

ALGONA MUNICIPAL UTILITIES

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

December 31, 2016

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

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**ALGONA MUNICIPAL UTILITIES
OFFICIALS**

December 31, 2016

<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	Chief Financial Officer	



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

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, 2016 and 2015, 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, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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 June 26, 2017 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.

TP Anderson & Company, P.C.

Humboldt, Iowa
June 26, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona Municipal Utilities (AMU) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2016. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- ◆ AMU's operating revenues increased by 16%, or approximately \$2.8 million from calendar year 2015 to calendar year 2016.
- ↳ Operating expenses increased by 9%, or approximately \$1.5 million in 2016 from 2015.
- ↳ AMU's net position increased by 6%, or approximately \$1.3 million during 2016.

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:

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 2015 to 2016. Current assets and other assets (including restricted funds) decreased approximately \$262,000 from 2015 to 2016. Total assets decreased \$170,000, while liabilities decreased by \$1.36 million resulting in an increase in net position of approximately \$1.36 million.

Net Position of Business Type Activities (Expressed in Thousands)		
Year ended December 31,		
	2016	2015
Current and other assets	\$ 15,096	\$ 15,358
Capital assets (net of depreciation)	36,282	36,190
Total assets	51,378	51,548
Deferred outflows of resources	398	352
Long-term debt outstanding	22,825	24,190
Other liabilities	3,802	3,801
Total liabilities	26,627	27,991
Deferred inflows of resources	368	486
Net position:		
Net investment in capital assets	16,289	16,247
Restricted	2,282	2,276
Unrestricted	6,210	4,900
Total net position	\$ 24,781	\$ 23,423

INDIVIDUAL MAJOR FUND ANALYSIS

As AMU completed the year, its enterprise funds reported a combined fund net position of \$24.8 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 \$15.8 million, an increase of approximately \$2.4 million from 2015. The increase was due to sales to customers (residential and commercial sales increased \$1.0 million from the prior year), sales for resale increased \$965,000, and other revenues increased \$400,000. Operating expenses increased in 2016 by approximately \$1.43 million. The increase was primarily due to purchased power related costs, which increased \$1.33 million from the prior year.

The Electric Utility's net position increased approximately \$1.17 million in 2016.

- Water Fund operating revenue for the year was \$1.12 million, which is virtually unchanged from the total in 2015. Operating expenses decreased in 2016 by approximately \$17,000.

The Water Utility's net position increased approximately \$61,000 in 2016.

- Communications Fund operating revenue for the year was \$3.55 million, an increase of approximately \$300,000 from 2015. The increase was due to the loss from the AMU/Skylink partnership decreasing in 2016. Operating expenses increased in 2016 by approximately \$60,000 to \$3.26 million. The increase was due to cable programming costs. Head-end programming expenses increased \$146,000 from the prior year.

The Communication Utility's net position increased approximately \$128,000 in 2016.

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)		
	2016	2015
Revenues:		
Program revenues:		
Operating revenue	\$ 20,566	\$ 17,705
General revenues:		
Unrestricted investment earnings	161	148
Grant proceeds	-	15
Other general revenues	61	103
Total revenues	20,788	17,971
Program expenses:		
Business type activities	19,430	17,917
Total expenses	19,430	17,917
Increase (decrease) in net position	1,358	54
Net position beginning of year	23,423	24,893
Restatement due to change in accounting	-	(1,524)
Restated net position, beginning of year	23,423	23,369
Net position end of year	\$ 24,781	\$ 23,423

BUDGETARY HIGHLIGHTS

AMU exceeded the budgeted disbursements for 2016. There were no amendments to the budget for 2016.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets –

At December 31, 2016, AMU had approximately \$36.3 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is an increase (including additions and deletions net of depreciation) of approximately \$92,000, or less than 1%, over 2015.

Capital Assets of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2016	2015
Land	\$ 318	\$ 318
Construction in progress	8,901	9,118
Buildings and improvements	1,802	1,802
Equipment and vehicles	628	628
Infrastructure	24,633	24,323
Total	\$ 36,282	\$ 36,189

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, 2016, AMU had approximately \$18.6 million in revenue bonds outstanding.

