

**ALGONA MUNICIPAL UTILITIES**

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

**December 31, 2015**

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

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**ALGONA MUNICIPAL UTILITIES  
OFFICIALS**

**December 31, 2015**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jay Geving	Chairman	May 2021
Walter Krahenbuhl	Chairman Pro Tem	May 2017
David Golwitzer	Trustee	May 2018
Karen Schaaf	Trustee	May 2020
Julie Murphy	Trustee	May 2019
John Bilsten	General Manager	
Brien Rindone	Comptroller	



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

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Algona Municipal Utilities  
Algona, IA

**Report on the Financial Statements**

We have audited the accompanying financial statements of each major fund of Algona Municipal Utilities, a component unit of the City of Algona, Iowa as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

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 respective financial position of each major fund of Algona Municipal Utilities, as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

## **Emphasis of a Matter**

As discussed in Note 19 to the financial statements, Algona Municipal Utilities adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability, the Schedule of Utility Contributions, and the Schedule of Funding Progress for the Retiree Health Plan on pages 4-9 and 40-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

The comparative summaries of electric, water, and communication statistics, found on pages 47-49, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2015 on our consideration of the Algona Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Algona Municipal Utilities internal control over financial reporting and compliance.

*JP Anderson & Company, P.C.*

May 24, 2015

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Algona Municipal Utilities (AMU) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2015. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2015 FINANCIAL HIGHLIGHTS

- ◆ AMU's operating revenues increased by 3%, or approximately \$523,000 from calendar year 2014 to calendar year 2015.
- ◆ Operating expenses decreased by 1%, or approximately \$127,000 in 2015 from 2014.
- ◆ AMU's net position increased by 0.2%, or approximately \$54,000 during 2015.

### USING THIS ANNUAL REPORT

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

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

Fund Financial Statements report AMU's operations by providing information about the most significant funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of AMU's budget for the year, the Utilities' proportionate share of net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

### REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

#### *Fund Financial Statements*

AMU utilizes one kind of fund:

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

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

The condensed statement of net position, shown below, shows how assets and liabilities have changed from 2014 to 2015. Current assets (including restricted funds) increased approximately \$991,000 from 2014 to 2015, primarily due to the increase in cash and cash equivalents. Total assets increased \$108,000, while liabilities increased by \$1.4 million (including the net pension liability of \$1.3 million not reported in 2014) resulting in an

increase in net position of approximately \$65,000 during the year before the negative prior period adjustment of \$1.5 million due to GASB 68 adoption.

Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2015	2014 Not restated
Current and other assets	\$ 15,358	\$ 14,525
Capital assets (net of depreciation)	36,190	36,915
Total assets	51,548	51,440
Deferred outflows of resources	352	-
Long-term debt outstanding	24,190	21,779
Other liabilities	3,801	4,768
Total liabilities	27,991	26,547
Deferred inflows of resources	486	-
Net position:		
Net investment in capital assets	16,247	14,886
Restricted	2,276	2,259
Unrestricted	4,900	7,748
Total net position	\$ 23,423	\$ 24,893

## INDIVIDUAL MAJOR FUND ANALYSIS

As AMU completed the year, its enterprise funds reported a combined fund net position of \$23.4 million. The following are the major reasons for the changes in fund net position of the major funds from the prior year:

- Electric Fund operating revenue for the year was \$13.4 million, an increase of approximately \$623,000 from 2014. The increase was primarily due to sales to customers. Residential and commercial sales increased \$787,000 from the prior year. Operating expenses decreased in 2015 by approximately \$315,000. The decrease was primarily due to purchased power related costs. Generation and purchased power expenses decreased \$307,000 from the prior year.

The Electric Utility's net position increased approximately \$237,000 in 2015 (not considering the prior period adjustment due to the adoption of GASB 68).

- Water Fund operating revenue for the year was \$1.1 million, which is virtually unchanged from the total in 2014. Operating expenses increased in 2015 by approximately \$111,000. Administrative and general expenses increased \$50,000 from the prior year, while maintenance expenses for mains, services, and meters increased \$43,000.

The Water Utility's net position decreased approximately \$59,000 in 2015.

- Communications Fund operating revenue for the year was \$3.3 million, a decrease of \$117,000 from 2014.

The decrease was due to a loss in the AMU/Skylink partnership. Operating expenses increased in 2015 by approximately \$78,000 to \$3.2 million. The increase was primarily due to cable service costs. Head-end programming expenses increased \$84,000 from the prior year.

The Communication Utility's net position decreased approximately \$124,000 in 2015.

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

Changes in Net Position of Business Type Activities (Expressed in Thousands)		
	2015	2014 not restated
Revenues:		
Program revenues:		
Operating revenue	\$ 17,705	\$ 17,182
General revenues:		
Unrestricted investment earnings	148	133
Grant proceeds	15	116
Other general revenues	103	103
Total revenues	17,971	17,534
Program expenses:		
Business type activities	17,917	18,171
Total expenses	17,917	18,171
Increase (decrease) in net position	54	(637)
Net position beginning of year	24,893	25,530
Restatement due to change in accounting	(1,524)	-
Restated net position, beginning of year	23,369	25,530
Net position end of year	\$ 23,423	\$ 24,893

## BUDGETARY HIGHLIGHTS

AMU did not exceed budgeted disbursements nor did they amend their budget during 2015.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets –

At December 31, 2015, AMU had approximately \$36.2 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a decrease (including additions and deletions net of depreciation) of approximately \$726,000, or 2%, under 2014.

Capital Assets of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2015	2014
Land	\$ 318	\$ 318
Construction in progress	9,118	9,205

Buildings and improvements	1,802	1,880
Equipment and vehicles	628	743
Infrastructure	24,323	24,768
	<hr/>	<hr/>
Total	\$ 36,189	\$ 36,915
	<hr/>	<hr/>

The largest additions to capital assets included continued capital improvements at Neal 4 and additional water distribution mains.

## LONG TERM DEBT/LIABILITIES

At December 31, 2015, AMU had approximately \$20 million in revenue bonds outstanding.

Outstanding Revenue Bonds of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2015	2014
Revenue bonds	\$ 20,230	\$ 20,228
Total	\$ 20,230	\$ 20,228

AMU issued \$1,435,000 in water revenue bonds in 2015 in addition to making all required principal and interest payments on revenue bonds outstanding at the beginning of the year.

At December 31, 2015 and 2014 the Communications Fund owed the Electric Fund \$3,440,000 under an interfund loan agreement established to finance the AMU broadband telecommunications network. The loan agreement calls for interest to accrue at 3.85% per year and to be repaid by 12/1/2030.

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

Algona Municipal Utility's appointed officials consider many factors when setting the calendar year 2016 budget including fees that will be charged for the services the Utilities' provide, future expansions, and capital improvements. Amounts available for appropriation in the operating budget are \$19.7 million, an increase of 6 percent from the 2015 budget. The budget is likely to closer reflect the cash receipts received as estimated based on 2015 results and projected usage from customers. Budgeted disbursements are expected to increase by approximately \$128,000. Again, the 2016 budget was set to more closely reflect the actual results as estimated based on 2015 results and expenditures on improvements to the Utility Infrastructure.

Algona Municipal Utilities takes pride in excellent customer service and high quality, reliable utilities. AMU strives every day to provide services at the lowest possible cost while constantly investing in infrastructure and technology. AMU's local employees make the difference in providing outstanding electric, water, and communications services. Some examples are listed below:

- There are many environmental issues facing the AMU electric utility. The proposed EPA Clean Power Plan, renewable energy mandates, RICE regulations, mercury regulations, among others are items that could impact AMU and our customers. Compliance with new regulations will increase the cost of energy.
- AMU continues to look at renewable energy options and expanded energy efficiency offerings as ways to mitigate the cost of new and proposed environmental regulations on our consumer/owners.

