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

Contacting Financial Management

This financial report is designed to provide AMU's ratepayers and creditors with a general overview of Atlantic Municipal Utilities' finances and operations. If you have questions about this report, contact AMU's Comptroller at AMU, P.O. Box 517; 15 West Third Street; Atlantic, Iowa 50022; or e-mail jsaathoff@amu1.net or call 712-243-1395.

The General Manager can be contacted at the same address and phone, or by e-mail at stjepkes@amu1.net.

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

ASSETS

	2012	2011
Utility Plant :		
Depreciable capital assets	\$ 19,946,644	\$ 20,308,478
Non-depreciable capital assets	2,703,175	2,250,445
Total utility plant	22,649,819	22,558,923
Special Purpose Funds:		
Revenue bond funds	1,471,151	1,460,931
Board designated funds	1,227,011	1,719,262
Total special purpose funds	2,698,162	3,180,193
Current Assets:		
Cash	1,450,087	892,070
Operating and capital reserves	--	181,834
Receivables, less allowance for doubtful accounts (\$16,000 in 2012, \$28,000 in 2011)	513,230	506,352
Other receivables	79,100	16,276
Inventory	921,917	846,276
Prepaid expenses	44,163	40,725
Current due from Water Department	220,544	205,800
Total current assets	3,229,041	2,689,333
Other Assets:		
Due from Water Department:		
Non-interest bearing note	495,855	495,855
Interest bearing note	215,000	435,000
Electric project investments	248,727	253,726
Deferred costs	50,142	60,187
Total other assets	1,009,724	1,244,768
	\$ 29,586,746	\$ 29,673,217

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Long-Term Debt, less current maturities	\$ 5,820,000	\$ 6,345,000
Current Liabilities:		
Current maturities of long-term debt	525,000	505,000
Accounts payable	518,236	434,640
Accrued employee compensation	176,832	142,000
Accrued payroll taxes and withholdings	15,862	11,233
Accrued property taxes	126,575	128,000
Other accrued taxes	7,305	8,979
Accrued interest	<u>64,119</u>	<u>68,790</u>
Total current liabilities	1,433,929	1,298,642
Other Liabilities:		
Consumer deposits	88,707	80,222
Reserve for employees' retirement	<u>130,340</u>	<u>113,000</u>
Total other liabilities	<u>219,047</u>	<u>193,222</u>
Total liabilities	7,472,976	7,836,864
Net Assets:		
Restricted - expendable	1,471,151	1,460,931
Invested in capital assets net of related debt	16,319,984	15,767,188
Unrestricted	<u>4,322,635</u>	<u>4,608,234</u>
Total net assets	<u>22,113,770</u>	<u>21,836,353</u>
	<u>\$ 29,586,746</u>	<u>\$ 29,673,217</u>

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Income and Changes in Net Assets
Year ended December 31,

	2012	2011
Operating Revenue:		
Retail electricity sales	\$ 6,845,923	\$ 6,129,174
Services provided to the City	369,040	322,335
Sales to other utilities	937,976	1,211,807
Total sale of electricity	8,152,939	7,663,316
Other operating revenue	739,046	363,792
Total operating revenue	8,891,985	8,027,108
Operating Expenses:		
Electric production	2,390,677	2,209,031
Purchased power	1,507,776	1,505,266
Transmission	924,963	802,689
Distribution	748,419	705,016
Administrative and accounting	1,689,383	1,539,214
Provision for depreciation	1,327,711	1,325,352
Total operating expenses	8,588,929	8,086,568
Income (Loss) from Operations	303,056	(59,460)
Other Income and (Deductions):		
Income from investments	34,841	56,473
Capital grants	213,601	--
Interest expense on revenue bonds	(261,146)	(279,586)
Gain (loss) on disposal of equipment	(412)	5,207
Other interest expense	(2,478)	(1,899)
Amortization of bond issue costs	(10,045)	(10,822)
Other deductions, net	(25,639)	(230,627)
Net Income (Loss)	277,417	(290,087)
Net Assets, Beginning of Year	21,836,353	22,126,440
Net Assets, End of Year	\$ 22,113,770	\$ 21,836,353

The accompanying notes are an integral part of these statements.

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

	2012	2011
Cash flows from operating activities:		
Cash received from consumers	\$ 7,974,317	\$ 7,850,700
Cash paid to suppliers	(5,764,231)	(5,583,332)
Cash paid to employees	(1,345,596)	(1,235,191)
Other operating revenue	736,439	360,714
Net cash provided by operating activities	1,600,929	1,392,891
Cash flows from noncapital financing activities:		
Consumer deposits, net	8,485	5,674
Interest paid	(2,478)	(1,899)
Net cash provided by noncapital financing activities	6,007	3,775
Cash flows from capital and related financing activities:		
Principal payments	(505,000)	(485,000)
Interest paid on revenue bonds	(265,817)	(284,012)
Capital expenditures	(1,385,964)	(1,032,638)
Proceeds from disposal of equipment	--	10,407
Capital grants	198,901	--
Net cash used in capital and related financing activities	(1,957,880)	(1,791,243)
Cash flows from investing activities:		
Special purpose fund investments		
Acquisitions	(180,000)	(1,830,300)
Proceeds	778,984	2,144,428
Operating and capital reserves		
Acquisitions	--	(600,150)
Proceeds	181,834	1,420,954
Water department note proceeds	205,000	--
Electric project investments	4,999	4,999
Income from investments	35,097	58,243
Net cash provided by investing activities	1,025,914	1,198,174
Net increase in cash	674,970	803,597
Cash, beginning of year	1,939,651	1,136,054
Cash, end of year	\$ 2,614,621	\$ 1,939,651

(continued next page)

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

	2012	2011
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 1,450,087	\$ 892,070
Cash in special purpose funds	1,164,534	1,047,581
Total cash	\$ 2,614,621	\$ 1,939,651
Reconciliation of income (loss) from operations to net cash provided by operating activities:		
Income (loss) from operations	\$ 303,056	\$(59,460)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities		
Provision for depreciation	1,327,711	1,325,352
Materials returned to stock	--	527
Uncollectible accounts	7,610	11,443
Reserve for employees' retirement	17,340	(1,000)
Change in assets and liabilities		
Receivables	(62,612)	173,031
Inventory	(75,641)	(52,714)
Prepaid expenses	(3,438)	(2,851)
Accounts payable, trade	50,541	(15,679)
Accrued employee compensation	34,832	4,000
Accrued payroll taxes and withholdings	4,629	(1,699)
Accrued property taxes	(1,425)	14,000
Other accrued taxes	(1,674)	(2,059)
Total adjustments	1,297,873	1,452,351
Net cash provided by operating activities	\$ 1,600,929	\$ 1,392,891

The accompanying notes are an integral part of these statements.