Outstanding Revenue Bonds of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2016	2015
Revenue bonds	\$ 18,625	\$ 20,229
Total	\$ 18,625	\$ 20,229

At December 31, 2016 and 2015 the Communications Fund owed the Electric Fund \$3,267,538 and \$3,440,000 respectively 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 2017 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 \$21.5 million, an increase of 10 percent from the 2016 budget. The budget is likely to closer reflect the cash receipts received as estimated based on 2016 results and projected usage from customers. Budgeted disbursements are expected to increase by approximately \$1.46 million. Again, the 2017 budget was set to more closely reflect the actual results as estimated based on 2016 results and expenditures on improvements to the Utility Infrastructure.

Algona Municipal Utilities takes pride in excellent customer service and high quality, reliable utilities. AMU exists to serve our community by providing comfort through reliable and affordable water, electric, and communications services. At the same time, AMU embraces new technology to meet our customers' needs. AMU's local employees make the difference in providing outstanding electric, water, and communications services. Some examples are listed below:

- AMU will continue to be environmental responsible and work to develop sustainable resource portfolios, because doing so benefits our community.
- 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. The entrance to SPP has resulted in operational changes at our owned and contracted power production facilities. The Electric Utility has also experienced changes in how it purchases and sells energy, 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 has spent a portion of the last two winters rebuilding 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 to meet current construction practices. The winter is an excellent time to rebuild portions of the rural electric distribution system when crops are out of the field allowing crews to work in areas covered by crops during the rest of the year. The AMU Electric Utility will continue to work on rural line rebuilds over the next few winters.
- AMU recently completed stage 2 of a project to upgrade electric substation equipment in both AMU's electric substations. Stage 2 consisted of the replacement of similar electromechanical protective relays and associated equipment on the electric transmission side at our substations (69,000 volt equipment) with new solid state electronic equipment. In the spring of 2016 AMU completed stage 1 that replaced the original electromechanical protective relays and associated equipment on the electric distribution side of our substations (13,800 volt equipment) with new solid state electronic equipment. The relays protect electric service from interruption and also prevent or limit damage to the electric distribution system. These improvements are part of our ongoing commitment to improve facilities to guarantee high reliability.
- 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 replaced 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 has been installed in this area. AMU also replaced an undersized water main with a 6 inch plastic water main along South Ridgley Street, between West McGregor and West College Streets. Replacing the main creates a loop in the water distribution system to increase the water pressure and improve water quality and fire protection.
- In 2016, Algona Municipal Utilities completed updates to the hydraulic model of our potable water distribution system. A hydraulic model is useful for determining existing system capacity, evaluating condition of pipe segments, improving system operations, and planning future improvements. The model can be used to predict pressure and fire flow changes in the distribution system before a new pipeline is installed. For instance, the model would be able to show the

difference between replacing an existing 4” with 6” pipeline or 8” pipeline. The results can then be compared to the costs of the pipeline to determine if the construction is cost effective. Another instance where the hydraulic model can be useful is predicting whether additional pipeline improvements need to be made to provide water to a new large user. The model is an important tool in capital improvement planning.

- 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. As more content is offered by Internet, expansion of the fiber network is a key priority for AMU.
- AMU is evaluating a variety of alternatives that will allow the Communications Utility to offer better video service with more Digital and High Definition channels and other advanced video services in 2017 while reducing costs in the local cable TV headend. The Communications Utility is also evaluating new technology to provide advanced telephone service to customers.
- 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.
- Customer engagement is an important goal of Algona Municipal Utilities. AMU’s investment in Automated Metering Infrastructure (AMI) allows employees to investigate high usage and quickly resolve water leaks within a customer premise. A customer website portal is available for customers to check their current bill and make payments. In addition, the customer portal allows the customer to see daily usage of both electric and water service. The AMI system also provides real time outage management data on the electric system. The data helps pinpoint electric system problems allowing crews to restore power outages in a timelier manner. AMU knows that over time, more and more of our customers are going to want to use technology that monitors and controls their electric and water usage. We are up to the task of meeting their needs.