- The AMU electric system operates in the Western Area Power Administration (WAPA) Control Area. WAPA and its partners, Basin Electric Power Cooperative and Heartland Consumers Power District decided to join the Southwest Power Pool (SPP) on October 1, 2015. As a result, AMU was also required to participate in SPP. This will result in operational changes including how the Electric Utility purchases and sells energy, operates generation facilities and makes investments in electric transmission facilities.
- Algona Municipal Utilities Electric, Water, and Communications continue to invest in necessary system improvements each year to enhance reliability, efficiency and safety.
- The AMU Electric Utility is continuing the rebuild nearly 4 miles of the rural electric system to enhance reliability and replace facilities that are at the end of their useful life. The project includes replacing utility poles with new poles, cross arms and wire that meet current construction practices. In addition, the Electric Utility will install a new electric feeder from the Allen K. Buchanan substation to remove old overhead infrastructure and provide a looped electric system in the growing east residential section of Algona.
- In 2016, the AMU Electric Utility will complete a project to replace the original electromechanical protective relays and associated equipment with new solid state electronic equipment in both of AMU's electric substations. A protective relay is a device designed to trip a circuit breaker when a fault is detected. The relays protect electric service from interruption and also prevent or limit damage to the electric distribution system.
- AMU and the City of Algona continue to work jointly in switching out high pressure sodium street lights to more energy-efficient LED street lights. The new lights provide better light quality and reduce the electric consumption of each light.
- Each year, the water distribution system replaces undersized water mains and continues to loop the distribution system. These improvements to the water distribution system increase fire protection, enhance water quality and provide increased water pressure and flow to a growing water distribution system. System improvements are also accomplished each year to serve new developments in Algona.
- In 2016, the Water Utility will replace approximately 2,000 feet of 12 inch cast iron water main with new 12" PVC water main on the north side of Highway 18 for Algona Municipal Utilities. The existing water main is more than 50 years old and has experienced a large number of breaks attributed to the condition of the water main. In order to provide reliable water service and fire protection a new PVC water main will be installed in this area.
- AMU continues to expand the fiber to the premise system with plans to expand that system throughout the entire communications service territory in future years. The fiber system provides increased bandwidth to AMU customer/owners at a competitive price while enhancing economic development opportunities for the community. Algona Industrial businesses and several residential customers already have access to fiber service providing speeds from 1 Mbps to 1 Gbps. These speeds are only offered in a small number of communities throughout the U.S.
- AMU continues to look at project synergies to allow for multiple utility benefits with one project. The water main project is an example as electric and communications infrastructure will be installed during the water main installation to allow for the conversion of outdated electric infrastructure and expansion of fiber optics in the construction area.

## **CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general

overview of AMU's finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact management at 104 West Call Street in Algona.

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

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

	ENTERPRISE	
	ELECTRIC	
	2015	2014 (not restated)
Utility plant:		
Property and equipment	\$ 54,386,452	\$ 53,851,607
Less accumulated depreciation	(35,149,410)	(34,038,745)
	19,237,042	19,812,862
Construction in progress	8,972,083	9,177,130
Utility Plant - Net	28,209,125	28,989,992
Restricted funds		
Cash and cash equivalents	2,023,446	2,125,215
Short-term investments	411,627	368,828
	2,435,073	2,494,043
Current Assets:		
Cash and cash equivalents	3,797,490	3,905,731
Accounts receivable (net of allowance for doubtful accounts)	1,050,297	961,265
Unbilled usage	246,103	231,004
Accounts receivable -interfund	128,622	128,622
Inventory	1,138,984	1,178,746
Prepaid expenses	32,963	44,725
Accrued interest receivable - interfund loan	123,941	123,152
	6,518,400	6,573,245
Other assets:		
Investment in joint venture	175,662	175,662
Interfund loan receivable	3,440,000	3,440,000
Economic development loans receivable	527,458	488,981
	4,143,120	4,104,643
Total assets	41,305,718	42,161,923
Deferred outflows of resources:		
Pension related deferred outflows	242,174	-
Total assets and deferred outflows	\$ 41,547,892	\$ 42,161,923

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2015	2014 (not restated)	2015	2014 (not restated)	2015	2014 (not restated)
\$ 8,122,615	\$ 7,611,881	\$ 7,088,963	\$ 7,060,486	\$ 69,598,030	\$ 68,523,974
(3,372,868)	(3,121,305)	(4,004,023)	(3,653,933)	(42,526,301)	(40,813,983)
4,749,747	4,490,576	3,084,940	3,406,553	27,071,729	27,709,991
26,245	27,964	119,845	-	9,118,173	9,205,094
4,775,992	4,518,540	3,204,785	3,406,553	36,189,902	36,915,085
252,539	134,205	-	-	2,275,985	2,259,420
10,115	8,510	18,261	15,569	440,003	392,907
262,654	142,715	18,261	15,569	2,715,988	2,652,327
962,126	18,457	607,183	420,413	5,366,799	4,344,601
126,634	178,480	176,161	270,498	1,353,092	1,410,243
35,882	33,267	-	-	281,985	264,271
-	-	-	-	128,622	128,622
25,398	20,705	17,715	14,965	1,182,097	1,214,416
11,769	22,748	12,943	14,543	57,675	82,016
-	-	-	-	123,941	123,152
1,161,809	273,657	814,002	720,419	8,494,211	7,567,321
-	-	4,377	200,373	180,039	376,035
-	-	-	-	3,440,000	3,440,000
-	-	-	-	527,458	488,981
-	-	4,377	200,373	4,147,497	4,305,016
6,200,455	4,934,912	4,041,425	4,342,914	51,547,598	51,439,749
34,492	-	75,639	-	352,305	-
\$ 6,234,947	\$ 4,934,912	\$ 4,117,064	\$ 4,342,914	\$ 51,899,903	\$ 51,439,749

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

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

	ENTERPRISE	
	ELECTRIC	
	2015	2014 (not restated)
Liabilities:		
Current liabilities:		
Accounts payable	\$ 330,847	\$ 264,045
Accounts payable - City of Algona	400,000	400,000
Accounts payable - interfund	-	-
Retainage and contracts payable	-	-
Accrued taxes	138,309	113,073
Accrued wages and compensated absences	309,995	323,455
Accrued interest payable	41,853	43,328
Deferred revenue	-	-
Revenue bonds payable	1,166,085	1,135,525
	<u>2,387,089</u>	<u>2,279,426</u>
Noncurrent liabilities		
Revenue bonds payable - net of current portion	14,496,038	15,647,734
Interfund loan - payable	-	-
Other long-term debt	300,997	327,126
Accrued OPEB	249,283	235,870
Net pension liability	876,493	-
	<u>15,922,811</u>	<u>16,210,730</u>
Other liabilities		
Deferred compensation liability	411,627	368,828
	<u>411,627</u>	<u>368,828</u>
Total liabilities	18,721,527	18,858,984
Deferred inflows of resources		
Pension related deferred inflows	334,269	-
	<u>334,269</u>	<u>-</u>
Total liabilities and deferred inflows	<u>19,055,796</u>	<u>18,858,984</u>
Fund Net Position		
Net investment in capital assets	14,061,658	11,879,607
Restricted	2,023,446	2,125,215
Unrestricted	6,406,992	9,298,117
Total net position	<u>22,492,096</u>	<u>23,302,939</u>
Total liabilities and net position	<u>\$ 41,547,892</u>	<u>\$ 42,161,923</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2015	2014 (not restated)	2015	2014 (not restated)	2015	2014 (not restated)
\$ 91,322	\$ 60,587	\$ 139,839	\$ 120,288	\$ 562,008	\$ 444,920
45,000	45,000	68,519	67,437	513,519	512,437
-	-	128,622	128,622	128,622	128,622
-	28,730	-	-	-	28,730
3,502	3,497	38,657	45,621	180,468	162,191
52,986	58,174	83,093	88,709	446,074	470,338
2,725	2,859	123,941	123,152	168,519	169,339
-	-	209,606	206,581	209,606	206,581
196,881	111,294	228,239	1,398,260	1,591,205	2,645,079
392,416	310,141	1,020,516	2,178,670	3,800,021	4,768,237
2,277,135	1,000,000	1,195,172	207,153	17,968,345	16,854,887
-	-	3,440,000	3,440,000	3,440,000	3,440,000
369,223	401,060	-	-	670,220	728,186
44,353	38,131	102,862	88,606	396,498	362,607
124,831	-	273,760	-	1,275,084	-
2,815,542	1,439,191	5,011,794	3,735,759	23,750,147	21,385,680
10,115	8,510	18,261	15,569	440,003	392,907
3,218,073	1,757,842	6,050,571	5,929,998	27,990,171	26,546,824
47,607	-	104,404	-	486,280	-
3,265,680	1,757,842	6,154,975	5,929,998	28,476,451	26,546,824
2,185,292	3,006,186	-	-	16,246,950	14,885,793
252,539	134,205	-	-	2,275,985	2,259,420
531,436	36,679	(2,037,911)	(1,587,084)	4,900,517	7,747,712
2,969,267	3,177,070	(2,037,911)	(1,587,084)	23,423,452	24,892,925
\$ 6,234,947	\$ 4,934,912	\$ 4,117,064	\$ 4,342,914	\$ 51,899,903	\$ 51,439,749

