

**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  
SCHEDULE OF FINDINGS**

**YEARS ENDED DECEMBER 31, 2014 AND 2013**

# ATLANTIC MUNICIPAL UTILITIES

## Contents

	<u>Page</u>		
OFFICIALS	1		
INDEPENDENT AUDITOR'S REPORT	2		
MANAGEMENT'S DISCUSSION AND ANALYSIS	4		
		<u>Electric Department</u>	<u>Water Department</u>
<b>FINANCIAL STATEMENTS:</b>			
Statements of Net Position	5		9
Statements of Revenues, Expenses and Changes in Net Position	6		10
Statements of Cash Flows	7		11
Notes to Financial Statements	13		13
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>			
Budgetary Comparison Schedule	31		31
Schedule of Funding Progress for the Retiree Health Plan	32		32
<b>OTHER SUPPLEMENTARY INFORMATION:</b>			
Schedule supporting statements of net position: Revenue bonds/notes	33		--
Schedules supporting statements of income:			
Operating revenue	34		34
Operating expenses	35		37
Comparative information:			
Comparative statements of income	39		41
Comparative summaries of service distributed and billed	40		42
Net income available for debt service	43		--
<b>COMMENTS AND RECOMMENDATIONS:</b>			
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance etc.	44		44
Schedule of Findings	46		46

ATLANTIC MUNICIPAL UTILITIES  
Officials  
December 31, 2014

Trustees

Term Expires

Lawrence E. Turner, Chairperson

April, 2019

Keith C. Stork, Vice-Chairperson

April, 2015

Frank W. Greiner (resigned January, 2015)

Ted E. Robinson (appointed January, 2015)

April, 2015

Joyce A. Jensen

April, 2017

Joanne C. Lorence

April, 2017

Management Personnel

General Manager

Steve J. Tjepkes

Comptroller

Jennifer M. Saathoff

Director of Electric Operations

Gregory J. Smith

Director of Water Operations

Jon H. Martens

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
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 position of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of December 31, 2014 and 2013 and the related statements of income and changes in net position, 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 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 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 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.

### **Opinions**

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, 2014 and 2013 and the results of its activities, changes in net position 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, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 4e and on pages 31 and 32 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 audit was 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, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 1 and 33 through 43 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 4, 2015 on our consideration of Atlantic Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 important for assessing the results of our audit.

*Ben, Kyhn & Co. P.C.*

Atlantic, Iowa  
March 4, 2015

# AMU

---

---

## Atlantic Municipal Utilities

### **Management's Discussion and Analysis Audited Financial Statements Years Ended December 31, 2014 and 2013**

*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, 2014. 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 2014**

- The Utility's net position increased as a result of 2014 operating income and non-operating revenues. The Electric Department's net position increased by \$893,600, or 3.9%, from \$23,173,043 to \$24,066,643. The Water Department's net position increased by \$150,120, or 3.5%, from \$4,343,520 to \$4,493,640.
- An Electric rate increase of approximately 5.0% for all customer classes was approved in December 2013, effective February 2014.
- A Water rate increase of approximately 5.0% for all customer classes was approved in December 2013, effective February 2014.
- Electric Department operating revenues increased 5.4% to \$10,532,892, while operating expenses increased 4.2% to \$9,472,313.
- Water Department operating revenues increased 1.3% to \$1,408,996, while operating expenses decreased 2.7% to \$1,252,824.
- The Electric Department delivered approximately 110,693,000 kilowatt hours (kWh) of electricity to its retail customers in 2014, compared to approximately 108,075,000 kWh in 2013, a 2.4% increase.
- The Water Department delivered approximately 258,984,000 gallons of water to its retail customers in 2014, compared to approximately 267,238,000 gallons in 2013, a 3.1% decrease.

## 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 Position* include 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 (liabilities). 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 Revenues, Expenses and Changes in Net Position* 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 position, of the Department.

The *Statements of Cash Flows* provide information about each Department's cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. These statements indicate where each Department's cash came from, how it was used, and the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utilities' accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

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.

## CONDENSED FINANCIAL INFORMATION – ELECTRIC DEPARTMENT

The following condensed financial information of the Electric Department serves as the key financial data and indicators for management, monitoring, and planning.

## Electric Department

### Condensed Statements of Net Position

	Electric Department	
	2014	2013
Current Assets	\$ 3,224,090	\$ 2,961,486
Capital Assets, net	22,558,712	22,367,386
Other Assets	4,819,058	4,897,953
Total Assets	<u>\$ 30,601,860</u>	<u>\$ 30,226,825</u>
Current Liabilities	\$ 1,503,974	\$ 1,487,120
Other Liabilities	326,243	291,662
Long-Term Debt	4,705,000	5,275,000
Total Liabilities	<u>6,535,217</u>	<u>7,053,782</u>
Net Investment in Capital Assets	\$ 17,276,203	\$ 16,535,359
Restricted	1,854,487	1,841,235
Unrestricted	4,935,953	4,796,449
Total Net Position	<u>24,066,643</u>	<u>23,173,043</u>
Total Liabilities and Net Position	<u>\$ 30,601,860</u>	<u>\$ 30,226,825</u>

### Condensed Statements of Revenues, Expenses and Changes in Net Position

	Electric Department	
	2014	2013
Sale of Electricity	\$ 9,413,332	\$ 8,757,000
Other Operating Revenue	1,119,560	1,235,961
Total Operating Revenue	<u>\$ 10,532,892</u>	<u>\$ 9,992,961</u>
Electric Production & Purchased Power	\$ 4,362,534	\$ 4,208,821
Transmission & Distribution	2,066,483	1,956,319
Administrative & Accounting	1,641,224	1,585,014
Provision for Depreciation	1,402,072	1,341,737
Total Operating Expenses	<u>\$ 9,472,313</u>	<u>\$ 9,091,891</u>
Income from Operations	\$ 1,060,579	\$ 901,070
Grant Revenue	76,288	395,921
Interest Expense	(222,611)	(243,304)
Other, net	(20,656)	5,586
Total Non-Operating Revenue (Expense)	<u>\$ (166,979)</u>	<u>\$ 158,203</u>
Change in Net Position	\$ 893,600	\$ 1,059,273
Net Position, Beginning of Year	<u>23,173,043</u>	<u>22,113,770</u>
Net Position, End of Year	<u>\$ 24,066,643</u>	<u>\$ 23,173,043</u>

## FINANCIAL ANALYSIS OF THE ELECTRIC DEPARTMENT

### Electric Department

Current assets increased \$262,604 or 8.9%, to \$3,224,090 in 2014. Cash increased \$507,914 as additional cash was generated from operations during the year. Receivables decreased \$110,029 to \$800,078 at December 31, 2014. The receivable from Midcontinent Independent System Operator (MISO) for excess energy sales decreased \$95,164 and other accounts receivable decreased a net \$14,865. Inventory decreased \$138,279 due to a decrease in coal inventories at Walter Scott Generating Station Unit 3 (WS#3) at the end of the year.

Annual capital expenditures totaled \$1,628,752 in 2014. Depreciation expense and net capital retirements totaled \$1,437,426, thus Net Capital Assets increased by \$191,326. The Electric Department's capital additions were funded with cash generated from operations, and no additional debt was issued.

Other Assets decreased by \$78,895, or 1.6%, to \$4,819,058.

Current Liabilities increased \$16,854, or 1.1%, to \$1,503,974.

Other Liabilities increased \$34,581 to \$326,243. The Utility implemented General Accounting Standards Board (GASB) Statement No. 45 regarding Other Post-Employment Benefits (OPEB) in 2013. An OPEB expense of \$57,982 was recorded in 2014, and is included with Operating Expenses on the Statement of Revenues, Expenses, and Changes in Net Position.