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:**

	<u>ENTERPRISE</u>	
	<u>ELECTRIC</u>	
	<u>2016</u>	<u>2015</u>
Utility plant:		
Property and equipment	\$ 56,577,646	\$ 54,386,452
Less accumulated depreciation	(36,577,562)	(35,149,410)
	<u>20,000,084</u>	<u>19,237,042</u>
Construction in progress	8,162,114	8,972,083
Utility Plant - Net	<u>28,162,198</u>	<u>28,209,125</u>
Restricted funds		
Cash and cash equivalents	2,022,885	2,023,446
Short-term investments	457,587	411,627
	<u>2,480,472</u>	<u>2,435,073</u>
Current Assets:		
Cash and cash equivalents	4,208,812	3,797,490
Accounts receivable (net of allowance for doubtful accounts)	1,093,250	1,050,297
Unbilled usage	266,677	246,103
Accounts receivable -interfund	-	128,622
Inventory	1,476,635	1,138,984
Prepaid expenses	33,672	32,963
Accrued interest receivable - interfund loan	10,684	123,941
	<u>7,089,730</u>	<u>6,518,400</u>
Other assets:		
Investment in joint venture	175,662	175,662
Interfund loan receivable	3,267,538	3,440,000
Economic development loans receivable	529,406	527,458
	<u>3,972,606</u>	<u>4,143,120</u>
Total assets	41,705,006	41,305,718
Deferred outflows of resources:		
Pension related deferred outflows	273,492	242,174
Total assets and deferred outflows	<u>\$ 41,978,498</u>	<u>\$ 41,547,892</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2016	2015	2016	2015	2016	2015
\$ 8,178,236	\$ 8,122,615	\$ 7,009,207	\$ 7,088,963	\$ 71,765,089	\$ 69,598,030
(3,650,449)	(3,372,868)	(4,156,228)	(4,004,023)	(44,384,239)	(42,526,301)
4,527,787	4,749,747	2,852,979	3,084,940	27,380,850	27,071,729
392,069	26,245	347,007	119,845	8,901,190	9,118,173
4,919,856	4,775,992	3,199,986	3,204,785	36,282,040	36,189,902
262,103	252,539	-	-	2,284,988	2,275,985
12,354	10,115	21,856	18,261	491,797	440,003
274,457	262,654	21,856	18,261	2,776,785	2,715,988
689,067	962,126	87,699	607,183	4,985,578	5,366,799
146,864	126,634	239,411	176,161	1,479,525	1,353,092
36,264	35,882	-	-	302,941	281,985
-	-	-	-	-	128,622
18,505	25,398	11,953	17,715	1,507,093	1,182,097
11,919	11,769	12,535	12,943	58,126	57,675
-	-	-	-	10,684	123,941
902,619	1,161,809	351,598	814,002	8,343,947	8,494,211
-	-	2,452	4,377	178,114	180,039
-	-	-	-	3,267,538	3,440,000
-	-	-	-	529,406	527,458
-	-	2,452	4,377	3,975,058	4,147,497
6,096,932	6,200,455	3,575,892	4,041,425	51,377,830	51,547,598
39,097	34,492	85,771	75,639	398,360	352,305
\$ 6,136,029	\$ 6,234,947	\$ 3,661,663	\$ 4,117,064	\$ 51,776,190	\$ 51,899,903