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

ASSETS

	<u>2012</u>	<u>2011</u>
Utility Plant:		
Depreciable capital assets	\$ 4,221,328	\$ 4,235,566
Non-depreciable capital assets	<u>78,753</u>	<u>55,837</u>
Total utility plant	4,300,081	4,291,403
Special Purpose Funds:		
Board designated funds	780,041	779,691
Memorial fund	<u>--</u>	<u>3,150</u>
Total special purpose funds	780,041	782,841
Current Assets:		
Cash	186,651	303,067
Receivables, less allowance for doubtful accounts (\$5,000 in 2012, \$9,000 in 2011)	221,695	254,231
Materials and supplies inventory	78,473	71,395
Prepaid expenses	<u>9,909</u>	<u>9,552</u>
Total current assets	496,728	638,245
Deferred Costs	<u>--</u>	<u>736</u>
	 <u>\$ 5,576,850</u>	 <u>\$ 5,713,225</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Long-Term Debt, less current maturities:		
Due to Electric Department	\$ 710,855	\$ 930,855
Current Liabilities:		
Current due to Electric Department	220,544	205,800
Accounts payable:		
Trade	14,912	35,254
Due to City - sewer	286,952	287,760
Accrued employee compensation	31,222	48,000
Accrued payroll taxes and withholdings	11,949	2,369
Other accrued taxes	3,791	4,016
Total current liabilities	<u>569,370</u>	<u>583,199</u>
Other Liabilities:		
Consumer deposits	18,733	17,505
Reserve for employees' retirement	44,609	54,000
Total other liabilities	<u>63,342</u>	<u>71,505</u>
Total liabilities	1,343,567	1,585,559
Net Assets (Deficits):		
Contributions in aid of construction	1,025,981	1,052,959
Restricted - expendable	--	3,150
Invested in capital assets, net of related debt	3,356,034	3,132,468
Unrestricted	(148,732)	(60,911)
Total net assets	<u>4,233,283</u>	<u>4,127,666</u>
	<u>\$ 5,576,850</u>	<u>\$ 5,713,225</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Income and Changes in Net Assets
Year ended December 31,

	<u>2012</u>	<u>2011</u>
Operating Revenue:		
Sale of water:		
Residential	\$ 700,084	\$ 675,843
Commercial	419,168	377,272
Services provided to the City	<u>170,350</u>	<u>91,959</u>
Total sale of water	1,289,602	1,145,074
Other operating revenue	<u>26,363</u>	<u>19,912</u>
Total operating revenue	1,315,965	1,164,986
Operating Expenses:		
Source of supply	37,476	34,042
Pumping	47,013	45,564
Water treatment	104,374	104,200
Distribution	300,187	214,800
Administrative and accounting	515,361	407,790
Provision for depreciation	<u>199,492</u>	<u>191,762</u>
Total operating expenses	<u>1,203,903</u>	<u>998,158</u>
Income from Operations	112,062	166,828
Other Income and (Deductions):		
Income from investments	7,742	4,759
Capital grants	7,359	--
Interest expense on note and bonds	(9,343)	(29,064)
Other interest expense	(1,117)	(565)
Amortization of bond issue costs	(736)	(1,555)
Loss on disposal of equipment	<u>(10,710)</u>	<u>(145)</u>
Other deductions, net	<u>(6,805)</u>	<u>(26,570)</u>
Net Income	105,257	140,258
Contributions in Aid of Construction	<u>360</u>	<u>282,607</u>
Increase in Net Assets	105,617	422,865
Net Assets, Beginning of Year	<u>4,127,666</u>	<u>3,704,801</u>
Net Assets, End of Year	<u>\$ 4,233,283</u>	<u>\$ 4,127,666</u>

The accompanying notes are an integral part of these statements.

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

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 1,255,951	\$ 1,090,235
Cash paid to suppliers	(663,414)	(355,609)
Cash paid to employees	(308,919)	(396,240)
Other operating revenue	25,441	19,045
Net cash provided by operating activities	<u>309,059</u>	<u>357,431</u>
Cash flows from noncapital financing activities:		
Consumer deposits, net	1,228	310
Interest paid	(1,117)	(565)
Net cash provided by (used in) noncapital financing activities	111	(255)
Cash flows from capital and related financing activities:		
Capital grants	7,359	--
Principal payments	(205,000)	--
Interest paid on revenue bonds	(9,599)	(30,834)
Capital expenditures	(229,248)	(733,591)
Contributions in aid of construction	360	282,607
Net cash used in capital and related financing activities	(436,128)	(481,818)
Cash flows from investing activities:		
Special purpose fund investments:		
Acquisitions	--	(700,100)
Proceeds	--	626,768
Income from investments	7,742	4,759
Net cash provided by (used in) investing activities	<u>7,742</u>	<u>(68,573)</u>
Net decrease in cash	(119,216)	(193,215)
Cash, beginning of year	<u>584,217</u>	<u>777,432</u>
Cash, end of year	<u>\$ 465,001</u>	<u>\$ 584,217</u>
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 186,651	\$ 303,067
Cash in special purpose funds	<u>278,350</u>	<u>281,150</u>
Total cash	<u>\$ 465,001</u>	<u>\$ 584,217</u>

(continued next page)

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

	2012	2011
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 112,062	\$ 166,828
Adjustments to reconcile income from operations to net cash provided by operating activities		
Provision for depreciation	199,492	191,762
Uncollectible accounts	2,534	3,356
Reserve for employees' retirement	(9,391)	5,000
Change in assets and liabilities		
Receivables	30,002	(57,137)
Materials and supplies inventory	(7,078)	4,329
Prepaid expenses	(357)	(3)
Accounts payable:		
Trade	(9,974)	1,597
Due to City - sewer	(808)	41,309
Accrued employee compensation	(16,778)	1,000
Accrued payroll taxes and withholdings	9,580	(489)
Other accrued taxes	(225)	(121)
Total adjustments	196,997	190,603
Net cash provided by operating activities	\$ 309,059	\$ 357,431

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Board of Waterworks and Electric Light and Power Plant Trustees - Atlantic, Iowa operates under the name, Atlantic Municipal Utilities (Utilities or Utility). It is made up of two enterprise funds (departments) and is a component unit of the City of Atlantic, Iowa (City). It was instituted to provide water and electric service to residents of the City and the surrounding area. The Utilities are operated as a separate entity under the direction of a Board of Trustees. The members of the Board are appointed by the Mayor and approved by the City Council.

The financial positions and operations of the two departments are accounted for and reported separately in these financial statements. The Utilities report in accordance with Governmental Accounting Standards and Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

2. Measurement Focus and Basis of Accounting

The Utilities maintain their financial records on the accrual basis, which is the basis for the financial statements. The accrual basis of accounting recognizes revenues when earned rather than received. Expenses are recognized when incurred.

The Utilities report their financial activity in accordance with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses for the Utilities include the cost of sales and services, administrative expense and depreciation on capital assets.