Total long-term debt of the Electric Department decreased from \$5,275,000 to \$4,705,000, a decline of \$570,000.

Total sales of electricity increased \$656,332, or 7.5%, in 2014. Retail electricity sales increased \$462,549, or 6.3%, with retail kWh sales increasing 2.4%. A retail rate increase of approximately 5.0% was put into effect February 2014. Sales to other utilities increased \$162,104, or 15.2%. The Utility sells generation from its share of the jointly owned W/S#3 plant directly into the MISO market and purchases any local power needs above current purchase power contract requirements from MISO. Sales to other utilities are shown net of these MISO power purchases.

Other operating revenue decreased by \$116,401, or 9.4%. 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 decreased from \$1,126,347 to \$1,009,473 in 2014, primarily due to lower recoverable transmission costs being incurred during the 2013 cost recovery year.

Electric production & purchased power expenses increased \$153,713, or 3.7%, to \$4,362,534 in 2014. Increased expenses primarily include increased fuel costs at W/S#3 of \$135,592.

Transmission & Distribution expenses increased \$110,164, or 5.6%, to \$2,066,483 in 2014. The increase was primarily due to increased MISO transmission charges of \$117,522.

Non-operating revenues (expenses) netted to a (\$166,979) reduction to income from operations in 2014, compared to a \$158,203 increase to income from operations in 2013. A year ago, non-operating revenues included \$395,921 of grant revenue compared to \$76,288 in 2014. The \$76,288 in grant funds received in 2014 was to install advanced electric meters and the related communication network in the electric distribution system.

The Electric Department's change in net position for the year was \$893,600, compared to a net change of \$1,059,273 in 2013, a decrease of \$165,673.

## CONDENSED FINANCIAL INFORMATION – WATER DEPARTMENT

The following condensed financial information of the Water Department serves as the key financial data and indicators for management, monitoring, and planning.

### Water Department

#### Condensed Statements of Net Position

	Water Department	
	2014	2013
Current Assets	\$ 495,353	\$ 415,424
Capital Assets, net	4,319,118	4,445,684
Other Assets	868,638	769,145
Total Assets	<u>\$ 5,683,109</u>	<u>\$ 5,630,253</u>
Current Liabilities	\$ 358,401	\$ 372,119
Other Liabilities	70,337	68,188
Long-Term Debt	760,731	846,426
Total Liabilities	<u>1,189,469</u>	<u>1,286,733</u>
Net Investment in Capital Assets	\$ 3,472,254	\$ 3,514,285
Restricted	972,303	998,982
Unrestricted	49,083	(169,747)
Total Net Position	<u>4,493,640</u>	<u>4,343,520</u>
Total Liabilities and Net Position	<u>\$ 5,683,109</u>	<u>\$ 5,630,253</u>

#### Condensed Statements of Revenues, Expenses and Changes in Net Position

	Water Department	
	2014	2013
Sale of Water	\$ 1,343,195	\$ 1,308,701
Other Operating Revenue	65,801	82,254
Total Operating Revenue	<u>\$ 1,408,996</u>	<u>\$ 1,390,955</u>
Source of Supply, Pumping & Treatment	\$ 216,943	\$ 227,565
Distribution	327,070	337,261
Administrative & Accounting	520,044	552,946
Provision for Depreciation	188,767	170,172
Total Operating Expenses	<u>\$ 1,252,824</u>	<u>\$ 1,287,944</u>
Income from Operations	\$ 156,172	\$ 103,011
Grant Revenue	-	11,117
Interest Expense	(6,836)	(6,549)
Other, net	109	2,313
Total Non-Operating Revenue (Expense)	<u>\$ (6,727)</u>	<u>\$ 6,881</u>
Change in Net Position	\$ 149,445	\$ 109,892
Contributions in Aid of Construction	675	345
Net Position, Beginning of Year	<u>4,343,520</u>	<u>4,233,283</u>
Net Position, End of Year	<u>\$ 4,493,640</u>	<u>\$ 4,343,520</u>

## **FINANCIAL ANALYSIS OF THE WATER DEPARTMENT**

### **Water Department**

Current assets increased \$79,929, or 19.2%, to \$495,353 in 2014. Cash increased \$59,766 as additional cash was generated from operations during the year. Receivables increased \$12,545, or 7.0% to \$190,476.

Annual capital expenditures totaled \$68,135 in 2014. Depreciation expense and capital retirements totaled \$194,701, thus Net Capital Assets decreased by \$126,566. The Water Department's capital additions were funded with cash generated from operations, and no additional debt was issued.

Other assets increased by \$99,493, to \$868,638, as excess cash generated from operations was transferred to reserve funds, which are included in Board Designated Funds on the Statement of Net Position.

Total assets increased by \$52,856, or 0.9%, to \$5,683,109.

Total liabilities decreased \$97,264, or 7.6%, to \$1,189,469, as the Water Department paid the annual principal payment of \$84,429 on the internal note due to the Electric Department.

Total operating revenue increased \$18,041 to \$1,408,996 in 2014. Sales of water increased \$34,494 while water gallons sold decreased 3.1% to 259.0 million gallons sold. A retail rate increase of approximately 5.0% went into effect February 2014.

Total operating expenses for the Water Department decreased \$35,120, or 2.7%, to \$1,252,824 in 2014. Decreased operating expenses of \$53,715 were partially offset by higher depreciation expense of \$18,595.

Non-operating revenues (expenses) netted to a (\$6,727) deduction to income from operations in 2014, compared to a \$6,881 addition to income from operations in 2013. Non-operating revenues in 2013 included \$11,117 of grant revenue to install energy efficient variable frequency drives on pumps used in the water system.

Net Income for the year was \$149,445, compared to \$109,892 in 2013.

The Water Department's change in net position for the year (including contributions in aid of construction) was \$150,120, compared to a net change of \$110,237 in 2013, an improvement of \$39,883.

### **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](mailto: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](mailto:stjepkes@amu1.net).

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

ASSETS

	2014	2013
Utility Plant :		
Depreciable capital assets	\$ 20,515,785	\$ 20,439,403
Non-depreciable capital assets	2,042,927	1,927,983
Total utility plant	22,558,712	22,367,386
Special Purpose Funds:		
Restricted funds	1,854,487	1,841,235
Board designated funds	1,922,609	1,920,661
Total special purpose funds	3,777,096	3,761,896
Current Assets:		
Cash	1,587,570	1,079,656
Receivables, less allowance for doubtful accounts (\$16,000 in 2014 and 2013)	791,618	844,870
Other receivables	8,460	65,237
Inventory	686,800	825,079
Prepaid expenses	63,509	61,671
Current due from Water Department	86,133	84,973
Total current assets	3,224,090	2,961,486
Other Assets:		
Due from Water Department:		
Non-interest bearing note	495,855	495,855
Interest bearing note	264,876	350,571
Electric project investments	248,727	248,727
Other	32,504	40,904
Total other assets	1,041,962	1,136,057
Total assets	\$ 30,601,860	\$ 30,226,825

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
Long-Term Debt, less current maturities	\$ 4,705,000	\$ 5,275,000
Current Liabilities:		
Current maturities of long-term debt	570,000	545,000
Accounts payable	547,413	544,734
Accrued employee compensation	177,797	189,486
Accrued payroll taxes and withholdings	16,938	16,457
Accrued property taxes	120,191	122,762
Other accrued taxes	17,616	9,484
Accrued interest	54,019	59,197
Total current liabilities	<u>1,503,974</u>	<u>1,487,120</u>
Other Liabilities:		
Consumer deposits	97,833	92,448
Reserve for employees' retirement	120,936	149,722
Accrued OPEB	107,474	49,492
Total other liabilities	<u>326,243</u>	<u>291,662</u>
Total liabilities	6,535,217	7,053,782
Net Position:		
Invested in capital assets net of related debt	17,276,203	16,535,359
Restricted - expendable	1,854,487	1,841,235
Unrestricted	4,935,953	4,796,449
Total net position	<u>24,066,643</u>	<u>23,173,043</u>
Total liabilities and net position	<u>\$ 30,601,860</u>	<u>\$ 30,226,825</u>