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

**PROPRIETARY FUNDS  
STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
DECEMBER 31:**

	ENTERPRISE	
	ELECTRIC	
	2015	2014 (Not Restated)
Operating revenues:		
Sale of electricity:		
Residential and commercial	\$ 9,949,250	\$ 9,161,643
Sales for resale	2,917,152	3,176,653
Service provided to City of Algona	41,688	35,771
Sales to other utilities	134,607	125,793
Sale of water	-	-
Cable TV fees	-	-
Internet fees	-	-
Telephone service	-	-
Cell phone revenue	-	-
Miscellaneous and merchandising	314,433	234,497
Return on investment in AMU-Skylink LC	-	-
Total operating revenue	13,357,130	12,734,357
Operating expenses:		
Generation and power purchased	8,602,006	8,909,025
Transmission-distribution maintenance	595,459	510,776
Meter reading supplies and labor	140,754	131,466
Sales	39,386	49,916
General and other	809,955	839,709
Administration and general	315,188	433,038
Rebates and other expenses	157,631	106,006
Merchandise, jobbing and construction	22,560	12,530
Property tax and insurance	236,630	192,992
Depreciation	1,487,851	1,527,114
Services provided to the City of Algona	-	10,116
Payment in lieu of taxes	400,000	400,000
Source of supply	-	-
Maintenance of mains, services and meters	-	-
Maintenance of distribution and equipment	-	-
Headend programming	-	-
Customer accounts	-	-
Total operating expenses	12,807,420	13,122,688
Income (loss) from operations	\$ 549,710	\$ (388,331)

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2015	2014 (Not Restated)	2015	2014 (Not Restated)	2015	2014 (Not Restated)
\$ -	\$ -	\$ -		\$ 9,949,250	\$ 9,161,643
-	-	-		2,917,152	3,176,653
-	-	-		41,688	35,771
-	-	-		134,607	125,793
1,033,087	1,029,162	-		1,033,087	1,029,162
-	-	1,375,499	1,354,062	1,375,499	1,354,062
-	-	1,024,361	976,930	1,024,361	976,930
-	-	864,871	973,814	864,871	973,814
-	-	52,628	60,736	52,628	60,736
55,692	40,488	135,079	85,377	505,204	360,362
-	-	(193,239)	(72,777)	(193,239)	(72,777)
1,088,779	1,069,650	3,259,199	3,378,142	17,705,108	17,182,149
-	-	-		8,602,006	8,909,025
-	-	-		595,459	510,776
-	-	-		140,754	131,466
-	-	-		39,386	49,916
-	-	-		809,955	839,709
325,733	275,869	722,487	710,402	1,363,408	1,419,309
-	-	-		157,631	106,006
25,600	29,346	68,838	68,353	116,998	110,229
-	-	66,094	71,390	302,724	264,382
253,541	227,800	365,793	330,379	2,107,185	2,085,293
-	201	-	173	-	10,490
45,000	45,000	68,519	67,437	513,519	512,437
200,694	192,220	-		200,694	192,220
216,028	173,286	-		216,028	173,286
-	-	209,987	214,435	209,987	214,435
-	-	1,581,490	1,497,203	1,581,490	1,497,203
40,615	52,594	117,493	163,581	158,108	216,175
1,107,211	996,316	3,200,701	3,123,353	17,115,332	17,242,357
\$ (18,432)	\$ 73,334	\$ 58,498	\$ 254,789	\$ 589,776	\$ (60,208)

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

**PROPRIETARY FUNDS  
STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION - continued**

**DECEMBER 31:**

	ENTERPRISE	
	ELECTRIC	
	2015	2014 (Not Restated)
Non-operating income (expense)		
Interest income	\$ 147,075	\$ 132,415
Interest expense	(513,584)	(447,341)
Debt issuance costs	-	(72,430)
Grant income	15,166	116,439
Miscellaneous	60,838	65,587
Donations	(44,941)	(55,965)
Gain (loss) on disposition of assets	22,561	(32,684)
Total non-operating expense	<u>(312,885)</u>	<u>(293,979)</u>
Income (loss) before other revenues, expenses and transfers	<u>236,825</u>	<u>(682,310)</u>
Net position, beginning	23,302,939	23,985,249
Prior period adjustment for change in accounting	(1,047,668)	-
Net position, restated beginning	<u>22,255,271</u>	<u>23,985,249</u>
Net position, ending	<u>\$ 22,492,096</u>	<u>\$ 23,302,939</u>

See Notes to Financial Statements

Exhibit B - continued

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2015	2014 (Not Restated)	2015	2014 (Not Restated)	2015	2014 (Not Restated)
\$ 128	\$ 536	\$ 921	\$ 276	\$ 148,124	\$ 133,227
(57,264)	(44,646)	(185,847)	(193,630)	(756,695)	(685,617)
-	-	-	-	-	(72,430)
-	-	-	-	15,166	116,439
15,299	34,346	2,531	3,375	78,668	103,308
-	-	-	-	(44,941)	(55,965)
1,676	(83,105)	295	-	24,532	(115,789)
(40,161)	(92,869)	(182,100)	(189,979)	(535,146)	(576,827)
(58,593)	(19,535)	(123,602)	64,810	54,630	(637,035)
3,177,070	3,196,605	(1,587,084)	(1,651,894)	24,892,925	25,529,960
(149,210)	-	(327,225)	-	(1,524,103)	-
3,027,860	3,196,605	(1,914,309)	(1,651,894)	23,368,822	25,529,960
\$ 2,969,267	\$ 3,177,070	\$ (2,037,911)	\$ (1,587,084)	\$ 23,423,452	\$ 24,892,925

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

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

	ENTERPRISE	
	ELECTRIC	
	2015	2014 (not restated)
Cash flows from operating activities:		
Cash receipts from customers	\$ 12,869,574	\$ 12,458,526
Cash receipts from interfund services	200,059	207,196
Other operating cash receipts	231,872	191,908
Cash payments to suppliers	(9,726,002)	(10,711,399)
Cash payments to employees	(1,577,638)	(1,319,069)
Cash payments for interfund services	-	-
Net cash provided (used) by operating activities	<u>1,997,865</u>	<u>827,162</u>
Cash flows from noncapital financing activities:		
Donations	<u>(44,941)</u>	<u>(55,965)</u>
Net cash (used) by noncapital financing activities	<u>(44,941)</u>	<u>(55,965)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(684,423)	(1,799,203)
Repayment of long term debt	(1,147,265)	(925,062)
Proceeds from note issuances	-	3,683,098
Grant received	15,166	116,439
Cash payments for interest	<u>(515,059)</u>	<u>(447,281)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,331,581)</u>	<u>627,991</u>
Cash flows from investing activities:		
Interest received during the year	146,286	132,415
Principal received on economic development loan	111,523	99,918
Issuance of new economic development loans	(150,000)	(74,000)
Miscellaneous income	<u>60,838</u>	<u>65,000</u>
Net cash provided (used) by investing activities	<u>\$ 168,647</u>	<u>\$ 223,333</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2015	2014 (not restated)	2015	2014 (not restated)	2015	2014 (not restated)
\$ 1,138,010	\$ 1,080,164	\$ 3,448,512	\$ 3,517,400	\$ 17,456,096	\$ 17,056,090
-	-	-	-	200,059	207,196
-	-	3,049	513	234,921	192,421
(556,564)	(515,170)	(2,137,334)	(2,276,305)	(12,419,900)	(13,502,874)
(227,603)	(194,260)	(471,497)	(428,224)	(2,276,738)	(1,941,553)
(71,437)	(78,574)	(128,622)	(128,622)	(200,059)	(207,196)
<u>282,406</u>	<u>292,160</u>	<u>714,108</u>	<u>684,762</u>	<u>2,994,379</u>	<u>1,804,084</u>
-	-	-	-	(44,941)	(55,965)
-	-	-	-	(44,941)	(55,965)
(509,317)	(776,156)	(163,730)	(157,432)	(1,357,470)	(2,732,791)
(104,115)	(110,000)	(182,002)	(191,462)	(1,433,382)	(1,226,524)
1,435,000	-	-	-	1,435,000	3,683,098
-	-	-	-	15,166	116,439
(57,398)	(45,000)	(185,058)	(193,630)	(757,515)	(685,911)
<u>764,170</u>	<u>(931,156)</u>	<u>(530,790)</u>	<u>(542,524)</u>	<u>(2,098,201)</u>	<u>(845,689)</u>
128	536	921	276	147,335	133,227
-	-	-	-	111,523	99,918
-	-	-	-	(150,000)	(74,000)
<u>15,299</u>	<u>34,346</u>	<u>2,531</u>	<u>3,375</u>	<u>78,668</u>	<u>102,721</u>
<u>\$ 15,427</u>	<u>\$ 34,882</u>	<u>\$ 3,452</u>	<u>\$ 3,651</u>	<u>\$ 187,526</u>	<u>\$ 261,866</u>