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

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

	ENTERPRISE	
	ELECTRIC	
	2016	2015
Liabilities:		
Current liabilities:		
Accounts payable	\$ 555,047	\$ 330,847
Accounts payable - City of Algona	400,000	400,000
Accounts payable - interfund	-	-
Accrued taxes	133,036	138,309
Accrued wages and compensated absences	324,883	309,995
Accrued interest payable	39,953	41,853
Deferred revenue	-	-
Revenue bonds payable	1,191,611	1,166,085
	<u>2,644,530</u>	<u>2,387,089</u>
Noncurrent liabilities		
Revenue bonds payable - net of current portion	13,319,342	14,496,038
Interfund loan - payable	-	-
Other long-term debt	274,988	300,997
Accrued OPEB	284,359	249,283
Net pension liability	1,083,732	876,493
	<u>14,962,421</u>	<u>15,922,811</u>
Other liabilities		
Deferred compensation liability	457,587	411,627
	<u>457,587</u>	<u>411,627</u>
Total liabilities	18,064,538	18,721,527
Deferred inflows of resources		
Pension related deferred inflows	253,744	334,269
	<u>253,744</u>	<u>334,269</u>
Total liabilities and deferred inflows	<u>18,318,282</u>	<u>19,055,796</u>
Fund Net Position		
Net investment in capital assets	13,677,856	14,061,658
Restricted	2,019,737	2,023,446
Unrestricted	7,962,623	6,406,992
Total net position	<u>23,660,216</u>	<u>22,492,096</u>
Total liabilities and net position	<u>\$ 41,978,498</u>	<u>\$ 41,547,892</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2016	2015	2016	2015	2016	2015
\$ 98,899	\$ 91,322	\$ 147,061	\$ 139,839	\$ 801,007	\$ 562,008
45,000	45,000	68,519	68,519	513,519	513,519
-	-	-	128,622	-	128,622
3,556	3,502	33,253	38,657	169,845	180,468
53,632	52,986	83,431	83,093	461,946	446,074
5,206	2,725	10,684	123,941	55,843	168,519
-	-	208,619	209,606	208,619	209,606
202,524	196,881	415,141	228,239	1,809,276	1,591,205
408,817	392,416	966,708	1,020,516	4,020,055	3,800,021
2,106,660	2,277,135	958,766	1,195,172	16,384,768	17,968,345
-	-	3,087,900	3,440,000	3,087,900	3,440,000
336,097	369,223	-	-	611,085	670,220
50,569	44,353	117,094	102,862	452,022	396,498
155,307	124,831	340,808	273,760	1,579,847	1,275,084
2,648,633	2,815,542	4,504,568	5,011,794	22,115,622	23,750,147
12,354	10,115	21,856	18,261	491,797	440,003
3,069,804	3,218,073	5,493,132	6,050,571	26,627,474	27,990,171
35,765	47,607	78,352	104,404	367,861	486,280
3,105,569	3,265,680	5,571,484	6,154,975	26,995,335	28,476,451
2,185,292	2,185,292	-	-	15,863,148	16,246,950
252,539	252,539	-	-	2,272,276	2,275,985
592,629	531,436	(1,909,821)	(2,037,911)	6,645,431	4,900,517
3,030,460	2,969,267	(1,909,821)	(2,037,911)	24,780,855	23,423,452
\$ 6,136,029	\$ 6,234,947	\$ 3,661,663	\$ 4,117,064	\$ 51,776,190	\$ 51,899,903

**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	
	2016	2015
Operating revenues:		
Sale of electricity:		
Residential and commercial	\$ 11,004,816	\$ 9,949,250
Sales for resale	3,880,659	2,917,152
Service provided to City of Algona	40,763	41,688
Sales to other utilities	153,263	134,607
Sale of water	-	-
Cable TV fees	-	-
Internet fees	-	-
Telephone service	-	-
Cell phone revenue	-	-
Attachment H revenue	346,529	82,560
Miscellaneous and merchandising	372,480	231,873
Return on investment in AMU-Skylink LC	-	-
Total operating revenue	15,798,510	13,357,130
Operating expenses:		
Generation and power purchased	9,935,724	8,602,006
Transmission-distribution maintenance	484,069	595,459
Meter reading supplies and labor	135,915	140,754
Sales	35,099	39,386
General and other	926,593	809,955
Administration and general	412,655	315,188
Rebates and other expenses	131,902	157,631
Merchandise, jobbing and construction	24,673	22,560
Property tax and insurance	220,851	236,630
Depreciation	1,522,619	1,487,851
Services provided to the City of Algona	10,529	-
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	14,240,629	12,807,420
Income (loss) from operations	\$ 1,557,881	\$ 549,710