3. Use of Estimates

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

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

4. Utility Plant and Depreciation

The straight-line method is used for computing depreciation with lives on machinery and equipment ranging from five to thirty-five years and lives on buildings of fifty years. Cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Utility plant accounts are charged with the cost of improvements and replacements of the plant.

Water contributions in aid of construction represents the actual cost of property contributed to the water utility and nonrefundable payments received from consumers which are used to partially offset the cost of the construction of additional plant. The cost of depreciation on plant acquired through this process is included in depreciation expense. The balance in water contributions in aid of construction is amortized over a period equal to the estimated useful life of the related contributed asset.

5. Accounts Receivable and Revenue Recognition

Billings for electric and water revenues are rendered monthly on a cyclical basis. The Utilities do not record unbilled revenues representing estimated consumption for the period between the last billing date and the end of the fiscal year.

6. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies and a weighted average basis for fuel.

7. Investments

Investments are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are stated at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the reported sales price and current exchange rates at year end. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in other income when earned.

8. Deferred Costs

Costs related to the issuance of debt and special projects are recorded as deferred costs when incurred. Such costs are amortized over the term of the outstanding debt or the estimated useful life in the case of special projects.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

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

9. Purpose of Special Funds

The Utilities have set aside certain assets for specific purposes. The board designated funds represent money designated by the Board of Trustees to be used in the payment of certain potential costs as identified in Note D. The memorial fund is used to accumulate the unused portion of funds restricted by donors for a specific purpose. The electric revenue bond funds, as discussed in Note D, are the result of requirements established in bond issue documents. Use of restricted or unrestricted resources for individual projects is determined by the Utility Board of Trustees based on the facts regarding each specific situation.

10. Compensated Absences

Utility employees earn vacation hours at varying rates depending on years of service. Vacation time accumulates to a maximum of 200 hours. Any excess over 200 hours is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation.

11. Property Taxes

According to Iowa law, the Electric Utility is required to pay property taxes on transmission lines and related Utility property outside the Atlantic city limits. The property taxes are recorded as of the date they become a liability.

12. Cash Equivalents

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

13. Debt Costs During Periods of Construction

During construction, costs of related debt are accumulated and capitalized. Interest earned on invested debt proceeds is offset against the accumulated debt costs and the net amount is included in capitalized construction costs. The Utilities had no major construction projects covering more than one year, therefore, no interest was capitalized during 2012 or 2011.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

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

14. Net Assets

Net assets of the Utilities are classified in four components. *Contributions in aid of construction* consist of the unamortized cost of contributions from outside parties for construction purposes. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Utilities, including amounts deposited with trustees as required by revenue bond indentures, discussed in Notes H and I. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt, restricted, or contributions in aid of construction*.

NOTE B - TRANSACTIONS WITH CITY OF ATLANTIC, IOWA

The Utilities provide electric and water services to the City in exchange for a partial payment. However, any payment received must be contributed back to the City at the time of receipt. Metered charges plus any excess costs are recorded as services to the City and included in administrative and accounting expenses as a franchise fee on these financial statements.

The Utilities act as the billing and collection agent for the City in the collection of sewer fees from the residents of Atlantic. This service is provided for a minimal charge to the City.

Following is a summary of activity between the Utilities and City during the year and amounts due to or receivable from the City at year end:

<u>Electric Department</u>	<u>2012</u>	<u>2011</u>
Metered Charges to City	\$ 300,238	\$ 253,679
Additional Costs Incurred	<u>68,802</u>	<u>68,656</u>
Payment in Lieu of Tax	<u>\$ 369,040</u>	<u>\$ 322,335</u>
<u>Water Department</u>	<u>2012</u>	<u>2011</u>
Metered Charges to City	\$ 36,309	\$ 14,879
Additional Costs Incurred	<u>134,041</u>	<u>77,080</u>
Payment in Lieu of Tax	<u>\$ 170,350</u>	<u>\$ 91,959</u>
Sewer Fees Collected for City	<u>\$ 1,540,458</u>	<u>\$ 1,417,688</u>
Charge to City for Sewer Billing Service	<u>\$ 3,731</u>	<u>\$ 3,719</u>
Account Payable to City	<u>\$ 286,952</u>	<u>\$ 287,760</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE C - TRANSACTIONS BETWEEN ELECTRIC AND WATER DEPARTMENTS

Certain administrative costs are split between the Electric and Water Departments based on a formula applied consistently throughout the years. Other costs and all revenues are separately identified and accounted for within each Department.

Following is information about interdepartment transactions and amounts due between the Electric and Water Departments at December 31:

	<u>2012</u>	<u>2011</u>
Electric sales to Water	\$ <u>38,650</u>	\$ <u>30,982</u>
Water sales to Electric	\$ <u>489</u>	\$ <u>420</u>
Interest income (Electric) and expense (Water) during the year	\$ <u>9,344</u>	\$ <u>29,064</u>
Non-interest bearing note due to Electric from Water Department	\$ <u>495,855</u>	\$ <u>495,855</u>
Interest bearing note due to Electric from Water Department	\$ 435,000	\$ 640,000
Less current portion	<u>220,000</u>	<u>205,000</u>
	<u>\$ 215,000</u>	<u>\$ 435,000</u>
Current portion of interest bearing note due to Electric from Water Department	\$ 220,000	\$ 205,000
Interest due to Electric from Water Department	<u>544</u>	<u>800</u>
Current due to Electric from Water Department	<u>\$ 220,544</u>	<u>\$ 205,800</u>

The Electric Department non-interest bearing note receivable from the Water Department represents a temporary transfer of funds as part of the financing for a water improvement project. The note is non-interest bearing and is due in 2022. It is subordinate to any bonds or other debt obligations payable from revenues of the Water Department.

See Note I for details of the interest bearing note due to Electric from Water.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE D - SPECIAL PURPOSE FUNDS

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

Electric Department

	2012	2011
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 1,171,151	\$ 1,160,931
Capital improvements	300,000	300,000
Total restricted	\$ 1,471,151	\$ 1,460,931
Board Designated for:		
Unforeseen disasters	\$ 350,000	\$ 350,000
Production plant repairs and capital expenditures	501,094	1,000,000
Equipment replacement	150,000	150,000
Employee retirement	150,625	150,625
Funding of bond requirements	75,292	68,637
Total board designated	\$ 1,227,011	\$ 1,719,262

Water Department

	2012	2011
Restricted by donor for well field improvements	\$ --	\$ 3,150
Board Designated for:		
System improvements	\$ 720,041	\$ 719,691
Employee retirement	60,000	60,000
Total board designated	\$ 780,041	\$ 779,691

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE E - DEPOSITS AND INVESTMENTS - Continued

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

	2012	2011
Invested Funds:		
Government Agencies	\$ --	\$ 774,785
Certificates of Deposit	1,530,000	1,530,000
Other Interest Bearing Accounts	1,164,534	1,047,581
Interest Receivable	3,628	9,661
Total Investments	\$ 2,698,162	\$ 3,362,027
Special Purpose Funds:		
Restricted	\$ 1,471,151	\$ 1,460,931
Board Designated	1,227,011	1,719,262
Total Special Purpose Funds	2,698,162	3,180,193
Operating and Capital Reserves	--	181,834
Total Investments	\$ 2,698,162	\$ 3,362,027

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

	2012	2011
Invested Funds:		
Certificates of Deposit	\$ 500,000	\$ 500,000
Other Interest Bearing Accounts	278,350	281,150
Interest Receivable	1,691	1,691
Total Investments	\$ 780,041	\$ 782,841
Special Purpose Funds:		
Restricted	\$ --	\$ 3,150
Board Designated	780,041	779,691
Total Special Purpose Funds	\$ 780,041	\$ 782,841

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE F - FAIR VALUE MEASUREMENTS

The Utilities' investments are reported at fair value in the accompanying statements of net assets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Utilities use appropriate valuation techniques based on the available inputs to measure the fair value of their investments. When available, the Utilities measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 1 inputs were available for all investments at year end.