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

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

	ENTERPRISE	
	ELECTRIC	
	2015	2014 (not restated)
Net increase (decrease) in cash and cash equivalents	\$ (210,010)	\$ 1,622,521
Cash and cash equivalents-beginning of year	6,030,946	4,408,425
Cash and cash equivalents-end of year	5,820,936	6,030,946
Restricted funds	2,023,446	2,125,215
Current assets	3,797,490	3,905,731
	5,820,936	6,030,946
Reconciliation of operating income to net cash provided by operating activities:		
Income (loss) from operations	549,710	(388,331)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,487,851	1,527,114
(Gain) loss from investment in AMU-Skylink LC	-	-
Change in accounts receivable	(89,032)	134,112
Change in unbilled usage	(15,099)	(10,839)
Change in prepaid expenses	11,762	(3,171)
Change in inventory	39,762	438,063
Change in accounts payable and retainages payable	66,802	(927,767)
Change in accrued taxes	25,236	(23,566)
Change in accrued wages and compensated absences	(13,460)	42,319
Change in deferred revenue	-	-
Change in deferred outflows	(48,459)	-
Change in OPEB liability	13,413	39,228
Change in net pension liability	(364,890)	-
Change in deferred inflows	334,269	-
Net cash provided by operating activities	\$ 1,997,865	\$ 827,162

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2015	2014 (not restated)	2015	2014 (not restated)	2015	2014 (not restated)
\$ 1,062,003	\$ (604,114)	\$ 186,770	\$ 145,889	\$ 1,038,763	\$ 1,164,296
152,662	756,776	420,413	274,524	6,604,021	5,439,725
<u>1,214,665</u>	<u>152,662</u>	<u>607,183</u>	<u>420,413</u>	<u>7,642,784</u>	<u>6,604,021</u>
252,539	134,205	-	-	2,275,985	2,259,420
962,126	18,457	607,183	420,413	5,366,799	4,344,601
<u>1,214,665</u>	<u>152,662</u>	<u>607,183</u>	<u>420,413</u>	<u>7,642,784</u>	<u>6,604,021</u>
(18,432)	73,334	58,498	254,789	589,776	(60,208)
253,541	227,800	365,793	330,379	2,107,185	2,085,293
	-	193,239	72,777	193,239	72,777
51,846	(19,337)	94,337	40,923	57,151	155,698
(2,615)	149	-	-	(17,714)	(10,690)
10,979	(1,490)	1,600	15,424	24,341	10,763
(4,693)	9,932	(2,750)	(4,598)	32,319	443,397
2,005	(10,954)	20,633	(63,279)	89,440	(1,002,000)
5	1,013	(4,207)	(12,700)	21,034	(35,253)
(5,188)	6,637	(5,616)	8,740	(24,264)	57,696
-	-	3,025	26,131	3,025	26,131
(6,903)	-	(15,135)	-	(70,497)	-
6,222	5,076	14,256	16,176	33,891	60,480
(51,968)	-	(113,969)	-	(530,827)	-
47,607	-	104,404	-	486,280	-
<u>\$ 282,406</u>	<u>\$ 292,160</u>	<u>\$ 714,108</u>	<u>\$ 684,762</u>	<u>\$ 2,994,379</u>	<u>\$ 1,804,084</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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

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

A. Reporting Entity

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

B. Basis of Presentation

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

AMU reports the following major proprietary funds:

Enterprise:

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

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

C. Measurement Focus and Basis of Accounting

AMU maintains its financial records on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

E. Utility Plant and Depreciation

The utility plant is stated at original cost when first devoted to public service. Expenditures for additions and betterments (including labor charges) are capitalized, while expenditures for repairs and maintenance are charged to

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

**NOTES TO FINANCIAL STATEMENTS**

operations as incurred. The costs of assets retired or sold and the related accumulated depreciation are eliminated from the accounts in the year of disposal, with the resulting gain or loss credited or charged to operations. The straight-line method is used for computing depreciation with estimated useful lives ranging from two to fifty years.

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

Revenues are based on billing rates applied to customers' consumption. Unbilled usage represents revenues based upon estimated consumption for the period between the last billing dates at the end of the year. Deferred revenue represents amounts billed for cable television, internet, telephone, and data services that had not yet been delivered at the end of the year. The allowance method is used to account for uncollectible accounts receivable. AMU charges 1.5% per month on past due accounts.

The Communications Utility also has receivables from Carrier Access Billing (CABS) that are separate from customer charges. As of December 31, 2015 and 2014, \$1,316 and \$292,316 in (CABS) receivables were older than 90 days.

The balance of the allowance for doubtful accounts as of December 31, 2015 and 2014 were as follows:

	Electric	Water	Communications
December 31, 2015	\$ 38,250	\$ 3,750	\$ 14,250
December 31, 2014	\$ 36,000	\$ 4,200	\$ 235,000

G. Inventory

Inventory is valued at average cost.

H. Joint Plant Ownership

Neal 4 Generating System - The Utility is one of fourteen owners of Unit 4 George Neal Generating Station which is managed by MidAmerican Energy. The Utility owns a 2.937% undivided ownership interest of the generating station for generating, purchasing, obtaining by exchange, or otherwise acquiring or

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

**NOTES TO FINANCIAL STATEMENTS**

transmitting electric power and energy. The Utility has recorded its share of the costs as capital assets and inventory in the Electric Fund.

Lehigh-Webster Transmission System - The Utility is one of fifteen owners of Lehigh-Webster Transmission System which is managed by Algona Municipal Utilities. The Utility owns a 4.18% undivided ownership interest of the transmission system. The Utility has recorded its share of the costs as capital assets in the Electric Fund.

Iowa Distributed Wind Generation Project (IDWGP) - The Utility is one of seven owners of IDWGP, a project with three 750KW wind turbine generators, which is managed by Algona Municipal Utilities. The Utility owns an 11.1% undivided ownership interest in IDWGP. The Utility has recorded its share of the costs as capital assets in the Electric Fund.

I. Interest Capitalization

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

J. Net Position

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

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

K. Rate Matters

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

**NOTES TO FINANCIAL STATEMENTS**

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

M. Cash and Cash Equivalents

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

N. Contracts

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

**NOTE 2 - CASH AND INVESTMENTS**

AMU's deposits at December 31, 2015 and 2014 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

AMU had investments in the Iowa Public Agency Investments Trust at December 31, 2015 and 2014 of approximately \$361,900, which are valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

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

**NOTES TO FINANCIAL STATEMENTS**

Credit Risk – The Electric Utility had \$-0- and \$3,014,299 included as cash on the Statement of Net Position at December 31, 2015 and 2014 that was held in a money market rated AAA by Standard & Pools.

Interest rate risk – The Utilities’ investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities. Reconciliation of the Utilities’ cash and cash equivalents and temporary cash and investments for the years ended December 31, 2015 and 2014 is as follows:

	December 31, 2015			
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Restricted	2,023,446	252,539	-	2,275,985
Current assets	3,797,490	962,126	607,183	5,366,799
	5,820,936	1,214,665	607,183	7,642,784
Investments				
Restricted	411,627	10,115	18,261	440,003
	411,627	10,115	18,261	440,003
Total cash and cash equivalents and investments	\$ 6,232,563	1,224,780	625,444	\$ 8,082,787
	December 31, 2014			
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Restricted	2,125,215	134,205	-	2,259,420
Current assets	3,905,731	18,457	420,413	4,344,601
	6,030,946	152,662	420,413	6,604,021
Investments				
Restricted	368,828	8,510	15,569	392,907
	368,828	8,510	15,569	392,907
Total cash and cash equivalents and investments	\$ 6,399,774	161,172	435,982	\$ 6,996,928

**NOTE 3 – INTERFUND LOAN**

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

**NOTES TO FINANCIAL STATEMENTS**

Management authorized interfund loans from the Electric Fund to the Communications Fund amounting to \$3,440,000 dedicated to finance the construction of the AMU broadband telecommunications network. All monies transferred shall be repaid to the originating account by December 1, 2030 with interest at the rate of 3.85% per annum. As of December 31, 2015 and 2014 the outstanding balance on the interfund loan was \$3,440,000.