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2016	2015	2016	2015	2016	2015
\$ -	\$ -	\$ -		\$ 11,004,816	\$ 9,949,250
-	-	-		3,880,659	2,917,152
-	-	-		40,763	41,688
-	-	-		153,263	134,607
1,151,100	1,033,087	-		1,151,100	1,033,087
-	-	1,347,161	1,375,499	1,347,161	1,375,499
-	-	1,088,267	1,024,361	1,088,267	1,024,361
-	-	884,895	864,871	884,895	864,871
-	-	52,319	52,628	52,319	52,628
-	-	-	-	346,529	82,560
61,007	55,692	184,934	135,079	618,421	422,644
-	-	(1,925)	(193,239)	(1,925)	(193,239)
1,212,107	1,088,779	3,555,651	3,259,199	20,566,268	17,705,108
-	-	-		9,935,724	8,602,006
-	-	-		484,069	595,459
-	-	-		135,915	140,754
-	-	-		35,099	39,386
-	-	-		926,593	809,955
300,362	325,733	723,435	722,487	1,436,452	1,363,408
-	-	-		131,902	157,631
34,578	25,600	67,364	68,838	126,615	116,998
-	-	62,895	66,094	283,746	302,724
278,726	253,541	327,685	365,793	2,129,030	2,107,185
3,805	-	-	-	14,334	-
45,000	45,000	67,105	68,519	512,105	513,519
209,793	200,694	-	-	209,793	200,694
163,330	216,028	-	-	163,330	216,028
-	-	196,910	209,987	196,910	209,987
-	-	1,727,321	1,581,490	1,727,321	1,581,490
54,719	40,615	88,745	117,493	143,464	158,108
1,090,313	1,107,211	3,261,460	3,200,701	18,592,402	17,115,332
\$ 121,794	\$ (18,432)	\$ 294,191	\$ 58,498	\$ 1,973,866	\$ 589,776

**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	
	2016	2015
Non-operating income (expense)		
Interest income	\$ 156,912	\$ 147,075
Interest expense	(494,955)	(513,584)
Debt issuance costs	-	-
Grant income	-	15,166
Miscellaneous	47,026	60,838
Donations	(60,415)	(44,941)
Gain (loss) on disposition of assets	(38,329)	22,561
Total non-operating expense	(389,761)	(312,885)
Income (loss) before other revenues, expenses and transfers	1,168,120	236,825
Net position, beginning	22,492,096	22,255,271
Net position, ending	\$ 23,660,216	\$ 22,492,096

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2016	2015	2016	2015	2016	2015
\$ 3,264	\$ 128	\$ 588	\$ 921	\$ 160,764	\$ 148,124
(72,846)	(57,264)	(173,475)	(185,847)	(741,276)	(756,695)
-	-	-	-	-	-
-	-	-	-	-	15,166
11,000	15,299	2,418	2,531	60,444	78,668
-	-	-	-	(60,415)	(44,941)
(2,019)	1,676	4,368	295	(35,980)	24,532
<u>(60,601)</u>	<u>(40,161)</u>	<u>(166,101)</u>	<u>(182,100)</u>	<u>(616,463)</u>	<u>(535,146)</u>
61,193	(58,593)	128,090	(123,602)	1,357,403	54,630
<u>2,969,267</u>	<u>3,027,860</u>	<u>(2,037,911)</u>	<u>(1,914,309)</u>	<u>23,423,452</u>	<u>23,368,822</u>
<u>\$ 3,030,460</u>	<u>\$ 2,969,267</u>	<u>\$ (1,909,821)</u>	<u>\$ (2,037,911)</u>	<u>\$ 24,780,855</u>	<u>\$ 23,423,452</u>

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

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

	ENTERPRISE	
	ELECTRIC	
	2016	2015
Cash flows from operating activities:		
Cash receipts from customers	\$ 14,937,102	\$ 12,869,574
Cash receipts from interfund services	338,299	200,059
Other operating cash receipts	588,204	231,872
Cash payments to suppliers	(11,454,439)	(9,726,002)
Cash payments to employees	(1,404,595)	(1,577,638)
Cash payments for interfund services	-	-
	3,004,571	1,997,865
Net cash provided (used) by operating activities		
Cash flows from noncapital financing activities:		
Donations	(60,415)	(44,941)
	(60,415)	(44,941)
Net cash (used) by noncapital financing activities		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,348,258)	(684,423)
Repayment of long term debt	(1,177,179)	(1,147,265)
Proceeds from note issuances	-	-
Grant received	-	15,166
Cash payments for interest	(506,351)	(515,059)
	(3,031,788)	(2,331,581)
Net cash provided (used) by capital and related financing activities		
Cash flows from investing activities:		
Interest received during the year	280,853	146,286
Loan proceeds received	285,514	111,523
Issuance of new economic development loans	(115,000)	(150,000)
Miscellaneous income	47,026	60,838
	498,393	168,647
Net cash provided (used) by investing activities	\$	\$