Level 1 Fair Value Measurements

The fair value of debt securities is based on quoted prices of the government agencies held by the Utilities at year-end. Level 1 fair values for debt securities using quoted prices on active markets at December 31 are as follows:

<u>Electric Department</u>	<u>2012</u>	<u>2011</u>
Government Agency Securities	\$ --	\$ 774,785

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2012 and 2011 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 46,782,743	\$ 966,289	\$ 28,621	\$ 47,720,411
Depreciation	<u>26,474,265</u>	<u>1,327,711</u>	<u>28,209</u>	<u>27,773,767</u>
Depreciable Capital Assets, Net	<u>\$ 20,308,478</u>	<u>\$ (361,422)</u>	<u>\$ 412</u>	<u>\$ 19,946,644</u>
Construction in Progress	\$ 1,610,475	\$ 1,395,856	\$ 943,126	\$ 2,063,205
Land and Land Rights	<u>639,970</u>	<u>--</u>	<u>--</u>	<u>639,970</u>
Non-Depreciable Capital Assets	<u>\$ 2,250,445</u>	<u>\$ 1,395,856</u>	<u>\$ 943,126</u>	<u>\$ 2,703,175</u>
	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 45,590,146	\$ 1,619,794	\$ 427,197	\$ 46,782,743
Depreciation	<u>25,570,383</u>	<u>1,325,352</u>	<u>421,470</u>	<u>26,474,265</u>
Depreciable Capital Assets, Net	<u>\$ 20,019,763</u>	<u>\$ 294,442</u>	<u>\$ 5,727</u>	<u>\$ 20,308,478</u>
Construction in Progress	\$ 2,294,327	\$ 1,000,515	\$ 1,684,367	\$ 1,610,475
Land and Land Rights	<u>639,970</u>	<u>--</u>	<u>--</u>	<u>639,970</u>
Non-Depreciable Capital Assets	<u>\$ 2,934,297</u>	<u>\$ 1,000,515</u>	<u>\$ 1,684,367</u>	<u>\$ 2,250,445</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
<u>Water Department</u>				
Plant and Equipment	\$ 9,427,495	\$ 195,964	\$ 15,452	\$ 9,608,007
Depreciation	<u>5,191,929</u>	<u>199,492</u>	<u>4,742</u>	<u>5,386,679</u>
Depreciable Capital Assets, Net	<u>\$ 4,235,566</u>	<u>\$(3,528)</u>	<u>\$ 10,710</u>	<u>\$ 4,221,328</u>
Construction in Progress	\$ --	\$ 218,520	\$ 195,604	\$ 22,916
Land and Land Rights	<u>55,837</u>	<u>--</u>	<u>--</u>	<u>55,837</u>
Non-Depreciable Capital Assets	<u>\$ 55,837</u>	<u>\$ 218,520</u>	<u>\$ 195,604</u>	<u>\$ 78,753</u>
	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
<u>Water Department</u>				
Plant and Equipment	\$ 8,665,476	\$ 772,536	\$ 10,517	\$ 9,427,495
Depreciation	<u>5,010,539</u>	<u>191,762</u>	<u>10,372</u>	<u>5,191,929</u>
Depreciable Capital Assets, Net	<u>\$ 3,654,937</u>	<u>\$ 580,774</u>	<u>\$ 145</u>	<u>\$ 4,235,566</u>
Construction in Progress	\$ 20,009	\$ 752,527	\$ 772,536	\$ --
Land and Land Rights	<u>55,837</u>	<u>--</u>	<u>--</u>	<u>55,837</u>
Non-Depreciable Capital Assets	<u>\$ 75,846</u>	<u>\$ 752,527</u>	<u>\$ 772,536</u>	<u>\$ 55,837</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE H - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended December 31, 2012 and 2011 follows:

	Balance 2011	Additions	Reductions	Balance 2012
2007 Capital Loan Notes	\$ 6,850,000	\$ --	\$ 505,000	\$ 6,345,000
Less Current Portion	(505,000)	(525,000)	(505,000)	(525,000)
Long-Term Debt, Net	6,345,000	(525,000)	--	5,820,000
Consumer Deposits, Net	80,222	8,485	--	88,707
Reserve for Employee Retirement	113,000	17,340	--	130,340
Total Non-Current Liabilities	<u>\$ 6,538,222</u>	<u>\$ (499,175)</u>	<u>\$ --</u>	<u>\$ 6,039,047</u>
	Balance 2010	Additions	Reductions	Balance 2011
2007 Capital Loan Notes	\$ 7,335,000	\$ --	\$ 485,000	\$ 6,850,000
Less Current Portion	(485,000)	(505,000)	(485,000)	(505,000)
Long-Term Debt, Net	6,850,000	(505,000)	--	6,345,000
Consumer Deposits, Net	74,548	5,674	--	80,222
Reserve for Employee Retirement	114,000	--	1,000	113,000
Total Non-Current Liabilities	<u>\$ 7,038,548</u>	<u>\$ (499,326)</u>	<u>\$ 1,000</u>	<u>\$ 6,538,222</u>

Series 2007 Capital Loan Notes

The 2007 Series Capital Loan Notes constitute a lien on the net income of the Electric Department. They are not general obligations of the City of Atlantic. The notes mature in increasing amounts ranging from \$525,000 in 2013 to \$760,000 in 2022. Interest rates range from 3.75% to 4.30%. The part of these notes maturing after April 1, 2016 are subject to early redemption on or after that date.