ATLANTIC MUNICIPAL UTILITIES  
ELECTRIC DEPARTMENT  
Statements of Revenues, Expenses and Changes in Net Position  
Year ended December 31,

	2014	2013
Operating Revenue:		
Retail electricity sales	\$ 7,774,163	\$ 7,311,614
Services provided to the City	411,671	379,992
Sales to other utilities	1,227,498	1,065,394
Total sale of electricity	9,413,332	8,757,000
Other operating revenue	1,119,560	1,235,961
Total operating revenue	10,532,892	9,992,961
Operating Expenses:		
Electric production	2,834,680	2,703,555
Purchased power	1,527,854	1,505,266
Transmission	1,070,827	984,526
Distribution	995,656	971,793
Administrative and accounting	1,641,224	1,585,014
Provision for depreciation	1,402,072	1,341,737
Total operating expenses	9,472,313	9,091,891
Income from Operations	1,060,579	901,070
Other Income and (Deductions):		
Income from investments	23,098	26,999
Grant revenue	76,288	95,921
USDA grant revenue	--	300,000
Interest expense on revenue bonds	( 221,255)	( 241,709)
Loss on disposal of equipment	( 35,354)	( 12,175)
Other interest expense	( 1,356)	( 1,595)
Amortization	( 8,400)	( 9,238)
Other income (deductions), net	( 166,979)	158,203
Net Income	893,600	1,059,273
Net Position, Beginning of Year	23,173,043	22,113,770
Net Position, End of Year	\$ 24,066,643	\$ 23,173,043

The accompanying notes are an integral part of these statements.

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

	2014	2013
<b>Cash flows from operating activities:</b>		
Cash received from consumers	\$ 9,490,469	\$ 8,421,741
Cash paid to suppliers	( 6,424,531)	( 6,103,122)
Cash paid to employees	( 1,439,904)	( 1,429,646)
Other operating revenue	1,113,833	1,230,624
Net cash provided by operating activities	2,739,867	2,119,597
<b>Cash flows from noncapital financing activities:</b>		
Consumer deposits, net	5,385	3,741
Interest paid	( 1,356)	( 1,595)
Net cash provided by noncapital financing activities	4,029	2,146
<b>Cash flows from capital and related financing activities:</b>		
Principal payments	( 545,000)	( 525,000)
Interest paid on revenue bonds	( 226,433)	( 246,631)
Capital expenditures	( 1,633,270)	( 1,094,429)
Capital grants	76,288	110,621
Net cash used in capital and related financing activities	( 2,328,415)	( 1,755,439)
<b>Cash flows from investing activities:</b>		
Special purpose fund investments		
Proceeds	217	1,306
Revolving loan advance	( 238,997)	( 121,003)
Revolving loan payments received	36,000	6,000
USDA revolving loan grant	--	300,000
Water department note proceeds	84,429	--
Income from investments	23,204	26,999
Net cash provided by (used in) investing activities	( 95,147)	213,302
Net increase in cash	320,334	579,606
Cash, beginning of year	3,194,227	2,614,621
Cash, end of year	\$ 3,514,561	\$ 3,194,227

(continued next page)

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

	2014	2013
Reconciliation of cash to the statements of net position:		
Cash in current assets	\$ 1,587,570	\$ 1,079,656
Cash in special purpose funds	1,926,991	2,114,571
Total cash	\$ 3,514,561	\$ 3,194,227
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 1,060,579	\$ 901,070
Adjustments to reconcile income from operations to net cash provided by operating activities		
Provision for depreciation	1,402,072	1,341,737
Uncollectible accounts	14,855	15,797
Reserve for employees' retirement	( 28,786)	19,382
Accrued OPEB	57,982	49,492
Change in assets and liabilities		
Receivables	95,174	( 348,274)
Inventory	138,279	96,838
Prepaid expenses	( 1,838)	( 17,508)
Accounts payable, trade	7,197	63,806
Accrued employee compensation	( 11,689)	15,661
Accrued payroll taxes and withholdings	481	( 16,770)
Accrued property taxes	( 2,571)	( 3,813)
Other accrued taxes	8,132	2,179
Total adjustments	1,679,288	1,218,527
Net cash provided by operating activities	\$ 2,739,867	\$ 2,119,597

The accompanying notes are an integral part of these statements.

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

ASSETS

	2014	2013
Utility Plant:		
Depreciable capital assets	\$ 4,263,281	\$ 4,375,983
Non-depreciable capital assets	55,837	69,701
Total utility plant	4,319,118	4,445,684
Special Purpose Funds:		
Board designated funds	868,638	769,145
Current Assets:		
Cash	204,733	144,967
Receivables, less allowance for doubtful accounts (\$5,000 in 2014 and 2013)	190,476	178,022
Materials and supplies inventory	76,156	70,603
Prepaid expenses	23,988	21,832
Total current assets	495,353	415,424
Total assets	\$ 5,683,109	\$ 5,630,253

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	2014	2013
Long-Term Debt, less current maturities:		
Due to Electric Department	\$ 760,731	\$ 846,426
Current Liabilities:		
Current due to Electric Department	86,133	84,973
Accounts payable:		
Trade	3,574	6,352
Due to City - sewer	223,617	239,273
Accrued employee compensation	35,086	33,219
Accrued payroll taxes and withholdings	3,908	3,996
Other accrued taxes	6,083	4,306
Total current liabilities	358,401	372,119
Other Liabilities:		
Consumer deposits	19,263	18,394
Reserve for employees' retirement	34,818	37,421
Accrued OPEB	16,256	12,373
Total other liabilities	70,337	68,188
Total liabilities	1,189,469	1,286,733
Net Position (Deficits):		
Invested in capital assets, net of related debt	3,472,254	3,514,285
Contributions in aid of construction	972,303	998,982
Unrestricted	49,083	( 169,747)
Total net position	4,493,640	4,343,520
Total liabilities and net position	\$ 5,683,109	\$ 5,630,253

ATLANTIC MUNICIPAL UTILITIES  
WATER DEPARTMENT  
Statements of Revenues, Expenses and Changes in Net Position  
Year ended December 31,

	2014	2013
Operating Revenue:		
Sale of water:		
Residential	\$ 746,390	\$ 738,816
Commercial	463,496	425,430
Services provided to the City	133,309	144,455
Total sale of water	1,343,195	1,308,701
Other operating revenue	65,801	82,254
Total operating revenue	1,408,996	1,390,955
Operating Expenses:		
Source of supply	49,240	46,764
Pumping	60,777	60,982
Water treatment	106,926	119,819
Distribution	327,070	337,261
Administrative and accounting	520,044	552,946
Provision for depreciation	188,767	170,172
Total operating expenses	1,252,824	1,287,944
Income from Operations	156,172	103,011
Other Income and (Deductions):		
Income from investments	6,043	7,301
Capital grants	--	11,117
Interest expense on note and bonds	( 6,420)	( 6,525)
Other interest expense	( 416)	( 24)
Loss on disposal of equipment	( 5,934)	( 4,988)
Other income (deductions), net	( 6,727)	6,881
Net Income	149,445	109,892
Contributions in Aid of Construction	675	345
Increase in Net Position	150,120	110,237
Net Position, Beginning of Year	4,343,520	4,233,283
Net Position, End of Year	\$ 4,493,640	\$ 4,343,520

The accompanying notes are an integral part of these statements.