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2016	2015	2016	2015	2016	2015
\$ 1,130,488	\$ 1,138,010	\$ 3,310,369	\$ 3,448,512	\$ 19,377,959	\$ 17,456,096
-	-	-	-	338,299	200,059
61,007	-	184,934	3,049	834,145	234,921
(497,201)	(556,564)	(2,306,257)	(2,137,334)	(14,257,897)	(12,419,900)
(198,066)	(227,603)	(447,438)	(471,497)	(2,050,099)	(2,276,738)
(81,055)	(71,437)	(257,244)	(128,622)	(338,299)	(200,059)
415,173	282,406	484,364	714,108	3,904,108	2,994,379
-	-	-	-	(60,415)	(44,941)
-	-	-	-	(60,415)	(44,941)
(424,609)	(509,317)	(431,775)	(163,730)	(2,204,642)	(1,357,470)
(197,958)	(104,115)	(401,604)	(182,002)	(1,776,741)	(1,433,382)
-	1,435,000	-	-	-	1,435,000
-	-	-	-	-	15,166
(70,365)	(57,398)	(173,475)	(185,058)	(750,191)	(757,515)
(692,932)	764,170	(1,006,854)	(530,790)	(4,731,574)	(2,098,201)
3,264	128	588	921	284,705	147,335
-	-	-	-	285,514	111,523
-	-	-	-	(115,000)	(150,000)
11,000	15,299	2,418	2,531	60,444	78,668
\$ 14,264	\$ 15,427	\$ 3,006	\$ 3,452	\$ 515,663	\$ 187,526

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

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

	ENTERPRISE ELECTRIC	
	2016	2015
Net increase (decrease) in cash and cash equivalents	\$ 410,761	\$ (210,010)
Cash and cash equivalents-beginning of year	5,820,936	6,030,946
Cash and cash equivalents-end of year	6,231,697	5,820,936
Restricted funds	2,022,885	2,023,446
Current assets	4,208,812	3,797,490
	6,231,697	5,820,936
Reconciliation of operating income to net cash provided by operating activities:		
Income (loss) from operations	1,557,881	549,710
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,522,619	1,487,851
(Gain) loss from sale of assets	(38,329)	-
Change in accounts receivable	(42,953)	(89,032)
Change in unbilled usage	(20,574)	(15,099)
Change in prepaid expenses	(709)	11,762
Change in inventory	(337,651)	39,762
Change in accounts payable and retainages payable	224,200	66,802
Change in accrued taxes	(5,273)	25,236
Change in accrued wages and compensated absences	14,888	(13,460)
Change in deferred revenue	-	-
Change in deferred outflows	(31,318)	(48,459)
Change in OPEB liability	35,076	13,413
Change in net pension liability	207,239	(364,890)
Change in deferred inflows	(80,525)	334,269
Net cash provided by operating activities	\$ 3,004,571	\$ 1,997,865

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2016	2015	2016	2015	2016	2015
\$ (263,495)	\$ 1,062,003	\$ (519,484)	\$ 186,770	\$ (372,218)	\$ 1,038,763
1,214,665	152,662	607,183	420,413	7,642,784	6,604,021
<u>951,170</u>	<u>1,214,665</u>	<u>87,699</u>	<u>607,183</u>	<u>7,270,566</u>	<u>7,642,784</u>
262,103	252,539	-	-	2,284,988	2,275,985
689,067	962,126	87,699	607,183	4,985,578	5,366,799
<u>951,170</u>	<u>1,214,665</u>	<u>87,699</u>	<u>607,183</u>	<u>7,270,566</u>	<u>7,642,784</u>
121,794	(18,432)	294,191	58,498	1,973,866	589,776
278,726	253,541	327,685	365,793	2,129,030	2,107,185
(20,230)	-	1,925	193,239	(36,404)	193,239
(382)	51,846	(63,250)	94,337	(126,433)	57,151
(150)	(2,615)	-	-	(20,956)	(17,714)
6,893	10,979	408	1,600	(451)	24,341
7,577	(4,693)	5,762	(2,750)	(324,996)	32,319
54	2,005	(121,400)	20,633	110,377	89,440
646	5	(5,404)	(4,207)	(10,623)	21,034
-	(5,188)	338	(5,616)	15,872	(24,264)
(4,605)	-	(987)	3,025	(987)	3,025
6,216	(6,903)	(10,132)	(15,135)	(46,055)	(70,497)
30,476	6,222	14,232	14,256	55,524	33,891
(11,842)	(51,968)	67,048	(113,969)	304,763	(530,827)
<u>415,173</u>	<u>47,607</u>	<u>(26,052)</u>	<u>104,404</u>	<u>(118,419)</u>	<u>486,280</u>
<u>\$ 415,173</u>	<u>\$ 282,406</u>	<u>\$ 484,364</u>	<u>\$ 714,108</u>	<u>\$ 3,904,108</u>	<u>\$ 2,994,379</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. AMU exceeded its budgeted disbursements for 2016.