The annual debt service on the notes is expected to require less than 47% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$770,800 and \$1,663,500, respectively.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE H - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

The resolutions of the Board of Trustees authorizing the issuance of the 2007 Electric Capital Loan Notes specify the creation and maintenance of a sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Electric Department long-term debt during each of the five years ending December 31, 2013 through 2017 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 525,000	\$ 246,631	\$ 771,631
2014	545,000	226,433	771,433
2015	570,000	205,105	775,105
2016	590,000	182,628	772,628
2017	615,000	158,976	773,976
2018-2022	<u>3,500,000</u>	<u>383,815</u>	<u>3,883,815</u>
	<u>\$ 6,345,000</u>	<u>\$ 1,403,588</u>	<u>\$ 7,748,588</u>

NOTE I - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended December 31, 2012 and 2011 follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2012</u>
Due to Electric Department				
Non-interest bearing note \$	495,855	\$ --	\$ --	\$ 495,855
Interest bearing note	<u>640,000</u>	<u>--</u>	<u>205,000</u>	<u>435,000</u>
	1,135,855	--	205,000	930,855
Less current portion	<u>(205,000)</u>	<u>(220,000)</u>	<u>(205,000)</u>	<u>(220,000)</u>
Long-term due to Electric Department	930,855	(220,000)	--	710,855
Consumer Deposits, Net	17,505	1,228	--	18,733
Reserve for Employees' Retirement	<u>54,000</u>	<u>--</u>	<u>9,391</u>	<u>44,609</u>
Total Non-Current Liabilities	<u>\$ 1,002,360</u>	<u>\$ (218,772)</u>	<u>\$ 9,391</u>	<u>\$ 774,197</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE I - WATER DEPARTMENT NON-CURRENT LIABILITIES - Continued

	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>
Due to Electric Department				
Non-interest bearing note	\$ 495,855	\$ --	\$ --	\$ 495,855
Interest bearing note	<u>640,000</u>	<u>--</u>	<u>--</u>	<u>640,000</u>
	1,135,855	--	--	1,135,855
Less current portion	<u>(205,000)</u>	<u>--</u>	<u>--</u>	<u>(205,000)</u>
Long-term due to Electric Department	930,855	--	--	930,855
Consumer Deposits, Net	17,195	310	--	17,505
Reserve for Employees' Retirement	<u>49,000</u>	<u>5,000</u>	<u>--</u>	<u>54,000</u>
Total Non-Current Liabilities	<u>\$ 997,050</u>	<u>\$ 5,310</u>	<u>\$ --</u>	<u>\$ 1,002,360</u>

The non-interest bearing note payable to the Electric Department represents a temporary transfer of funds as part of the financing for a water improvement project. The note is non-interest bearing and is due in 2022. It is subordinate to any bonds or other debt obligations payable from revenues of the Water Department.

The interest bearing note payable to the Electric Department resulted when the Electric Department paid off the Water Department Capital Loan Notes in 2009. The Utilities Board originally replaced the debt with a note from Water to Electric bearing similar (4.75% to 4.90%) interest rates, and maturing over three years. During both 2010 and 2011 the Board deferred payments on the note to the next three year period. In 2011 the Board reduced the interest rate on the Note to 1.5%. Principal and interest payments currently required on Water Department long-term debt during subsequent years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 220,000	\$ 6,525	\$ 226,525
2014	215,000	3,225	218,225
2022	<u>495,855</u>	<u>--</u>	<u>495,855</u>
	<u>\$ 930,855</u>	<u>\$ 9,750</u>	<u>\$ 940,605</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE J- EMPLOYEE RETIREMENT AND DEFINED BENEFIT PENSION PLAN

Reserve For Employees' Retirement

Under rules adopted by the Board of Trustees, upon retirement, employees are eligible to receive payments based on accumulated but unused sick leave credits. Payments based on unused sick leave credits are also payable to a named beneficiary if a retiree dies before receiving all benefits earned.

Iowa Public Employees Retirement System

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

Plan members are required to contribute 5.38% (5.78% effective July 1, 2012) of their annual salary and the Utilities are required to contribute 8.07% (8.67% effective July 1, 2012) of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended December 31, 2012, 2011, and 2010, were approximately \$161,600, \$138,900, and \$125,300, respectively, equal to the required contributions for each year.

NOTE K - DEFERRED COMPENSATION PLAN

The Utilities sponsor a deferred compensation plan which is administered by two trustees (the General Manager and Comptroller of the Utilities) and independent contractors under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Utilities are responsible for:

- a. The accounting, reconciliations and recordkeeping associated with employees' enrollment.
- b. Withholding employee contributions through payroll deductions.
- c. Timely transfer of withheld funds to the contractor designated by the participant, for investment.
- d. Payout of the deferred compensation to qualified participants after receiving proceeds from the administrators.
- e. Withholding payroll taxes from plan payouts.
- f. Preparation of 1099's resulting from plan payouts.

The Utilities' fiduciary responsibilities include due care in selecting administrators, and indemnification of the trustees.

The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The contractors are required to submit monthly reports on participants' accounts to the Utilities. The Utilities are liable to a participant only for mishandled employee contributions or payouts, and the related loss of income to the participants. The market values of the exclusive benefit plan assets at December 31, 2012 were approximately \$431,100.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE L - COMMITMENTS AND CONTINGENCIES

Power Supply

The Electric Utility participates with several other utility companies in the operation of the Walter Scott Energy Center No. 3 (WS #3) to supply power. The project represents an ongoing commitment to provide operating and construction funds as they are needed to maintain and update the facility. The share applicable to Atlantic is approximately 2.5% of the total costs. Periodically WS #3 shuts down production for several weeks for major maintenance and repairs. The last shutdown occurred during 2009 and the next is currently scheduled for 2015. During the alternate years when no shutdown occurs, the Electric Utility accrues an estimate of the pro rata annual expense it will incur related to this shutdown (\$150,000 total accrued at December 31, 2012 included in accounts payable). During the shutdown, the Electric Utility purchases replacement electricity on the open market.

Of the Electric Department's construction in progress, approximately \$1,384,000 represents the Utility's share of ongoing construction projects at WS #3. These projects have an estimated cost to complete of \$21,000. The Utility financed the costs of these projects through funds generated internally.

Approximately \$679,000 of the Electric Department construction in progress at December 31, 2012 consists of several ongoing local projects. The largest of these is a GPS mapping of the service lines (\$169,000). Estimated costs to complete the projects are approximately \$250,000, however, commitments have been signed on only \$150,000 of these costs. The projects will be financed through internally generated funds.

Water Department Construction in Progress

The Water Department construction in progress of approximately \$23,000 included preliminary cost of an additional approximately \$20,000 accounting and billing system. The project will be paid for by funds generated internally.