AMU has established an amortization schedule that calls for monthly payments of \$25,190 starting in 2016 from the Communications Fund to the Electric Fund in order to satisfy this interfund obligation. The future minimum payments required under this obligation are as follows:

Years ended December 31:	Principle	Interest	Total
2016	172,857	129,426	302,283
2017	179,631	122,652	302,283
2018	186,670	115,613	302,283
2019	193,985	108,298	302,283
2020	201,587	100,696	302,283
2021-2025	1,132,803	378,612	1,511,415
2026-2030	1,372,467	138,568	1,511,035
	3,440,000	1,093,865	4,533,865

This interfund loan is reflected on the Electric Department Balance Sheet as an Other Asset. It is reflected on the Communication Department Balance Sheet as a Noncurrent Liability. Accrued interest as of December 31, 2015 and 2014 of \$123,941 and \$123,152, respectively, is also reflected on the Electric Department Balance Sheet as Accrued Interest Receivable – Interfund Loan and the Communication Department Balance Sheet as Accrued Interest Payable - Interfund Loan.

**NOTE 4 – USDA ECONOMIC DEVELOPMENT LOAN FUND**

In conjunction with the USDA (United States Rural Development), AMU has established a revolving loan fund. The funding for the program came from two separate \$300,000 grants from the USDA supplemented by \$120,000 of matching funds provided by AMU.

This program has made multiple loans to local charitable organizations/governmental organizations to assist in furthering economic development in the Algona area. As of December 31, 2015 and 2014 notes receivable under this program amounted to \$527,458 and \$488,981.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 – REVENUE BONDS PAYABLE**

The following is a summary of changes in revenue bond debt for the years ended December 31, 2015 and 2014.

**Electric Utility:**

	Balance 1/1/15	Issued	Repaid	Balance 12/31/15
Business type activities:				
Revenue Bonds – Series 2011	12,995,000	-	920,000	12,075,000
Revenue Bonds – Series 2014	3,590,000	-	190,000	3,400,000
	<u>16,585,000</u>	<u>-</u>	<u>1,110,000</u>	<u>15,475,000</u>

The Electric Revenue Bonds – Series 2015 were issued at a premium. The unamortized premium is being amortized over the life of the bonds. The unamortized premium as of December 31, 2015 and 2014 was \$161,038 and \$172,734, respectively.

	Balance 1/1/14	Issued	Repaid	Balance 12/31/14
Business type activities:				
Revenue Bonds – Series 2008	320,000	-	320,000	-
Revenue Bonds – Series 2011	13,575,000	-	580,000	12,995,000
Revenue Bonds – Series 2015	-	3,590,000	-	3,590,000
	<u>13,895,000</u>	<u>3,590,000</u>	<u>900,000</u>	<u>16,585,000</u>

**Water Utility:**

	Balance 1/1/15	Issued	Repaid	Balance 12/31/15
Business type activities:				
Revenue Bonds – issued October 5, 2010	1,080,000	-	80,000	1,000,000
Revenue Bonds – series 2015	-	1,435,000	-	1,435,000
	<u>1,080,000</u>	<u>1,435,000</u>	<u>80,000</u>	<u>2,435,000</u>

	Balance 1/1/14	Issued	Repaid	Balance 12/31/14
Business type activities:				
Revenue Bonds – issued October 5, 2010	1,115,000	-	75,000	1,080,000
	<u>1,115,000</u>	<u>-</u>	<u>75,000</u>	<u>1,080,000</u>

**Communications Utility:**

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	Balance 1/1/15	Issued	Repaid	Balance 12/31/15
Business type activities:				
Revenue Bonds–Series 2005	243,127	-	36,271	206,856
Revenue Bonds–Series 2010	1,362,286	-	1,362,286	-
Refunding Bonds–Series 2015	-	1,232,300	15,745	1,216,555
	1,605,413	1,232,300	1,414,302	1,423,411

	Balance 1/1/14	Issued	Repaid	Balance 12/31/14
Business type activities:				
Revenue Bonds–Series 2005	277,319	-	34,192	243,127
Revenue Bonds–Series 2010	1,519,556	-	157,270	1,362,286
	1,796,875	-	191,462	1,605,413

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

Year Ending December 31,	Electric Series 2011 Interest 2.00%-4.00%		Electric Series 2014 Interest 2.00%-4.00%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2016	940,000	389,938	200,000	112,300	1,140,000
2017	960,000	371,138	205,000	108,300	1,165,000	479,438
2018	985,000	349,538	210,000	104,200	1,195,000	453,738
2019	1,010,000	324,912	215,000	100,000	1,225,000	424,912
2020	1,045,000	297,138	220,000	93,550	1,265,000	390,688
2021-2025	5,825,000	938,752	1,210,000	361,050	7,035,000	1,299,802
2026-2029	1,310,000	52,400	1,140,000	116,000	2,450,000	168,400
	12,075,000	2,723,816	3,400,000	995,400	15,475,000	3,719,216

Year Ending December 31,	Water Series 2010 Interest 2.25-3.90%		Water Series 2015 Interest 1.75-3.00%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2016	85,000	32,703	80,000	30,420	165,000
2017	85,000	30,790	85,000	31,685	170,000	62,475
2018	90,000	28,665	85,000	30,198	175,000	58,863
2019	95,000	26,190	85,000	28,710	180,000	54,900
2020	95,000	23,340	85,000	27,223	180,000	50,563
2021-2025	550,000	64,050	470,000	109,948	1,020,000	173,998
2026-2030	-	-	545,000	49,600	545,000	49,600
	1,000,000	205,738	1,435,000	307,784	2,435,000	513,522

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Year Ending December 31,	Communications Series 2005 Interest 5.09%		Communications Series 2015 Interest 3.0%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2016	37,551	9,811	190,688	33,891	228,239
2017	39,820	7,839	196,587	28,088	236,407	35,927
2018	41,895	5,764	202,570	22,108	244,465	27,872
2019	44,078	3,581	208,731	15,947	252,809	19,528
2020	43,512	1,285	215,080	9,598	258,592	10,883
2021	-	-	202,899	3,056	202,899	3,056
	206,856	28,280	1,216,555	112,687	1,423,411	140,967

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

The Electric Revenue Bonds:

- A. The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to the Electric Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- C. A reserve fund shall be established and maintained at a level equal to or less than \$1,678,804. The reserve was fully funded at December 31, 2015 and 2014.
- D. Rates are to be established sufficient to produce "Net Revenues" of not less than 125% of the principal and interest due on the bonds.

The Water Revenue Bonds:

- A. Sufficient monthly transfers shall be made to the Water Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- B. A reserve fund shall be established and maintained at a level equal to or less than \$124,680. The reserve was fully funded at December 31, 2015 and 2014.
- C. Rates are to be established sufficient to produce "Net Revenues" of not less than 125% of the principal and interest requirements on the bonds.

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**NOTES TO FINANCIAL STATEMENTS**

The Communications Revenue Bonds:

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

**NOTE 6 –ENERGY MANAGEMENT IMPROVEMENT LOAN**

AMU has financed certain energy efficiency and renewable energy improvement projects through a loan agreement with the Iowa Association of Municipal Utilities (IAMU). On October 1, 2013, AMU executed an agreement with IAMU to borrow \$849,874 to make distribution system improvements that reduce line losses and facilitate the implementation of smart grid measures. This note is split 55% and 45% between the water and electric funds, respectively. \$56,819 in principal was paid on this note during 2015 by the Electric and Water funds in proportion to the percentages disclosed in this paragraph.

Annual debt service requirements for this loan are as follows:

Year Ending December 31,	Electric & Water Interest 2.00%	
	Principal	Interest
2016	57,964	14,036
2017	59,135	12,865
2018	60,330	11,670
2019	61,548	10,452
2020	62,790	9,211
2021-2025	333,474	26,526
2026-2027	92,945	1,301
	728,186	86,061

**NOTE 7 – INTEREST COSTS**

During the years ended December 31, 2015 and 2014, the interest incurred and expensed by the Electric Fund was \$513,584 and \$447,341 respectively.

During the years ended December 31, 2015 and 2014, the interest incurred by the Water Fund was \$57,264 and \$44,646 respectively.

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During the years ended December 31, 2015 and 2014, the interest incurred by the Communication Fund was \$185,847 and \$193,630 respectively.

The Electric Fund recognized interest income of \$123,941 and \$123,152 from the interfund loan during 2015 and 2014.

**NOTE 8 – RESTRICTED FUNDS**

As of December 31, 2015 Restricted Funds consisted of the following.