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.

As of December 31, 2016 a related party to AMU had a balance due to the Communications Utility of \$53,311 that was older than 90 days.

The Communications Utility also has receivables from Carrier Access Billing (CABS) that are separate from customer charges. As of December 31, 2016 and 2015, \$6,501 and \$1,316 in (CABS) receivables were older than 90 days.

The balance of the allowance for doubtful accounts as of December 31, 2016 and 2015 were as follows:

	Electric	Water	Communications
December 31, 2016	\$ 40,550	\$ 4,825	\$ 15,900
December 31, 2015	\$ 38,250	\$ 3,750	\$ 14,250

G. Inventory

Inventory is valued at average cost.

H. Joint Plant Ownership

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

NOTES TO FINANCIAL STATEMENTS

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 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.

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

NOTES TO FINANCIAL STATEMENTS

K. Rate Matters

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

M. Cash and Cash Equivalents

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

N. Contracts

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

NOTE 2 - CASH AND INVESTMENTS

AMU's deposits at December 31, 2016 and 2015 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, 2016 and 2015 of approximately \$362,135, which are valued at amortized cost pursuant

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

NOTES TO FINANCIAL STATEMENTS

to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk – The Utilities’ investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities. Reconciliation of the Utilities’ cash and cash equivalents and temporary cash and investments for the years ended December 31, 2016 and 2015 is as follows:

	December 31, 2016			
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Restricted	2,022,885	262,103	-	2,284,988
Current assets	4,208,812	689,067	87,699	4,985,578
	<u>6,231,697</u>	<u>951,170</u>	<u>87,699</u>	<u>7,270,566</u>
Investments				
Restricted	457,587	12,354	21,856	491,797
	<u>457,587</u>	<u>12,354</u>	<u>21,856</u>	<u>491,797</u>
Total cash and cash equivalents and investments	<u>\$ 6,689,284</u>	<u>963,524</u>	<u>109,555</u>	<u>\$ 7,762,363</u>

	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
	<u>5,820,936</u>	<u>1,214,665</u>	<u>607,183</u>	<u>7,642,784</u>
Investments				
Restricted	411,627	10,115	18,261	440,003
	<u>411,627</u>	<u>10,115</u>	<u>18,261</u>	<u>440,003</u>
Total cash and cash equivalents and investments	<u>\$ 6,232,563</u>	<u>1,224,780</u>	<u>625,444</u>	<u>\$ 8,082,787</u>

NOTE 3 – INTERFUND LOAN

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

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

NOTES TO FINANCIAL STATEMENTS

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, 2016 and 2015 the outstanding balance on the interfund loan was \$3,267,538 and \$3,440,000 respectively.

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
2017	179,638	122,645	302,283
2018	186,677	115,606	302,283
2019	193,992	108,291	302,283
2020	201,560	100,723	302,283
2021	209,493	92,790	302,283
2022-2026	1,177,201	334,214	1,511,415
2027-2030	1,118,977	90,155	1,209,132
	3,267,538	964,424	4,231,962

Accrued interest as of December 31, 2016 and 2015 of \$10,684 and \$123,941, 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, 2016 and 2015 notes receivable under this program amounted to \$529,406 and \$527,458 respectively.

NOTE 5 – REVENUE BONDS PAYABLE

The following is a summary of changes in revenue bond debt for the years ended

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015.