Iowa Municipal Utilities Shared Projects

Transmission Lines - The Electric Utility has joined with other Municipal Utilities in Iowa to form the Iowa Public Power Agency (IPPA). IPPA is a 28E Agreement organization which was formed to enable small Municipal Utilities in Iowa to own a share of electric transmission lines. The Electric Utility provided a part of the original operating and equity funding (currently accounted for as a part of other assets) for an IPPA \$3.5 million share of a transmission line project, in partnership with MidAmerican Energy. The transmission line was put into service in early 2010. During 2012, the Electric Utility provided \$60,812 of operating funding to the project. That amount, along with \$4,999 of the original investment, was returned to the Utility. The transmission line investment shown on the statements of net assets was reduced by the \$4,999 during 2012. It is expected that, each year, the Electric Utility will provide similar amounts of operating funding to the project, with net proceeds of the operation returned based on its pro rata share of the operation's net income.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2012 and 2011

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Wind Farm - The Electric Utility has joined with other Iowa Municipal Utilities to form the Iowa Agency for Municipal Wind (IAMWind). IAMWind is a 28E Agreement organization originally formed to enable small Municipal Utilities to develop a wind energy project for the benefit of members. Currently the project has been suspended, prior to the construction phase, as members assess the market for electricity and wind generation projects. The Electric Utility has invested \$64,573 in the project which is reported as a part of Electric project investments for 2012.

Risk Management

The Utilities are exposed to common business risks of loss. These risks are covered to the extent practical by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Environmental Regulations

The Utilities are subject to various federal and state environmental regulations. These regulations are continuously revised and updated, resulting in ongoing compliance requirements. Management has determined that the facility is currently in compliance with the applicable regulations. The Utilities anticipate that any future cost incurred relating to environmental regulations will be recovered through rates charged to customers.

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Utilities offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Utilities employees, and the retirees must pay a health insurance premium equal to that charged for current employees. There are 33 active employees and one retiree currently covered by the Plan.

Potential for Liability: The Utilities currently finances the retiree portion of this plan on a pay-as-you-go basis. A review of the Utilities' current and potential future exposure to this requirement resulted in the conclusion that no material liability exists, therefore, no liability has been recorded.

Subsequent Events

The Utilities has evaluated all subsequent events through March 8, 2013, the date the financial statements were available to be issued.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
 Budgetary Comparison Schedule
 Year Ended December 31, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for debt payments, capital grants received, and net assets differently for financial statement and budget purposes.

	<u>Per Financial Statements</u>		<u>Budget Adjustments</u>	<u>Combined Utilities</u>
	<u>Electric</u>	<u>Water</u>		
Revenues	\$ 9,140,427	\$ 1,331,066	\$(220,600)	\$ 10,250,893
Expenses	<u>8,863,010</u>	<u>1,225,809</u>	<u>505,000</u>	<u>10,593,819</u>
Net	277,417	105,257	(725,600)	(342,926)
Balance beginning of year	21,836,353	4,127,666	(20,016,659)	5,947,360
Contributions	<u>--</u>	<u>360</u>	<u>(360)</u>	<u>--</u>
Balance end of year	<u>\$ 22,113,770</u>	<u>\$ 4,233,283</u>	<u>\$(20,742,619)</u>	<u>\$ 5,604,434</u>
		<u>Budget Basis</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues		\$ 10,250,893	\$ 10,204,500	\$ 46,393
Expenses		<u>10,593,819</u>	<u>10,798,500</u>	<u>204,681</u>
Net		(342,926)	(594,000)	251,074
Balance beginning of year		<u>5,947,360</u>	<u>5,947,360</u>	<u>--</u>
Balance end of year		<u>\$ 5,604,434</u>	<u>\$ 5,353,360</u>	<u>\$ 251,074</u>

See Independent Auditor's Report.

OTHER SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Revenue Bonds/Notes
December 31,

<u>Due Date</u>	<u>Optional Call Date</u>	<u>Interest Rate</u>	<u>2012</u>	<u>2011</u>
<u>2007 Series</u>				
April 1, 2012	--	3.70%	\$ --	\$ 505,000
April 1, 2013	--	3.75	525,000	525,000
April 1, 2014	--	3.80	545,000	545,000
April 1, 2015	--	3.85	570,000	570,000
April 1, 2016	--	3.90	590,000	590,000
April 1, 2017	April 1, 2016	3.95	615,000	615,000
April 1, 2018	April 1, 2016	4.05	640,000	640,000
April 1, 2019	April 1, 2016	4.15	670,000	670,000
April 1, 2020	April 1, 2016	4.20	700,000	700,000
April 1, 2021	April 1, 2016	4.25	730,000	730,000
April 1, 2022	April 1, 2016	4.30	760,000	760,000
			<u>\$ 6,345,000</u>	<u>\$ 6,850,000</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
 Operating Revenue
 Year ended December 31,

	2012	2011
<u>ELECTRIC DEPARTMENT</u>		
Retail Electricity Sales:		
Residential	\$ 2,292,214	\$ 2,049,363
Commercial	3,307,440	2,946,972
Rural resident and rural commercial	1,207,619	1,101,857
Interdepartmental sales	38,650	30,982
	\$ 6,845,923	\$ 6,129,174
Other Operating Revenue:		
Customer late payment charges	\$ 17,174	\$ 15,270
Service charges	15,456	14,241
Rent from electric properties	10,025	10,025
Net contract work	6,238	5,001
Transmission service	662,703	291,007
Scrap sales	11,368	10,591
Bad debts recovered	2,607	3,078
Miscellaneous	13,475	14,579
	\$ 739,046	\$ 363,792
<u>WATER DEPARTMENT</u>		
Other Operating Revenue:		
Service charges	\$ 7,411	\$ 7,413
Net contract work	15,156	9,507
Scrap sales	--	115
Bad debts recovered	922	867
Miscellaneous	2,874	2,010
	\$ 26,363	\$ 19,912

See Independent Auditor's Report.

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

	2012	2011
Electric Production:		
WS #3 Production:		
Operating supervision and labor	\$ 95,954	\$ 84,810
Fuel	1,479,612	1,385,373
Operating supplies and expense	184,631	216,801
Maintenance of production plant	480,071	385,389
Total WS #3 production	2,240,268	2,072,373
Atlantic Production:		
Operating supervision and labor	17,982	17,589
Fuel	18,276	13,441
Operating supplies and expense	1,531	687
Maintenance of production plant	112,620	104,941
Total Atlantic production	150,409	136,658
Total electric production	2,390,677	2,209,031
Purchased Power	1,507,776	1,505,266
Transmission Expense:		
Maintenance of transmission line and other	924,963	802,689
Distribution Expense:		
City:		
Operating supervision and labor	108,279	109,019
Dispatch	21,313	--
Line and station supplies and expense	132,031	96,349
Meter expense	12,292	36,063
Miscellaneous distribution expense	91,890	82,290
Maintenance of structures and equipment	18,886	15,709
Maintenance of lines	136,767	153,673
Maintenance of line transformers	7,901	16,834
Maintenance of street lighting and signal systems	26,096	31,454
Maintenance of meters	12,548	4,623
Total city distribution expense	568,003	546,014
Rural:		
Operating supervision and labor	51,315	47,049
Dispatch	5,198	--
Line and station supplies and expense	339	364
Miscellaneous distribution expense	13,455	9,090
Maintenance of structures and equipment	13,356	11,739
Maintenance of lines	88,623	78,111