	Electric	Water	Communication	Total
Bond Sinking	136,853	9,809	-	146,662
Bond Reserve	1,678,800	242,730	-	1,921,530
Revolving loan fund	199,267	-	-	199,267
Deferred Compensation	411,627	10,115	18,261	440,003
Other	8,526	-	-	8,526
	<u>2,435,073</u>	<u>262,654</u>	<u>18,261</u>	<u>2,715,988</u>

As of December 31, 2014 Restricted Funds consisted of the following:

	Electric	Water	Communication	Total
Bond Sinking	214,847	9,525	-	224,372
Bond Reserve	1,678,800	124,680	-	1,803,480
Revolving loan fund	231,568	-	-	231,568
Deferred Compensation	368,828	8,510	15,569	392,907
	<u>2,494,043</u>	<u>142,715</u>	<u>15,569</u>	<u>2,652,327</u>

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

**NOTE 9 - PENSION AND RETIREMENT BENEFITS**

Plan Description – IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is

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available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member’s first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member’s monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member’s highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member’s monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member’s earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member’s lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is

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determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's contributions to IPERS for the year ended December 31, 2015 were \$204,172.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At December 31, 2015, the Utility reported a liability of \$1,275,084 for its proportionate share of the net pension liability. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the collective net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Utility's proportion was 0.031506% percent, which was a decrease of 0.002937 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the Utility collective pension expense, collective deferred outflows and collective deferred inflows totaled \$166,766, \$352,305 and \$486,280 respectively.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	13,858	-
Changes of assumptions	56,272	-
Net difference between projected and actual earnings on pension plan investments	-	486,280
Changes in proportion and differences between Utility contributions and proportionate share of contributions	(18,028)	-
Utility contributions subsequent to the measurement date	300,203	-
	352,305	486,280

\$352,305 reported as deferred outflows of resources related to pensions resulting from the Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Total
2016	(109,691)
2017	(109,691)
2018	(109,691)

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2019	(109,691)
2020	4586
	434,178

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investments expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

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Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utility’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utility’s proportionate share of the net pension liability (asset)	\$2,409,236	\$1,275,084	\$317,743

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at [www.ipers.org](http://www.ipers.org).

Payable to the Pension Plan – At December 31, 2015, the Utility reported payables to the defined benefit pension plan of \$-0- for legally required employer contributions and \$38,062 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**NOTE 10 - TRANSFERS TO CITY IN LIEU OF PROPERTY TAXES**

By resolution of AMU’s Board of Trustees, the Utility may make an annual Payment in Lieu of Taxes (PILOT) to the City of Algona.

For the years ended December 31, 2015 and 2014, payments in lieu of taxes to the City of Algona by fund were as follows:

	<u>2015</u>	<u>2014</u>
Electric Fund	400,000	400,000
Water Fund	45,000	45,000
Communications Fund	68,519	67,437
	513,519	512,437

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**NOTE 11 – RISK MANAGEMENT**

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years. The Utility assumes liability for any deductibles and claims in excess of coverage limitations.

**NOTE 12 - JOINT VENTURES**

AMU has a 15% ownership interest in the Iowa Public Power Agency (IPPA). IPPA was formed under Iowa Code chapter 28E for the purpose of enabling smaller municipal utilities to own an interest in electric transmission lines. AMU's total equity position at December 31, 2015 and 2014 is approximately \$175,662 (classified as Investment in Joint Venture on the statement of net position). This funding was to assist the IPPA purchase a \$3.5 million share in a transmission line project, in partnership with MidAmerican Energy. Audited statements for the IPPA are available upon request at the AMU business office.

Condensed financial information for IPPA as of December 31, 2015 and 2014 is as follows:

	December 31, 2015	December 31, 2014
Total assets	\$ 3,507,751	\$ 3,608,926
Total liabilities	2,711,542	2,821,992
Member equity	796,209	786,934
	\$ 3,507,751	\$ 3,805,083
Revenues	657,085	661,312
Expenses	(297,812)	(296,324)
Net income	\$ 359,273	\$ 364,988

AMU also has a 50% ownership interest in AMU-Skylink LC (an LLC). AMU-Skylink LC is in the process of ceasing operations and is valued at \$4,377 and \$200,373 as of December 31, 2015 and 2014 respectively.

**NOTE 13 – COMPENSATED ABSENCES**

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AMU employees accumulate a limited amount of earned but unused vacation. The Utilities' approximate liability for earned vacation payments payable to employees at December 31, 2015 and 2014 is as follows:

Type of Benefit	Electric	Water	Communications	Total
December 31, 2015: Vacation	\$ 85,131	12,746	23,839	\$ 121,716
December 31, 2014: Vacation	\$ 86,853	12,371	20,462	\$ 119,686

**NOTE 14 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2015 and 2014 was as follows:

<b>2015</b>				
<b>Electric Fund</b>				
<b>Proprietary Activities</b>	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 256,366	-	-	\$ 256,366
Construction in progress	9,177,132	648,570	853,618	8,972,084
	9,433,498	648,572	853,618	9,228,450
Capital assets being depreciated:				
Buildings and improvements	2,799,436	-	-	2,799,436
Equipment and vehicles	2,416,323	23,397	-	2,439,719
Infrastructure	48,379,483	891,160	379,713	48,890,930
Total capital assets being depreciated	53,595,242	914,557	379,713	54,130,085
Less accumulated depreciation for:				
Buildings and improvements	1,072,416	67,871	-	1,140,287
Equipment and vehicles	1,882,570	99,518	-	1,982,088
Infrastructure, road network	31,083,759	1,319,794	376,518	32,027,035
Total accumulated depreciation	34,038,745	1,487,183	376,518	35,149,410
Total capital assets being depreciated, net	19,556,497			18,980,675
Total capital assets, net	\$28,989,995			\$28,209,125

<b>Water Fund</b>				
<b>Proprietary Activities</b>	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	27,964	467,344	469,063	26,245
	40,270	467,344	469,063	38,551
Capital assets being depreciated:				
Equipment and vehicles	374,936	4,800	-	379,736
Infrastructure	7,224,639	510,800	4,866	7,730,573
Total capital assets being depreciated	7,599,575	515,600	4,866	8,110,309

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Less accumulated depreciation for:				
Equipment and vehicles	241,532	28,866	-	270,398
Infrastructure, road network	2,879,773	224,675	1,978	3,102,471
Total accumulated depreciation	<u>3,121,305</u>	<u>253,541</u>	<u>1,978</u>	<u>3,372,868</u>
Total capital assets being depreciated, net	<u>4,478,270</u>			<u>4,737,441</u>
Business type activities capital assets, net	<u>\$4,518,540</u>			<u>\$4,775,992</u>

**Communications Fund**

<b>Proprietary Activities</b>	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	-	120,778	933	119,845
	<u>49,635</u>	<u>120,778</u>	<u>933</u>	<u>169,480</u>
Capital assets being depreciated:				
Buildings and improvements	271,793	-	-	271,793
Equipment and vehicles	234,424	-	-	234,424
Infrastructure	6,504,633	44,196	15,718	6,533,111
Total capital assets being depreciated	<u>7,010,850</u>	<u>44,195</u>	<u>15,718</u>	<u>7,039,328</u>
Less accumulated depreciation for:				
Buildings and improvements	119,208	9,971	-	129,179
Equipment and vehicles	157,501	15,589	-	173,090
Infrastructure, road network	3,377,223	340,236	15,705	3,701,754
Total accumulated depreciation	<u>3,653,932</u>	<u>365,793</u>	<u>15,705</u>	<u>4,004,023</u>
Total capital assets being depreciated, net	<u>3,356,918</u>			<u>3,035,305</u>
Business type activities capital assets, net	<u>\$3,406,553</u>			<u>\$3,204,785</u>

**2014  
Electric Fund**

<b>Proprietary Activities</b>	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 256,366	-	-	\$ 256,366
Construction in progress	7,514,461	1,662,669	-	9,177,130
	<u>7,770,827</u>	<u>1,662,669</u>	<u>-</u>	<u>9,433,496</u>
Capital assets being depreciated:				
Buildings and improvements	2,799,436	-	-	2,799,436
Equipment and vehicles	2,268,124	168,252	20,054	2,416,322
Infrastructure	49,790,858	-	1,411,375	48,379,483
Total capital assets being depreciated	<u>54,858,418</u>	<u>168,252</u>	<u>1,431,429</u>	<u>53,595,241</u>
Less accumulated depreciation for:				
Buildings and improvements	1,004,344	68,072	-	1,072,416
Equipment and vehicles	1,789,144	113,451	20,025	1,882,570

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Infrastructure, road network	31,092,963	1,345,591	1,354,795	31,083,759
Total accumulated depreciation	<u>33,886,451</u>	<u>1,527,114</u>	<u>1,374,820</u>	<u>34,038,745</u>
Total capital assets being depreciated, net	<u>20,622,749</u>			<u>19,556,496</u>
Total capital assets, net	<u>\$28,742,794</u>			<u>\$28,989,992</u>