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

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 1,343,236	\$ 1,388,446
Cash paid to suppliers	( 788,066)	( 908,632)
Cash paid to employees	( 307,809)	( 291,842)
Other operating revenue	<u>63,817</u>	<u>80,984</u>
Net cash provided by operating activities	311,178	268,956
Cash flows from noncapital financing activities:		
Consumer deposits, net	869	( 339)
Interest paid	<u>( 416)</u>	<u>( 24)</u>
Net cash provided by (used in) noncapital financing activities	453	( 363)
Cash flows from capital and related financing activities:		
Capital grants	--	11,117
Principal payments	( 84,429)	--
Interest paid on revenue bonds	( 6,526)	( 6,525)
Capital expenditures	( 68,135)	( 333,411)
Contributions in aid of construction	<u>675</u>	<u>345</u>
Net cash used in capital and related financing activities	( 158,415)	( 328,474)
Cash flows from investing activities:		
Special purpose fund investments:		
Proceeds	507	126
Income from investments	<u>6,043</u>	<u>7,301</u>
Net cash provided by investing activities	<u>6,550</u>	<u>7,427</u>
Net increase (decrease) in cash	159,766	( 52,454)
Cash, beginning of year	<u>412,547</u>	<u>465,001</u>
Cash, end of year	<u>\$ 572,313</u>	<u>\$ 412,547</u>
Reconciliation of cash to the statements of net position:		
Cash in current assets	\$ 204,733	\$ 144,967
Cash in special purpose funds	<u>367,580</u>	<u>267,580</u>
Total cash	<u>\$ 572,313</u>	<u>\$ 412,547</u>

(continued next page)

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

	2014	2013
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 156,172	\$ 103,011
Adjustments to reconcile income from operations to net cash provided by operating activities		
Provision for depreciation	188,767	170,172
Uncollectible accounts	4,205	5,317
Reserve for employees' retirement	( 2,603)	( 7,188)
Accrued OPEB	3,883	12,373
Change in assets and liabilities		
Receivables	( 16,659)	38,356
Materials and supplies inventory	( 5,553)	7,870
Prepaid expenses	( 2,156)	( 11,923)
Accounts payable:		
Trade	( 2,778)	10,120
Due to City - sewer	( 15,656)	( 47,679)
Accrued employee compensation	1,867	( 10,124)
Accrued payroll taxes and withholdings	( 88)	( 1,864)
Other accrued taxes	1,777	515
Total adjustments	155,006	165,945
Net cash provided by operating activities	\$ 311,178	\$ 268,956

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

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.

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, 2014 and 2013

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.

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

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

8. 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 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.

9. 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.

10. 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.

11. 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.

12. 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 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 2014 or 2013.

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

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

13. Net Position

Net position of the Utilities is classified in four components. *Contributions in aid of construction* consist of the unamortized cost of contributions from outside parties for construction purposes. *Net position invested in capital assets net of related debt* consists 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 position* is noncapital 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 position* is remaining 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 payment in lieu of tax 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>2014</u>	<u>2013</u>
Metered Charges to City	\$ 351,588	\$ 316,202
Additional Costs Incurred	<u>60,083</u>	<u>63,790</u>
Payment in Lieu of Tax	<u>\$ 411,671</u>	<u>\$ 379,992</u>
 <u>Water Department</u>	 <u>2014</u>	 <u>2013</u>
Metered Charges to City	\$ 14,313	\$ 15,261
Additional Costs Incurred	<u>118,996</u>	<u>129,194</u>
Payment in Lieu of Tax	<u>\$ 133,309</u>	<u>\$ 144,455</u>
Sewer Fees Collected for City	<u>\$ 1,564,781</u>	<u>\$ 1,578,207</u>
Charge to City for Sewer Billing Service	<u>\$ 37,066</u>	<u>\$ 37,147</u>
Account Payable to City	<u>\$ 223,617</u>	<u>\$ 239,273</u>

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

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>2014</u>	<u>2013</u>
Electric sales to Water	\$ <u>49,742</u>	\$ <u>48,910</u>
Water sales to Electric	\$ <u>1,343</u>	\$ <u>1,166</u>
Interest income (Electric) and expense (Water) during the year	\$ <u>6,420</u>	\$ <u>6,525</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	\$ 350,571	\$ 435,000
Less current portion	<u>85,695</u>	<u>84,429</u>
	<u>\$ 264,876</u>	<u>\$ 350,571</u>
Current portion of interest bearing note due to Electric from Water Department	\$ 85,695	\$ 84,429
Interest due to Electric from Water Department	<u>438</u>	<u>544</u>
Current due to Electric from Water Department	<u>\$ 86,133</u>	<u>\$ 84,973</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, 2014 and 2013

NOTE D - SPECIAL PURPOSE FUNDS

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

Electric Department

	2014	2013
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 1,194,418	\$ 1,181,203
Capital improvements	300,000	300,000
Restricted by Grant Agreement for:		
Revolving loan fund	360,069	360,032
Total restricted	\$ 1,854,487	\$ 1,841,235
Board Designated for:		
Unforeseen disasters	\$ 350,000	\$ 350,000
Production plant repairs and capital expenditures	1,050,656	1,050,186
Equipment replacement	300,000	300,000
Employee retirement	150,375	150,375
Funding of bond requirements	71,578	70,100
Total board designated	\$ 1,922,609	\$ 1,920,661

Water Department

	2014	2013
Board Designated for:		
System improvements	\$ 808,638	\$ 709,145
Employee retirement	60,000	60,000
Total board designated	\$ 868,638	\$ 769,145

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2014 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.

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE E - DEPOSITS AND INVESTMENTS - Continued

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.

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

	2014	2013
Invested Funds:		
Certificates of Deposit	\$ 1,530,000	\$ 1,530,000
Other Interest Bearing Accounts	1,926,991	2,114,571
Note receivable	318,000	115,003
Interest Receivable	2,105	2,322
Total Investments	\$ 3,777,096	\$ 3,761,896
Special Purpose Funds:		
Restricted	\$ 1,854,487	\$ 1,841,235
Board Designated	1,922,609	1,920,661
Total Special Purpose Funds	\$ 3,777,096	\$ 3,761,896

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

	2014	2013
Invested Funds:		
Certificates of Deposit	\$ 500,000	\$ 500,000
Other Interest Bearing Accounts	367,580	267,580
Interest Receivable	1,058	1,565
Total Investments	\$ 868,638	\$ 769,145
Special Purpose Funds:		
Board Designated	\$ 868,638	\$ 769,145

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, 2014 and 2013

NOTE F - FAIR VALUE MEASUREMENTS

The Utilities' investments are reported at fair value in the accompanying statements of financial position. 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 uses appropriate valuation techniques based on the available inputs to measure the fair value of its note receivable. When available, the Utilities measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Utilities, therefore, Level 3 inputs were used to value its investments at December 31, 2014 and 2013.

*Level 3 Fair Value Measurements*

The Electric Utility's note receivable is not actively traded and significant other observable inputs are not available. The fair value of the note receivable is based on contract value. Level 3 fair value for the note receivable was \$318,000 at December 31, 2014 (\$115,003 at December 31, 2013). The Electric Utility's Due from Water Department is not actively traded and significant other observable inputs are not available. The fair value of the amount due from the Water Department is based on contract value. Level 3 fair value for the amount due from the Water Department was \$846,426 at December 31, 2014 (\$931,399 at December 31, 2013). The Electric Utility's Electric Project Investments are not actively traded and significant other observable inputs are not available. The fair value for the investments was \$248,727 at December 31, 2014 (\$248,727 at December 31, 2013). Management believes these values approximate current fair value.