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

	2012	2011
Distribution Expense (Continued):		
Rural (Continued):		
Maintenance of line transformers	\$ 3,369	\$ 11,374
Maintenance of meters	4,761	1,275
Total rural distribution expense	180,416	159,002
Total distribution expense	748,419	705,016
Administrative and Accounting Expense:		
Customer accounting:		
Meter reading labor	32,495	32,199
Accounting and collecting costs	123,978	109,000
Supplies and expense	4,153	354
Uncollectible accounts	7,610	11,443
Total customer accounting	168,236	152,996
Administrative and general:		
Administrative and general salaries	85,706	66,423
Disability	1,197	--
Office supplies and expense	37,386	30,079
Outside service employed	43,927	20,661
Property insurance	58,041	50,347
Liability insurance and safety program costs	91,811	76,527
Employees' pension and benefits	258,021	224,269
Payment in lieu of tax	369,040	322,335
Regulatory commission expense	12,879	14,788
Internet	4,808	7,339
Energy efficiency grant/rebate program	53,637	68,222
Miscellaneous general expense	94,048	104,968
Maintenance of general plant	40,084	42,325
Payroll taxes	238,506	236,959
Property taxes	126,062	134,853
Total administrative and general	1,515,153	1,400,095
Administrative adjustments	95,905	55,823
Less administrative expense transferred	(89,911)	(69,700)
Net administrative and general	1,521,147	1,386,218
Total administrative and accounting expense	1,689,383	1,539,214
Provision for Depreciation	1,327,711	1,325,352
Total operating expenses	\$ 8,588,929	\$ 8,086,568

See Independent Auditor's Report.

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

	2012	2011
Source of Supply Expense:		
Operating supplies and expense	\$ 10,843	\$ 9,004
Maintenance of water source	26,633	25,038
Total source of supply expense	37,476	34,042
Pumping Expense:		
Operating labor	18,835	19,629
Fuel and power pumping	22,761	18,860
Maintenance of pumping station	5,417	7,075
Total pumping expense	47,013	45,564
Water Treatment Expense:		
Operating labor	29,393	31,185
Chemicals	45,556	46,160
Operating supplies and expense	10,445	13,377
Maintenance of water treatment plant	18,980	13,478
Total water treatment expense	104,374	104,200
Distribution Expense:		
Operating labor	132,979	136,063
Operating supplies and expense	11,142	7,232
Maintenance of distribution reservoirs and standpipes	72,843	5,404
Maintenance of mains	80,281	61,065
Maintenance of services	454	188
Maintenance of meters	205	583
Maintenance of hydrants	2,283	4,265
Total distribution expense	300,187	214,800
Administrative and Accounting Expense:		
Customer Accounting:		
Meter reading labor	23,913	16,032
Accounting and collecting labor	45,059	53,697
Supplies and expense	12,627	4,883
Uncollectible accounts	2,534	3,356
Total customer accounting	84,133	77,968

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

	2012	2011
Administrative and Accounting Expense (Continued):		
Administrative and General:		
Administrative and general salaries	\$ 38,428	\$ 39,786
Office supplies and other expense	22,815	15,458
Outside service employed	16,093	12,310
Property insurance	15,796	12,491
Liability insurance costs	25,879	20,027
Employees' pensions and benefits	74,651	73,097
Payment in lieu of tax	170,350	91,959
Regulatory Commission expense	913	1,195
Miscellaneous general expense	40,719	24,537
Transportation expense	--	14,026
Maintenance of general plant	2,224	3,941
Payroll taxes	46,274	40,781
Total administrative and general	454,142	349,608
Administrative adjustments	(723)	2,361
Less administrative expense transferred	(22,191)	(22,147)
Net administrative and general	431,228	329,822
Total administrative and accounting expense	515,361	407,790
Provision for Depreciation	199,492	191,762
Total operating expenses	\$ 1,203,903	\$ 998,158

See Independent Auditor's Report.

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

	<u>2012</u>	<u>2011</u>
Operating Revenue:		
Sale of electricity	\$ 8,152,939	\$ 7,663,316
Other operating revenue	<u>739,046</u>	<u>363,792</u>
Total operating revenue	8,891,985	8,027,108
 Operating Expenses (Not Including Depreciation)	 <u>7,261,218</u>	 <u>6,761,216</u>
Operating Income Before Depreciation	1,630,767	1,265,892
Provision for Depreciation	<u>1,327,711</u>	<u>1,325,352</u>
Income (Loss) From Operations	303,056	(59,460)
Other Income and (Deductions), Net	<u>(25,639)</u>	<u>(230,627)</u>
Net Income (Loss)	<u>\$ 277,417</u>	<u>\$(290,087)</u>
 Net Income (Loss) as a Percent of Total Operating Revenue	 <u>3.12%</u>	 <u>(3.61%)</u>

See Independent Auditor's Report.

<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 7,839,172	\$ 7,131,217	\$ 8,389,552
<u>449,308</u>	<u>625,499</u>	<u>372,904</u>
8,288,480	7,756,716	8,762,456
<u>6,974,527</u>	<u>6,549,633</u>	<u>5,947,840</u>
1,313,953	1,207,083	2,814,616
<u>1,366,370</u>	<u>1,161,183</u>	<u>1,143,023</u>
(52,417)	45,900	1,671,593
<u>(228,027)</u>	<u>(66,284)</u>	<u>72,671</u>
<u>\$(280,444)</u>	<u>\$(20,384)</u>	<u>\$ 1,744,264</u>
<u>(3.38%)</u>	<u>(0.26%)</u>	<u>19.91%</u>

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

	2012	2011
Sale of Electricity:		
Sales to consumers	\$ 7,214,963	\$ 6,451,509
Sales to other utilities	937,976	1,211,807
Total Electricity Sales	\$ 8,152,939	\$ 7,663,316
Kilowatt Hours:		
Generated	126,461,463	131,848,627
Purchased	38,331,000	44,504,000
Energy available	164,792,463	176,352,627
Station power/transmission loss	1,329,989	1,938,501
Available for sale	163,462,474	174,414,126
Sales and transfers to other utilities	51,306,253	60,866,627
Output to the system	112,156,221	113,547,499
Billed to consumers	106,708,722	108,943,490
Distribution loss	5,447,499	4,604,009
Distribution loss percent	4.9%	4.1%
Revenue Billed Per KWH to Consumers	6.82¢	5.92¢
Peak Hour Demand in KW	26,300	25,500
Services Provided to the City:		
Street Lighting:		
Energy	\$ 73,802	\$ 67,396
Operation and maintenance	31,259	32,333
Depreciation	37,544	36,323
	142,605	136,052
Energy for public buildings, parks and other uses	226,435	186,283
	\$ 369,040	\$ 322,335
<u>Consumer Classifications</u>		
Residential	3,273	3,264
Small Commercial	598	598
Large Commercial	34	34
Rural Residential	567	567
Rural Commercial	96	97
Area Lighting	298	293
City and Water Department	84	89
Total number of consumers	4,950	4,942

See Independent Auditor's Report.