**Water Fund**

<b>Proprietary Activities</b>	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	186,920	27,964	186,920	27,964
	<u>199,226</u>	<u>27,964</u>	<u>186,920</u>	<u>40,270</u>
Capital assets being depreciated:				
Equipment and vehicles	306,829	68,107	-	374,933
Infrastructure	6,699,459	874,290	33,864	7,224,642
Total capital assets being depreciated	<u>7,006,288</u>	<u>942,397</u>	<u>33,864</u>	<u>7,599,575</u>
Less accumulated depreciation for:				
Equipment and vehicles	210,971	30,561	-	241,532
Infrastructure, road network	2,945,851	197,239	30,853	2,879,773
Total accumulated depreciation	<u>3,156,822</u>	<u>227,800</u>	<u>30,853</u>	<u>3,121,305</u>
Total capital assets being depreciated, net	<u>3,849,466</u>			<u>4,478,270</u>
Business type activities capital assets, net	<u>\$ 4,048,692</u>			<u>4,518,540</u>

**Communications Fund**

<b>Proprietary Activities</b>	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	667,378	-	667,378	-
	<u>717,013</u>	<u>-</u>	<u>667,378</u>	<u>49,635</u>
Capital assets being depreciated:				
Buildings and improvements	271,793	-	-	271,793
Equipment and vehicles	221,523	12,901	-	234,424
Infrastructure	5,751,942	811,907	59,215	6,504,634
Total capital assets being depreciated	<u>6,245,258</u>	<u>824,808</u>	<u>59,215</u>	<u>7,010,851</u>
Less accumulated depreciation for:				
Buildings and improvements	109,237	9,971	-	119,208
Equipment and vehicles	137,702	19,799	-	157,501
Infrastructure, road network	3,135,831	300,609	59,216	3,377,224
Total accumulated depreciation	<u>3,382,770</u>	<u>330,379</u>	<u>59,216</u>	<u>3,653,933</u>

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

**NOTES TO FINANCIAL STATEMENTS**

Total capital assets being depreciated, net	2,862,488	3,356,918
Business type activities capital assets, net	\$ 3,579,501	\$ 3,406,553

Depreciation expense was charged to the following functions:

<b>Proprietary activities:</b>	December 31, 2015	December 31, 2014
Electric	\$ 1,487,851	\$ 1,527,114
Water	253,541	227,800
Communications	365,793	330,379
	\$ 2,107,185	\$ 2,085,293

**NOTE 15 – JOINT LEASE AGREEMENT**

AMU constructed a distribution system to facilitate the implementation of the data services offered to area residents and businesses. Portions of this system and the office facilities maintained by the Electric utility are leased under a forty-year operating lease, requiring annual payments of \$128,622. As of December 31, 2015 and 2014, \$128,622 in lease payments due under this agreement was included in accounts payable. The future minimum lease payments are as follows:

Year Ending	
2016	128,622
2017	128,622
2018	128,622
2019	128,622
2020	128,622
2021-2025	643,110
2026-2030	643,110
2031-2035	643,110
2036-2040	643,110
2041-2043	385,866
Total	\$ 3,601,416

**NOTE 16 – DEFICIT NET POSITION**

The Communications Fund has a deficit balance of \$2,037,911 and \$1,587,084 as of December 31, 2015 and 2014 respectively.

**NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

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

**NOTES TO FINANCIAL STATEMENTS**

Plan Description - AMU operates a single-employer retiree benefit plan which provides medical/dental benefits for retirees and their spouses. There are 38 active and 1 retired member in the plan. Participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the AMU's annual OPEB cost for the year ended December 31, 2015 and 2014, the amount actually contributed to the plan and changes in AMU's net OPEB obligation:

	Electric	Water	Communications	Total
Annual required contribution	\$ 35,077	\$ 6,213	\$ 14,232	\$ 55,522
Interest on net OPEB obligation	9,435	1,525	3,544	14,504
Adjustment to annual required contribution	(9,374)	(1,514)	(3,521)	(14,410)
Annual OPEB cost	35,138	6,223	14,255	55,616
Contributions made	(21,725)	-	-	(21,725)
Increase in net OPEB obligation	13,412	6,223	14,255	33,890
Net OPEB obligation beginning of year	235,870	38,131	88,606	362,607
Net OPEB obligation end of year	\$ 249,283	\$ 44,354	\$ 102,861	\$ 396,498

For calculation of the net OPEB obligation, the actuary has set the measurement date as December 31, 2015. 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, 2015 and 2014.

For the years ended December 31, 2015 and 2014, AMU contributed \$21,725 and \$0- to the medical plan, respectively.

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

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

**NOTES TO FINANCIAL STATEMENTS**

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	\$ 55,616	39.1%	\$ 396,498
December 31, 2014	\$ 60,480	0%	\$ 362,607
December 31, 2012	\$ 60,480	0%	\$ 302,127

Funded Status and Funding Progress - As of December 31, 2015, the most recent actuarial valuation date for the periods from January 1, 2015 through December 31, 2015, the actuarial accrued liability was \$548,447, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$548,447. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2.1 million and the ratio of the UAAL to covered payroll was 26%. As of December 31, 2015 and 2014, there were no trust fund assets.

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

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

As of the December 31, 2015 actuarial measurement date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.0% discount rate based on AMU's funding policy. The projected annual medical trend rate is 9.0%. The ultimate medical trend rate is 6.5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the SOA RPH-2014 Total Dataset Mortality Table fully generational using Scale MP-2015. Annual retirement and termination probabilities were developed based on national averages.

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

**NOTES TO FINANCIAL STATEMENTS**

Projected claim costs of the medical plan are \$620 per month for retirees less than age 65 and \$365 per month for retirees who have attained age 65. The salary increase rate was assumed to be 3.0% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**NOTE 18 – SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through May 24, 2016, the date the financial statements were issued.

**NOTE 19 – ACCOUNTING CHANGE / RESTATEMENT**

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for the business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Electric	Water	Commu- nication	Total
Net position December 31, 2014 as previously reported	23,302,939	3,177,070	(1,587,084)	24,892,925
Net pension liability at December 31, 2014	(1,241,383)	(176,799)	(387,729)	(1,805,911)
Change in outflows of resources related to contributions made after the June 30, 2013 measurement date	193,715	27,859	60,504	281,808
Net position January 1, 2015, as restated	<u>22,255,271</u>	<u>3,027,860</u>	<u>(1,914,309)</u>	<u>23,368,822</u>

## **Required Supplementary Information**

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2015

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
Receipts:			
Charges for service	\$ 17,468,433	\$ 18,139,000	(670,567)
Miscellaneous	775,335	471,275	304,060
Other financing sources	1,435,000	-	1,435,000
	<u>19,678,768</u>	<u>18,610,275</u>	<u>1,068,493</u>
Disbursements:			
Program			
Business type activities	18,126,486	19,859,650	1,733,164
Transfers out	513,519	515,000	1,481
	<u>18,640,005</u>	<u>20,374,650</u>	<u>1,734,645</u>
Change in net assets	1,038,763	(1,764,375)	
Balance beginning of year	6,604,021	24,116,995	
Balance end of year	<u>\$ 7,642,784</u>	<u>\$ 22,352,620</u>	

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

	Financial Statements	Adjustments	Budgeted Basis
Revenues	\$ 17,971,598	\$ 1,707,170	\$ 19,678,768
Disbursements	17,916,968	723,037	18,640,005
Other financing sources	-	-	-
Increase (decrease) in net position	<u>\$ 54,630</u>	<u>\$ 984,133</u>	<u>\$ 1,038,763</u>

See Accompanying Independent Auditor's Report

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

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

YEAR ENDED DECEMBER 31, 2015

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted are the disbursements for the all Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no amendments made to the budget.

During the year ended December 31, 2015, no disbursements in any function exceeded the amounts budgeted.

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

**SCHEDULE OF THE UTILITIES' PROPORTIONATE SHARE OF THE NET PENSION  
LIABILITY**

LAST FISCAL YEAR \*

	2015
Utilities' proportion of the net pension liability (asset)	0.031506%
Utilities' proportionate share of the net pension liability (asset)	\$1,275,084
Utilities' covered-employee payroll	\$2,286,365
Utilities' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	55.77%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Note: GASB Statement 68 requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, the AMU will present information for those years for which information is available.

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

**SCHEDULE OF UTILITY CONTRIBUTIONS**

LAST 9 FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 204,171	\$ 183,934	\$ 184,815	\$ 171,312
Contributions in relation to the statutorily required contribution	<u>(204,171)</u>	<u>(183,934)</u>	<u>(184,815)</u>	<u>(171,312)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,286,365	\$ 2,059,729	\$ 2,099,588	\$ 2,045,847
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.80%	8.37%

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, AMU will present information for those years for which information is available.