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE F - FAIR VALUE MEASUREMENTS - Continued

The following table reconciles the beginning and ending balances of fair value measurement for the Utilities' Level 3 assets using unobservable inputs for the years ended December 31, 2014 and 2013:

<u>December 31, 2014</u>	<u>Note Receivable</u>	<u>Due from Water Department</u>	<u>Electric Project Investments</u>
Beginning balance	\$ 115,003	\$ 931,399	\$ 248,727
Note receivable	238,997	--	--
Collections on note receivable	( 36,000)	--	--
Collections from Water Department	--	( 84,429)	--
Accrued interest	--	( 544)	--
Ending balance	<u>\$ 318,000</u>	<u>\$ 846,426</u>	<u>\$ 248,727</u>
 <u>December 31, 2013</u>			
Beginning balance	\$ --	\$ 930,955	\$ 248,727
Note receivable	121,003	--	--
Collections on note receivable	( 6,000)	--	--
Accrued interest	--	444	--
Ending balance	<u>\$ 115,003</u>	<u>\$ 931,399</u>	<u>\$ 248,727</u>

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2014 and 2013 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 49,049,266	\$ 1,513,808	\$ 219,064	\$ 50,344,010
Depreciation	<u>28,609,863</u>	<u>1,402,072</u>	<u>183,710</u>	<u>29,828,225</u>
Depreciable Capital Assets, Net	<u>\$ 20,439,403</u>	<u>\$ 111,736</u>	<u>\$ 35,354</u>	<u>\$ 20,515,785</u>
Construction in Progress	\$ 1,288,013	\$ 1,628,752	\$ 1,513,808	\$ 1,402,957
Land and Land Rights	<u>639,970</u>	<u>--</u>	<u>--</u>	<u>639,970</u>
Non-Depreciable Capital Assets	<u>\$ 1,927,983</u>	<u>\$ 1,628,752</u>	<u>\$ 1,513,808</u>	<u>\$ 2,042,927</u>

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 47,720,411	\$ 1,846,671	\$ 517,816	\$ 49,049,266
Depreciation	<u>27,773,767</u>	<u>1,341,737</u>	<u>505,641</u>	<u>28,609,863</u>
Depreciable Capital Assets, Net	<u>\$ 19,946,644</u>	<u>\$ 504,934</u>	<u>\$ 12,175</u>	<u>\$ 20,439,403</u>
Construction in Progress Land and Land Rights	\$ 2,063,205 <u>639,970</u>	\$ 1,071,479 <u>--</u>	\$ 1,846,671 <u>--</u>	\$ 1,288,013 <u>639,970</u>
Non-Depreciable Capital Assets	<u>\$ 2,703,175</u>	<u>\$ 1,071,479</u>	<u>\$ 1,846,671</u>	<u>\$ 1,927,983</u>
	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
<u>Water Department</u>				
Plant and Equipment	\$ 9,687,738	\$ 81,999	\$ 14,570	\$ 9,755,167
Depreciation	<u>5,311,755</u>	<u>188,767</u>	<u>8,636</u>	<u>5,491,886</u>
Depreciable Capital Assets, Net	<u>\$ 4,375,983</u>	<u>\$ (106,768)</u>	<u>\$ 5,934</u>	<u>\$ 4,263,281</u>
Construction in Progress Land and Land Rights	\$ 13,864 <u>55,837</u>	\$ 68,135 <u>--</u>	\$ 81,999 <u>--</u>	\$ -- <u>55,837</u>
Non-Depreciable Capital Assets	<u>\$ 69,701</u>	<u>\$ 68,135</u>	<u>\$ 81,999</u>	<u>\$ 55,837</u>
	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
<u>Water Department</u>				
Plant and Equipment	\$ 9,608,007	\$ 329,815	\$ 250,084	\$ 9,687,738
Depreciation	<u>5,386,679</u>	<u>170,172</u>	<u>245,096</u>	<u>5,311,755</u>
Depreciable Capital Assets, Net	<u>\$ 4,221,328</u>	<u>\$ 159,643</u>	<u>\$ 4,988</u>	<u>\$ 4,375,983</u>
Construction in Progress Land and Land Rights	\$ 22,916 <u>55,837</u>	\$ 320,477 <u>--</u>	\$ 329,529 <u>--</u>	\$ 13,864 <u>55,837</u>
Non-Depreciable Capital Assets	<u>\$ 78,753</u>	<u>\$ 320,477</u>	<u>\$ 329,529</u>	<u>\$ 69,701</u>

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE H - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended December 31, 2014 and 2013 follows:

	Balance 2013	Additions	Reductions	Balance 2014
2007 Capital Loan Notes	\$ 5,820,000	\$ --	\$ 545,000	\$ 5,275,000
Less Current Portion	( 545,000)	( 570,000)	( 545,000)	( 570,000)
Long-Term Debt, Net	5,275,000	( 570,000)	--	4,705,000
Consumer Deposits, Net	92,448	5,385	--	97,833
Reserve for Employee Retirement	149,722	--	28,786	120,936
Accrued OPEB	49,492	57,982	--	107,474
<b>Total Non-Current Liabilities</b>	<b>\$ 5,566,662</b>	<b>\$( 506,633)</b>	<b>\$ 28,786</b>	<b>\$ 5,031,243</b>
	Balance 2012	Additions	Reductions	Balance 2013
2007 Capital Loan Notes	\$ 6,345,000	\$ --	\$ 525,000	\$ 5,820,000
Less Current Portion	( 525,000)	( 545,000)	( 525,000)	( 545,000)
Long-Term Debt, Net	5,820,000	( 545,000)	--	5,275,000
Consumer Deposits, Net	88,707	3,741	--	92,448
Reserve for Employee Retirement	130,340	19,382	--	149,722
Accrued OPEB	--	49,492	--	49,492
<b>Total Non-Current Liabilities</b>	<b>\$ 6,039,047</b>	<b>\$( 472,385)</b>	<b>\$ --</b>	<b>\$ 5,566,662</b>

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 32% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$771,400 and \$2,484,000, respectively.

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

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, 2015 through 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 570,000	\$ 205,105	\$ 775,105
2016	590,000	182,628	772,628
2017	615,000	158,976	773,976
2018	640,000	133,870	773,870
2019	670,000	107,008	777,008
2020-2022	<u>2,190,000</u>	<u>142,938</u>	<u>2,332,938</u>
	<u>\$ 5,275,000</u>	<u>\$ 930,525</u>	<u>\$ 6,205,525</u>

NOTE I - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended December 31, 2014 and 2013 follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2014</u>
Due to Electric Department				
Non-interest bearing note \$	495,855	\$ --	\$ --	\$ 495,855
Interest bearing note	<u>435,000</u>	<u>--</u>	<u>( 84,429)</u>	<u>350,571</u>
	930,855	--	( 84,429)	846,426
Less current portion	<u>( 84,429)</u>	<u>--</u>	<u>( 1,266)</u>	<u>( 85,695)</u>
Long-term due to Electric Department	846,426	--	85,695	760,731
Consumer Deposits, Net	18,394	869	--	19,263
Reserve for Employees' Retirement	37,421	--	2,603	34,818
Accrued OPEB	<u>12,373</u>	<u>3,883</u>	<u>--</u>	<u>16,256</u>
Total Non-Current Liabilities	<u>\$ 914,614</u>	<u>\$ 4,752</u>	<u>\$ 88,298</u>	<u>\$ 831,068</u>

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE I - WATER DEPARTMENT NON-CURRENT LIABILITIES - Continued