<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 6,245,879	\$ 5,663,105	\$ 5,798,285
<u>1,593,293</u>	<u>1,468,112</u>	<u>2,591,267</u>
<u>\$ 7,839,172</u>	<u>\$ 7,131,217</u>	<u>\$ 8,389,552</u>
135,331,763	112,652,715	132,336,100
42,567,000	54,701,242	39,237,310
177,898,763	167,353,957	171,573,410
2,208,344	5,311,630	6,046,276
175,690,419	162,042,327	165,527,134
62,960,863	55,485,400	54,568,516
112,729,556	106,556,927	110,958,618
108,085,496	102,042,813	106,895,456
4,644,060	4,514,114	4,063,162
4.1%	4.2%	3.7%
5.78¢	5.55¢	5.42¢
25,100	25,287	25,151
\$ 70,201	\$ 67,827	\$ 71,138
43,740	33,709	31,618
<u>35,260</u>	<u>35,379</u>	<u>35,650</u>
149,201	136,915	138,406
<u>190,032</u>	<u>175,250</u>	<u>172,549</u>
<u>\$ 339,233</u>	<u>\$ 312,165</u>	<u>\$ 310,955</u>
3,254	3,260	3,259
589	578	573
36	39	42
568	572	569
95	93	93
289	291	290
<u>90</u>	<u>89</u>	<u>89</u>
<u>4,921</u>	<u>4,922</u>	<u>4,915</u>

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

	<u>2012</u>	<u>2011</u>
Operating Revenue:		
Sale of water	\$ 1,289,602	\$ 1,145,074
Other operating revenue	<u>26,363</u>	<u>19,912</u>
Total operating revenue	1,315,965	1,164,986
Operating Expenses (Not Including Depreciation)	<u>1,004,411</u>	<u>806,396</u>
Operating Income Before Depreciation	311,554	358,590
Provision for Depreciation	<u>199,492</u>	<u>191,762</u>
Income (Loss) From Operations	112,062	166,828
Other Income (Deductions), Net	<u>(6,805)</u>	<u>(26,570)</u>
Net Income (Loss)	<u>\$ 105,257</u>	<u>\$ 140,258</u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u>8.00%</u>	<u>12.04%</u>

See Independent Auditor's Report.

<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 1,102,274	\$ 1,005,857	\$ 1,006,594
<u>9,822</u>	<u>9,314</u>	<u>17,015</u>
1,112,096	1,015,171	1,023,609
<u>800,850</u>	<u>860,733</u>	<u>793,872</u>
311,246	154,438	229,737
<u>223,084</u>	<u>227,103</u>	<u>230,056</u>
88,162	(72,665)	(319)
<u>(21,344)</u>	<u>(23,264)</u>	<u>(25,227)</u>
<u>\$ 66,818</u>	<u>\$(95,929)</u>	<u>\$(25,546)</u>
<u>6.01%</u>	<u>(9.45%)</u>	<u>(2.50%)</u>

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

	<u>2012</u>	<u>2011</u>
Total Revenue Billed	\$ <u>1,289,602</u>	\$ <u>1,145,074</u>
Gallage:		
Pumped	337,668,000	301,690,000
Billed	281,627,100	246,890,600
Total system maintenance and loss	56,040,900	54,799,400
Accounted for losses*	19,435,197	13,791,159
Unaccounted for losses	36,605,703	41,008,241
Percent unaccounted for	10.84%	13.59%
Revenue Billed Per 100 Gallons	45.8¢	46.4¢
Number of Consumers	3,367	3,341
Peak Day - Gallons Pumped	1,641,000	1,675,000
Services Provided to the City:		
Water for parks, disposal plant and public buildings	\$ 36,308	\$ 14,879
Operation and maintenance	75,880	35,253
Depreciation	<u>58,162</u>	<u>41,827</u>
	<u>\$ 170,350</u>	<u>\$ 91,959</u>

* Includes water used in flushing mains, washing streets, fire department drills, fighting fires, and estimate of known main and customer service line breaks.

See Independent Auditor's Report.

<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>\$ 1,102,274</u>	<u>\$ 1,005,857</u>	<u>\$ 1,006,594</u>
290,927,000	299,088,000	285,970,000
237,000,400	242,703,075	251,514,300
53,926,600	56,384,925	34,455,700
28,042,899	16,029,963	16,186,860
25,883,701	40,354,962	18,268,840
8.90%	13.49%	6.39%
46.5¢	41.4¢	40.0¢
3,337	3,338	3,332
1,380,000	1,530,000	1,489,000
\$ 12,473	\$ 11,852	\$ 9,708
31,799	39,683	40,229
<u>40,640</u>	<u>40,563</u>	<u>40,421</u>
<u>\$ 84,912</u>	<u>\$ 92,098</u>	<u>\$ 90,358</u>

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

	<u>2012</u>	<u>2011</u>
<u>ELECTRIC DEPARTMENT</u>		
Net Income (Loss) Per Financial Statements	\$ 277,417	\$(290,087)
Add:		
Depreciation	1,327,711	1,325,352
Interest on revenue bonds	261,146	279,586
Gain (loss) on disposal of equipment	412	(5,207)
Amortization	10,045	10,822
Capital grants	<u>(213,601)</u>	<u>--</u>
Available For Debt Service	<u>\$ 1,663,130</u>	<u>\$ 1,320,466</u>
Maximum Debt Service in Any Year	<u>\$ 778,405</u>	<u>\$ 778,405</u>
Actual Coverage	<u>214%</u>	<u>170%</u>
Minimum Coverage Required	<u>125%</u>	<u>125%</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited the financial statements of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of and for the year ended December 31, 2012, and have issued our report thereon dated March 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Atlantic Municipal Utilities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Atlantic Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Atlantic Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

To the Board of Trustees
Atlantic Municipal Utilities

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 12-I-A to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Atlantic Municipal Utilities' response to findings identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Utilities' response, we did not audit the Utilities' response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Atlantic Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

G.M. Wold, Ben, Kyhn & Co. P.C.

Atlantic, Iowa
March 8, 2013

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2012

PART I - INTERNAL CONTROL DEFICIENCIES

12-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Utilities. However, this situation is common in small municipal utilities.

Recommendation: We recognize that it may not be economically feasible for the Utilities to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Utilities to employ additional personnel for this reason. We have initiated a policy of board member approval for all investment transactions. We have also segregated cash receipts, posting, and deposit functions to the extent practicable in our size of entity.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

12-II-A Certified Budget: The Utilities' expenditures during the year ended December 31, 2012 did not exceed amounts budgeted.

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

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

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

12-II-E Bond Coverage: Surety bond coverage of the Utilities' officials and employees appears to be in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

12-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings - Continued
Year ended December 31, 2012

PART II - REQUIRED STATUTORY REPORTING (Continued)

12-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy.

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

* * *