See Accompanying Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 148,302	\$ 130,043	\$ 124,726	\$ 112,669	\$ 98,197
<u>(148,302)</u>	<u>(130,043)</u>	<u>(124,726)</u>	<u>(112,669)</u>	<u>(98,197)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,973,888	\$ 1,912,344	\$ 1,918,665	\$ 1,816,599	\$ 1,663,482
7.51%	6.80%	6.50%	6.20%	5.90%

ALGONA MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

December 31, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.

- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate. The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

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

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

Required Supplementary Information

Year Ended December 31	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		(a)	(b)	(c)	(a/b)	(c)	(b-a)/c
2015	December 31, 2015	-0-	\$548	\$548	0.00%	\$2,200	24.9%
2014	December 31, 2014	-0-	\$467	\$467	0.00%	\$2,060	22.6%
2013	December 31, 2013	-0-	\$467	\$467	0.00%	\$2,019	23.1%
2012	December 31, 2012	-0-	\$467	\$467	0.00%	\$2,000	23.4%
2011	January 1, 2009	-0-	\$412	\$412	0.00%	\$1,900	21.7%
2010	January 1, 2009	-0-	\$412	\$412	0.00%	\$1,800	22.9%

See Note 17 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and net OPEB Obligation, funded status and funding progress.

## **Other Information**

**ALGONA MUNICIPAL UTILITIES**

**Schedule 1**

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

	2015	2014	2013
Sale of electricity:			
Sales to consumers	\$ 9,949,250	\$ 9,161,643	\$ 8,621,514
Sales to other utilities	176,295	161,555	152,988
Sales for resale	2,917,152	3,176,653	2,587,362
	<hr/>	<hr/>	<hr/>
Total electricity sales	13,042,697	12,499,851	11,361,864
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Kilowatt hours:			
Wind generation	2,732,353	5,609,848	5,302,144
Generated	142,465,775	141,643,781	109,354,295
Purchases	58,769,185	52,444,524	69,236,854
System losses (transmission)	(3,480,795)	(3,453,229)	(3,525,927)
Available for sale	200,486,518	196,244,924	180,367,366
	<hr/>	<hr/>	<hr/>
Billed to consumers	111,345,652	111,409,291	113,882,975
Sales to other utilities	4,058,444	4,198,333	4,565,363
Sales for resale	81,728,731	75,527,454	57,534,422
Distribution loss	3,353,691	5,109,846	4,384,606
Distribution loss percent	2.82%	4.23%	3.57%
Revenue billed per kWh to consumers	\$ 0.0894	\$ 0.0822	\$ 0.0757
Peak hour demand in kilowatts	23,410	22,230	24,440
Services provided to the City			
Street lighting:			
Energy	\$ 41,708	\$ 35,791	\$ 35,855
Operation and Maintenance	18,965	24,516	12,963
	<hr/>	<hr/>	<hr/>
	60,673	60,307	48,818
Other Maintenance Costs	9,024	5,489	4,607
Energy for Public Buildings, Parks and Other uses	134,587	125,773	117,132
	<hr/>	<hr/>	<hr/>
	\$ 204,284	\$ 191,569	\$ 170,557
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Year to date kWh sales			
Residential	29,240,246	30,213,408	31,286,298
Commercial	82,416,328	81,488,568	82,965,103
Area Lighting	782,629	660,114	664,209
Station Power	1,794,995	1,971,065	1,881,600
City	1,169,898	1,274,469	1,651,128
Total number of kWh sales	115,404,096	115,607,624	118,448,338
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Unaudited - See Accompanying Independent Auditor's Report

**ALGONA MUNICIPAL UTILITIES**

**Schedule 2**

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total revenue billed	<u>\$ 1,033,087</u>	<u>\$ 1,029,162</u>	<u>\$ 1,040,062</u>
Cubic Foot			
Pumped	34,673,274	38,001,822	37,757,057
Billed	29,754,363	29,753,067	31,358,210
City of Algona	310,655	307,317	323,846
System loss	4,608,256	7,941,438	6,075,001
Percent loss	13.29%	20.90%	16.09%
Revenue billed per cubic foot	\$ 0.0344	\$ 0.0342	\$ 0.0328
Peak day-cubic footage pumped	157,903	176,512	196,631
Services provided to City			
Water for parks, disposal plant and public buildings	\$ 12,404	\$ 11,307	\$ 11,862
Public fire protection	30,150	30,060	29,857
	<u>\$ 42,554</u>	<u>\$ 41,367</u>	<u>\$ 41,719</u>

Unaudited - See Accompanying Independent Auditor's Report

**ALGONA MUNICIPAL UTILITIES**

**Schedule 3**

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenue:			
Cable TV	\$ 1,375,564	\$ 1,354,062	\$ 1,127,858
Internet	1,025,384	978,065	869,872
Telephone	864,871	973,814	1,097,994
Cell phone	(46,912)	(15,398)	11,546
Miscellaneous	<u>132,244</u>	<u>84,329</u>	<u>95,850</u>
Total operating revenue	<u><u>\$ 3,351,151</u></u>	<u><u>\$ 3,374,872</u></u>	<u><u>\$ 3,203,120</u></u>
Customers			
Cable TV	1,675	1,785	1,858
Internet	1,968	1,940	1,873
Telephone	1,319	1,400	1,529
Cell phone	344	375	446
Average monthly revenue per customer			
Cable TV	68.44	63.21	50.59
Internet	43.42	42.01	38.70
Telephone	54.64	57.97	59.84
Services provided to City			
Cable TV	\$ 1,649	\$ 2,398	\$ 1,786
Internet	4,810	4,956	4,652
Telephone	<u>1,000</u>	<u>817</u>	<u>931</u>
	<u><u>\$ 7,459</u></u>	<u><u>\$ 8,171</u></u>	<u><u>\$ 7,369</u></u>

Unaudited - See Accompanying Independent Auditor's Report



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

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

To the Board of Trustees of the  
Algona Municipal Utilities:

We have audited, in accordance with the 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, the financial statements of each major fund of Algona Municipal Utilities, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise AMU's basic financial statements, and have issued our report thereon dated May 24, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Algona Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are 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 Algona Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Algona Municipal Utilities' internal control.

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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. No material weaknesses in internal control were noted. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

### **Algona Municipal Utilities' response to Findings**

Algona Municipal Utilities' responses to the immaterial instances of non-compliance noted in the preceding paragraph are described in the accompanying schedule of findings and questioned costs. Algona Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*JP Anderson & Company, PC*

May 24, 2016



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

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC UTILITIES**

To the Board of Trustees of the  
Algona Municipal Utilities:

We have audited, in accordance with the 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, the financial statements of each major fund of Algona Municipal Utilities, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise AMU's basic financial statements, and have issued our report thereon dated May 24, 2016. In accordance with Government Auditing Standards, we have also issued our report dated May 24, 2016, on our consideration of Algona Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements.

In connection with our audit, nothing came to our attention that caused us to believe that Algona Municipal Utilities failed to comply with the terms, covenants, provisions, or conditions of their grant as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as encumbered below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Algona Municipal Utilities' noncompliance with the above referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Algona Municipal Utilities' accounting and records to indicate that Algona Municipal Utilities did not:

- Continue to utilize the Rural Development Grant proceeds to operate a revolving loan program
- Manage, operate and maintain the fund in an efficient and economic manner.
- Maintain at its premises an accounting available for review of the revolving loan fund records, including loans made and payments received on those loans
- Provide Rural Development a Survey of Recipients of Rural Economic Development Loan and Grant Program within the prescribed time frame
- Provide a report to Rural Development regarding loan activity, including a list of the projects funded, the amount financed for each project, the repayment terms, and whether each project financed has been completed within the prescribed time frame

- Continue to have fidelity bond coverage on individuals who have access to the revolving loan program funds

The purpose of this report is intended solely for the information and use of the board of trustees, management, and RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*JP Anderson & Company, PC*

May 24, 2016

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

**SCHEDULE OF FINDINGS**

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

- (a) Unmodified opinions were issued on the financial statements for each major fund.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**MATERIAL WEAKNESSES:**

No matters were noted.

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

- IV-A-15 Certified Budget - Disbursements for the year ended December 31, 2014 were within the budgeted limits.
- IV-B-15 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-15 Travel Expense – No disbursements of AMU money for travel expenses of spouses of Utility officials or employees were noted.
- IV-D-15 Business Transactions – We noted no transactions conducted with AMU officials.
- IV-E-15 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-15 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.

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

**SCHEDULE OF FINDINGS**

- IV-G-15      Revenue Bonds – No violations of revenue bond covenants were noted.
- IV-H-15      Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policy.
- IV-I-15      Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.
- IV-J-15      Financial Condition – The Communications Fund had a deficit fund balance of \$2,037,911 at December 31, 2015.

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

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

Conclusion – Response accepted.