	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>
Due to Electric Department				
Non-interest bearing note \$	495,855	\$ --	\$ --	\$ 495,855
Interest bearing note	435,000	--	--	435,000
	<u>930,855</u>	<u>--</u>	<u>--</u>	<u>930,855</u>
Less current portion	<u>( 220,000)</u>	<u>135,571</u>	<u>--</u>	<u>( 84,429)</u>
Long-term due to Electric Department	710,855	135,571	--	846,426
Consumer Deposits, Net	18,733	--	339	18,394
Reserve for Employees' Retirement	44,609	--	7,188	37,421
Accrued OPEB	<u>--</u>	<u>12,373</u>	<u>--</u>	<u>12,373</u>
Total Non-Current Liabilities	<u>\$ 774,197</u>	<u>\$ 147,944</u>	<u>\$ 7,527</u>	<u>\$ 914,614</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%. In December, 2012, the Board established a five year payment schedule to pay off this note. 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>
2015	\$ 85,695	\$ 5,259	\$ 90,954
2016	86,981	3,973	90,954
2017	88,285	2,669	90,954
2018	89,610	1,344	90,954
2019	--	--	--
2020-2022	<u>495,855</u>	<u>--</u>	<u>495,855</u>
	<u>\$ 846,426</u>	<u>\$ 13,245</u>	<u>\$ 859,671</u>

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

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 5.95% of their annual salary and the Utilities are required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended December 31, 2014, 2013, and 2012, were approximately \$173,200, \$173,500, and \$161,600, 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, 2014 were approximately \$579,035.

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE L - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description. AMU operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 30 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

Retirees under age 65 pay the same premium for the medical benefit as active employees, which results in an implicit subsidy. The explicit and implicit subsidy results 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, 2014 and 2013, the amount actually contributed to the plan and changes in AMU's net OPEB obligation:

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Annual required contribution	\$ 51,423	\$ 7,778	\$ 59,201
Interest on net OPEB obligation	2,314	350	2,664
Adjustment to annual required contribution	<u>4,245</u>	<u>( 4,245)</u>	<u>--</u>
Annual OPEB cost	57,982	3,883	61,865
Net OPEB obligation beginning of year	<u>49,492</u>	<u>12,373</u>	<u>61,865</u>
Net OPEB obligation end of year	<u>\$ 107,474</u>	<u>\$ 16,256</u>	<u>\$ 123,730</u>

For calculation of the net OPEB obligation, the actuary has set the measurement date as September 1, 2013. 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, 2014 and 2013.

For the years ended December 31, 2014 and 2013, AMU has not designated specific funds for the OPEB liability.

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE L - OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

AMU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the previous two years are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2014	\$ 61,865	0%	\$ 123,730
December 31, 2013	61,865	0%	61,865

Funded Status and Funding Process. As of December 31, 2013, the most recent actuarial valuation date for the periods from January 1, 2014 through December 31, 2014, and January 1, 2013 through December 31, 2013, the actuarial accrued liability was \$534,025, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$534,025. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1.96 and \$1.86 million and the ratio of the UAAL to covered payroll was 27.2% and 28.5% for 2014 and 2013, respectively. As of December 31, 2014 and 2013, there were no trust fund assets.

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

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

As of September 1, 2013, the actuarial measurement date, the Alternative Measurement Method was used. The actuarial assumptions include a 4.5% discount rate based on AMU's funding policy. The projected annual health care cost trend rate is 10%. The ultimate health care cost trend rate is 6%. The health care cost trend rate is reduced 1.0% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the 2009 United States Life Tables. Annual retirement and termination probabilities were developed based on historical averages for the covered.

Projected claim costs of the medical plan are \$10,966 for retirees (\$11,217 for spouses) less than 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.

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE M - 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 (\$250,000 total accrued at December 31, 2014 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 \$1,109,305 represents the Utility's share of ongoing construction projects at WS #3. These projects have an estimated cost to complete of \$100,000. The Utility financed the costs of these projects through funds generated internally.

Approximately \$294,000 of the Electric Department construction in progress at December 31, 2014 consists of several ongoing local projects. The largest of these is the installation of a replacement control system for the solar turbine generator (\$172,000). Estimated costs to complete the projects are approximately \$780,000. The projects will be financed through internally generated funds and the issuance of approximately \$2,500,000 of electric revenue bonds. The remaining bond proceeds will be used for capital projects to be started during 2015.

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 2014, the Electric Utility provided \$60,813 of operating funding to the project. That amount was returned to the Utility.

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 2014.

ATLANTIC MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE M - COMMITMENTS AND CONTINGENCIES - Continued

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.

Debt Issuance

The Board has authorized the issuance of electric revenue bonds of approximately \$4,950,000 for the refunding of the 2007 revenue bonds currently outstanding. The Board has also authorized the issuance of electric revenue bonds of approximately \$2,500,000 for various capital projects to be completed during fiscal year 2015. Both issuances are pending public hearings and final approval in early 2015.

Subsequent Events

The Utilities has evaluated all subsequent events through March 4, 2015, the date the financial statements were available to be issued.

\* \* \*

**REQUIRED SUPPLEMENTARY INFORMATION**

ATLANTIC MUNICIPAL UTILITIES  
 Budgetary Comparison Schedule  
 Year Ended December 31, 2014

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</u>	<u>Combined</u>
	<u>Electric</u>	<u>Water</u>	<u>Adjustments</u>	<u>Utilities</u>
Revenues	\$ 10,632,278	\$ 1,415,039	\$( 75,613)	\$ 11,971,704
Expenses	<u>9,738,678</u>	<u>1,265,594</u>	<u>565,500</u>	<u>11,569,772</u>
Net	893,600	149,445	( 641,113)	401,932
Balance beginning of year	23,173,043	4,343,520	( 21,683,540)	5,833,023
Contributions	<u>--</u>	<u>675</u>	<u>( 675)</u>	<u>--</u>
Balance end of year	<u>\$ 24,066,643</u>	<u>\$ 4,493,640</u>	<u>\$( 22,325,328)</u>	<u>\$ 6,234,955</u>

	<u>Budget</u>	<u>Budget</u>	<u>Variance</u>
	<u>Basis</u>	<u>Budget</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
Revenues	\$ 11,971,704	\$ 12,277,850	\$( 306,146)
Expenses	<u>11,569,772</u>	<u>12,037,955</u>	<u>468,183</u>
Net	401,932	239,895	162,037
Balance beginning of year	<u>5,833,023</u>	<u>5,494,974</u>	<u>338,049</u>
Balance end of year	<u>\$ 6,234,955</u>	<u>\$ 5,734,869</u>	<u>\$ 500,086</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES

Schedule of Funding Progress for the  
Retiree Health Plan  
(In Thousands)

Required Supplementary Information

Year Ended Dec. 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2014	Dec. 1, 2014	--	\$ 534	\$ 534	0.0%	\$ 1,964	27.2%
2013	Dec. 1, 2013	--	534	534	0.0%	1,875	28.5%

See Note L in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying 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>2014</u>	<u>2013</u>
<u>2007 Series</u>				
April 1, 2014	--	3.80%	\$ --	\$ 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>\$ 5,275,000</u>	<u>\$ 5,820,000</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES  
 Operating Revenue  
 Year ended December 31,

	2014	2013
<u>ELECTRIC DEPARTMENT</u>		
Retail Electricity Sales:		
Residential	\$ 2,480,824	\$ 2,412,526
Commercial	3,794,448	3,532,384
Rural resident and rural commercial	1,449,149	1,317,794
Interdepartmental sales	49,742	48,910
	\$ 7,774,163	\$ 7,311,614
Other Operating Revenue:		
Customer late payment charges	\$ 11,534	\$ 12,156
Service charges	16,785	15,553
Rent from electric properties	10,580	10,910
Net contract work	33,271	27,129
Transmission service	1,009,473	1,126,347
Scrap sales	11,912	9,711
Bad debts recovered	5,727	5,337
Miscellaneous	1,478	8,138
Posting charges	18,800	20,680
	\$ 1,119,560	\$ 1,235,961
<u>WATER DEPARTMENT</u>		
Other Operating Revenue:		
Service charges	\$ 14,831	\$ 13,509
Net contract work	46,307	59,604
Scrap sales	303	838
Bad debts recovered	1,984	1,270
Miscellaneous	2,376	7,033
	\$ 65,801	\$ 82,254

See Independent Auditor's Report.

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

	2014	2013
Electric Production:		
WS #3 Production:		
Operating supervision and labor	\$ 119,613	\$ 93,228
Fuel	1,848,690	1,713,098
Operating supplies and expense	213,473	190,400
Maintenance of production plant	481,147	494,504
Total WS #3 production	2,662,923	2,491,230
Atlantic Production:		
Operating supervision and labor	19,622	18,358
Fuel	8,236	28,460
Operating supplies and expense	1,315	4,339
Maintenance of production plant	142,584	161,168
Total Atlantic production	171,757	212,325
Total electric production	2,834,680	2,703,555
Purchased Power	1,527,854	1,505,266
Transmission Expense:		
Maintenance of transmission line and other	1,070,827	984,526
Distribution Expense:		
City:		
Operating supervision and labor	196,784	227,195
Line and station supplies and expense	78,514	69,048
Meter expense	24,142	2,657
Miscellaneous distribution expense	132,216	125,980
Maintenance of structures and equipment	89,197	22,238
Maintenance of lines	113,530	192,481
Maintenance of line transformers	8,371	9,004
Maintenance of street lighting and signal systems	20,699	22,989
Maintenance of meters	61,409	33,788
Total city distribution expense	724,862	705,380
Rural:		
Operating supervision and labor	109,794	120,713
Line and station supplies and expense	924	611
Miscellaneous distribution expense	16,266	7,519
Maintenance of structures and equipment	9,288	14,007
Maintenance of lines	79,746	113,857

(continued next page)

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

	2014	2013
Distribution Expense (Continued):		
Rural (Continued):		
Maintenance of line transformers	\$ 3,012	\$ 2,939
Maintenance of meters	51,764	6,767
Total rural distribution expense	270,794	266,413
Total distribution expense	995,656	971,793
Administrative and Accounting Expense:		
Customer accounting:		
Meter reading labor	21,189	37,233
Accounting and collecting costs	115,726	127,371
Supplies and expense	60,240	44,474
Uncollectible accounts	14,855	15,797
Total customer accounting	212,010	224,875
Administrative and general:		
Administrative and general salaries	17,483	65,467
Disability	10,973	11,080
Office supplies and expense	47,746	61,439
Outside service employed	13,625	15,289
Property insurance	62,851	63,767
Liability insurance and safety program costs	92,965	96,190
Employees' pension and benefits	536,195	469,243
Payment in lieu of tax	411,671	379,992
Regulatory commission expense	14,730	16,132
IT and networking expense	50,997	5,331
Energy efficiency grant/rebate program	38,349	24,636
Miscellaneous general expense	54,003	85,416
Maintenance of general plant	10,959	16,572
Property taxes	119,180	121,133
Total administrative and general	1,481,727	1,431,687
Administrative adjustments	23,696	15,036
Less administrative expense transferred	( 76,209)	( 86,584)
Net administrative and general	1,429,214	1,360,139
Total administrative and accounting expense	1,641,224	1,585,014
Provision for Depreciation	1,402,072	1,341,737
Total operating expenses	\$ 9,472,313	\$ 9,091,891

See Independent Auditor's Report.

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

	2014	2013
Source of Supply Expense:		
Operating supplies and expense	\$ 17,668	\$ 18,352
Maintenance of water source	<u>31,572</u>	<u>28,412</u>
Total source of supply expense	49,240	46,764
Pumping Expense:		
Operating labor	26,375	27,404
Fuel and power pumping	29,064	28,226
Maintenance of pumping station	<u>5,338</u>	<u>5,352</u>
Total pumping expense	60,777	60,982
Water Treatment Expense:		
Operating labor	36,520	43,117
Chemicals	32,191	33,764
Operating supplies and expense	20,798	17,753
Maintenance of water treatment plant	<u>17,417</u>	<u>25,185</u>
Total water treatment expense	106,926	119,819
Distribution Expense:		
Operating labor	138,571	139,961
Operating supplies and expense	8,491	8,137
Maintenance of distribution reservoirs and standpipes	96,136	71,165
Maintenance of mains	77,751	114,140
Maintenance of services	712	288
Maintenance of meters	1,511	--
Maintenance of hydrants	<u>3,898</u>	<u>3,570</u>
Total distribution expense	327,070	337,261
Administrative and Accounting Expense:		
Customer Accounting:		
Meter reading labor	30,153	33,248
Accounting and collecting labor	51,960	49,904
Supplies and expense	26,634	27,683
Uncollectible accounts	<u>4,205</u>	<u>5,317</u>
Total customer accounting	112,952	116,152

(continued next page)

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

	2014	2013
Administrative and Accounting Expense (Continued):		
Administrative and General:		
Administrative and general salaries	\$ 40,322	\$ 43,988
Office supplies and other expense	26,101	35,637
Outside service employed	8,616	9,216
Property insurance	20,225	18,561
Liability insurance costs	30,445	30,544
Employees' pensions and benefits	116,461	134,830
Payment in lieu of tax	133,309	144,455
Regulatory Commission expense	945	845
Miscellaneous general expense	24,333	12,585
Maintenance of general plant	6,546	5,570
Total administrative and general	407,303	436,231
Administrative adjustments	618	4,146
Less administrative expense transferred	( 829)	( 3,583)
Net administrative and general	407,092	436,794
Total administrative and accounting expense	520,044	552,946
Provision for Depreciation	188,767	170,172
Total operating expenses	\$ 1,252,824	\$ 1,287,944

See Independent Auditor's Report.

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

	2014	2013
Operating Revenue:		
Sale of electricity	\$ 9,413,332	\$ 8,757,000
Other operating revenue	1,119,560	1,235,961
Total operating revenue	10,532,892	9,992,961
 Operating Expenses (Not Including Depreciation)	 8,070,241	 7,750,154
Operating Income Before Depreciation	2,462,651	2,242,807
Provision for Depreciation	1,402,072	1,341,737
Income (Loss) From Operations	1,060,579	901,070
Other Income and (Deductions), Net	( 166,979)	158,203
Net Income (Loss)	\$ 893,600	\$ 1,059,273
 Net Income (Loss) as a Percent of Total Operating Revenue	 8.48%	 10.60%

See Independent Auditor's Report.

<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 8,152,939	\$ 7,663,316	\$ 7,839,172
<u>739,046</u>	<u>363,792</u>	<u>449,308</u>
8,891,985	8,027,108	8,288,480
<u>7,261,218</u>	<u>6,761,216</u>	<u>6,974,527</u>
1,630,767	1,265,892	1,313,953
<u>1,327,711</u>	<u>1,325,352</u>	<u>1,366,370</u>
303,056	( 59,460)	( 52,417)
<u>( 25,639)</u>	<u>( 230,627)</u>	<u>( 228,027)</u>
<u>\$ 277,417</u>	<u>\$( 290,087)</u>	<u>\$( 280,444)</u>
<u>3.12%</u>	<u>( 3.61%)</u>	<u>( 3.38%)</u>

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

	<u>2014</u>	<u>2013</u>
Sale of Electricity:		
Sales to consumers	\$ 8,185,834	\$ 7,691,606
Sales to other utilities	<u>1,227,498</u>	<u>1,065,394</u>
Total Electricity Sales	<u>\$ 9,413,332</u>	<u>\$ 8,757,000</u>
Kilowatt Hours:		
Generated	120,539,731	121,591,870
Purchased	39,205,000	35,566,000
Energy available	159,744,731	157,157,870
Station power/transmission loss	1,704,510	1,706,352
Available for sale	158,040,221	155,451,518
Sales and transfers to other utilities	44,434,711	42,314,730
Output to the system	113,605,510	113,136,788
Billed to consumers	110,692,745	108,074,896
Distribution loss	2,912,765	5,061,892
Distribution loss percent	2.6%	4.5%
Revenue Billed Per KWH to Consumers	7.40¢	7.11¢
Peak Hour Demand in KW	23,600	24,000
Services Provided to the City:		
Street Lighting:		
Energy	\$ 83,803	\$ 80,414
Operation and maintenance	23,384	26,788
Depreciation	<u>36,699</u>	<u>37,001</u>
	143,886	144,203
Energy for public buildings, parks and other uses	<u>267,785</u>	<u>235,789</u>
	<u>\$ 411,671</u>	<u>\$ 379,992</u>
<u>Consumer Classifications</u>		
Residential	3,241	3,247
Small Commercial	596	594
Large Commercial	30	32
Rural Residential	561	565
Rural Commercial	109	97
Area Lighting	310	301
City and Water Department	<u>86</u>	<u>86</u>
Total number of consumers	<u>4,933</u>	<u>4,922</u>

See Independent Auditor's Report.

<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 7,214,963	\$ 6,451,509	\$ 6,245,879
<u>937,976</u>	<u>1,211,807</u>	<u>1,593,293</u>
<u>\$ 8,152,939</u>	<u>\$ 7,663,316</u>	<u>\$ 7,839,172</u>
126,461,463	131,848,627	135,331,763
38,331,000	44,504,000	42,567,000
164,792,463	176,352,627	177,898,763
1,329,989	1,938,501	2,208,344
163,462,474	174,414,126	175,690,419
51,306,253	60,866,627	62,960,863
112,156,221	113,547,499	112,729,556
106,708,722	108,943,490	108,085,496
5,447,499	4,604,009	4,644,060
4.9%	4.1%	4.1%
6.82¢	5.92¢	5.78¢
26,300	25,500	25,100
\$ 73,802	\$ 67,396	\$ 70,201
31,259	32,333	43,740
<u>37,544</u>	<u>36,323</u>	<u>35,260</u>
142,605	136,052	149,201
<u>226,435</u>	<u>186,283</u>	<u>190,032</u>
<u>\$ 369,040</u>	<u>\$ 322,335</u>	<u>\$ 339,233</u>
3,273	3,264	3,254
598	598	589
34	34	36
567	567	568
96	97	95
298	293	289
<u>84</u>	<u>89</u>	<u>90</u>
<u>4,950</u>	<u>4,942</u>	<u>4,921</u>

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

	2014	2013
Operating Revenue:		
Sale of water	\$ 1,343,195	\$ 1,308,701
Other operating revenue	65,801	82,254
Total operating revenue	1,408,996	1,390,955
 Operating Expenses (Not Including Depreciation)	 1,064,057	 1,117,772
Operating Income Before Depreciation	344,939	273,183
Provision for Depreciation	188,767	170,172
Income From Operations	156,172	103,011
Other Income (Deductions), Net	( 6,727)	6,881
Net Income	\$ 149,445	\$ 109,892
 Net Income as a Percent of Total Operating Revenue	 10.61%	 7.90%

See Independent Auditor's Report.

<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 1,289,602	\$ 1,145,074	\$ 1,102,274
26,363	19,912	9,822
<u>1,315,965</u>	<u>1,164,986</u>	<u>1,112,096</u>
<u>1,004,411</u>	<u>806,396</u>	<u>800,850</u>
311,554	358,590	311,246
<u>199,492</u>	<u>191,762</u>	<u>223,084</u>
112,062	166,828	88,162
<u>( 6,805)</u>	<u>( 26,570)</u>	<u>( 21,344)</u>
<u>\$ 105,257</u>	<u>\$ 140,258</u>	<u>\$ 66,818</u>
<u>8.00%</u>	<u>12.04%</u>	<u>6.01%</u>

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

	<u>2014</u>	<u>2013</u>
Total Revenue Billed	<u>\$ 1,343,195</u>	<u>\$ 1,308,702</u>
Gallage:		
Pumped	304,517,000	307,177,000
Billed	258,983,853	267,238,154
Total system maintenance and loss	45,533,147	39,938,846
Accounted for losses*	21,503,088	18,045,267
Unaccounted for losses	24,030,059	21,893,579
Percent unaccounted for	7.89%	7.13%
Revenue Billed Per 100 Gallons	51.9¢	49.0¢
Number of Consumers	3,343	3,354
Peak Day - Gallons Pumped	1,579,000	1,574,000
Services Provided to the City:		
Water for parks, disposal plant and public buildings	\$ 14,314	\$ 15,261
Operation and maintenance	77,670	85,973
Depreciation	<u>41,325</u>	<u>43,221</u>
	<u>\$ 133,309</u>	<u>\$ 144,455</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>2012</u>	<u>2011</u>	<u>2010</u>
<u>\$ 1,289,602</u>	<u>\$ 1,145,074</u>	<u>\$ 1,102,274</u>
337,668,000	301,690,000	290,927,000
281,627,100	246,890,600	237,000,400
56,040,900	54,799,400	53,926,600
19,435,197	13,791,159	28,042,899
36,605,703	41,008,241	25,883,701
10.84%	13.59%	8.90%
45.8¢	46.4¢	46.5¢
3,367	3,341	3,337
1,641,000	1,675,000	1,380,000
\$ 36,308	\$ 14,879	\$ 12,473
75,880	35,253	31,799
<u>58,162</u>	<u>41,827</u>	<u>40,640</u>
<u>\$ 170,350</u>	<u>\$ 91,959</u>	<u>\$ 84,912</u>

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

	2014	2013
<u>ELECTRIC DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 893,600	\$ 1,059,273
Add:		
Depreciation	1,402,072	1,341,737
Interest on revenue bonds	221,255	241,709
Loss on disposal of equipment	35,354	12,175
Amortization	8,400	9,238
Capital and restricted grants	( 76,288)	( 395,921)
Available For Debt Service.	<u>\$ 2,484,393</u>	<u>\$ 2,268,211</u>
Maximum Debt Service in Any Year	<u>\$ 778,405</u>	<u>\$ 778,405</u>
Actual Coverage	<u>319%</u>	<u>291%</u>
Minimum Coverage Required	<u>125%</u>	<u>125%</u>

See Independent Auditor's Report.

**COMMENTS AND RECOMMENDATIONS**

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Atlantic Municipal Utilities as of and for the years ended December 31, 2014 and 2013, and the related Notes to Financial Statements, and have issued our report thereon dated March 4, 2015.

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Atlantic Municipal Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Atlantic Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Atlantic Municipal Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control 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 14-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, and contracts, 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, 2014 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.

### **Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Garnett, Ben, Kuhn & Co. P. C.*

Atlantic, Iowa  
March 4, 2015

ATLANTIC MUNICIPAL UTILITIES  
Schedule of Findings  
Year ended December 31, 2014

PART I - INTERNAL CONTROL DEFICIENCIES

14-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

14-II-A Certified Budget: The Utilities' expenditures during the year ended December 31, 2014 did not exceed amounts budgeted.

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

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

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

14-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.

14-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, 2014

PART II - REQUIRED STATUTORY REPORTING (Continued)

14-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.

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

\* \* \*