Electric Utility:

	Balance 1/1/16	Issued	Repaid	Balance 12/31/16
Business type activities:				
Revenue Bonds – Series 2011	12,075,000	-	940,000	11,135,000
Revenue Bonds – Series 2014	3,400,000	3,590,000	200,000	3,200,000
	<u>15,475,000</u>	<u>3,590,000</u>	<u>1,140,000</u>	<u>14,335,000</u>

	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 2014 were issued at a premium. The unamortized premium is being amortized over the life of the bonds. The unamortized premium as of December 31, 2016 and 2015 was \$149,342 and \$161,038, respectively.

Water Utility:

	Balance 1/1/16	Issued	Repaid	Balance 12/31/16
Business type activities:				
Revenue Bonds – series 2010	1,000,000	-	85,000	915,000
Revenue Bonds – series 2015	1,435,000	-	80,000	1,355,000
	<u>2,435,000</u>	<u>-</u>	<u>165,000</u>	<u>2,270,000</u>

	Balance 1/1/15	Issued	Repaid	Balance 12/31/15
Business type activities:				
Revenue Bonds – series 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>

The unamortized premium for the Water Revenue Bonds – Series 2014 was \$6,660 and \$7,135 respectively.

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Communications Utility:

	Balance 1/1/16	Issued	Repaid	Balance 12/31/16
Business type activities:				
Revenue Bonds–Series 2005	206,856	-	38,009	168,847
Refunding Bonds–Series 2015	1,216,555	-	191,133	1,025,422
	<u>1,423,411</u>	<u>-</u>	<u>229,142</u>	<u>1,194,269</u>

	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
	<u>1,605,413</u>	<u>1,232,300</u>	<u>1,414,302</u>	<u>1,423,411</u>

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
	2017	960,000	371,138	205,000	108,300	1,165,000
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	1,080,000	265,788	225,000	86,950	1,305,000	352,738
2022-2026	6,055,000	725,354	1,255,000	319,700	7,310,000	1,045,064
2027-2029	1,310,000	52,400	1,140,000	116,000	870,000	70,400
	<u>11,135,000</u>	<u>2,333,878</u>	<u>3,200,000</u>	<u>883,100</u>	<u>14,335,000</u>	<u>3,216,978</u>

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
	2017	85,000	30,790	85,000	31,685	170,000
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	100,000	20,300	90,000	25,735	190,000	46,035
2022-2026	450,000	43,750	480,000	99,913	930,000	143,663

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2027-2030	-	-	445,000	33,900	445,000	33,900
	915,000	173,035	1,355,000	277,364	2,270,000	450,399
	Communications Series 2005 Interest 5.09%		Communications Series 2015 Interest 3.0%		Total	
Year Ending December 31,	Principal	Interest	Principal	Interest	Principal	Interest
2017	39,362	7,839	196,141	28,088	235,503	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
	168,847	18,469	1,025,421	78,797	1,194,268	97,266

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, 2016 and 2015.
- 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, 2016 and 2015.
- 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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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. \$57,966 and \$56,819 in principal was paid on this note for the years ended December 31, 2016 and 2015 respectively 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
2017	59,135	12,865
2018	60,330	11,670
2019	61,548	10,452
2020	62,790	9,211
2021	63,950	8,051
2022-2026	334,367	22,641
2027	28,100	135
	670,220	75,025

NOTE 7 – INTEREST COSTS

During the years ended December 31, 2016 and 2015, the interest incurred and expensed by the Electric Fund was \$494,955 and \$513,584 respectively.

During the years ended December 31, 2016 and 2015, the interest incurred by the Water Fund was \$72,846 and \$57,264 respectively.

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During the years ended December 31, 2016 and 2015, the interest incurred by the Communication Fund was \$173,475 and \$185,847 respectively.

The Electric Fund recognized interest income of \$129,812 and \$123,941 from the interfund loan during 2016 and 2015.

NOTE 8 – RESTRICTED FUNDS

As of December 31, 2016 Restricted Funds consisted of the following.

	Electric	Water	Communication	Total
Bond Sinking	137,036	19,373	-	156,409
Bond Reserve	1,678,800	242,730	-	1,921,530
Revolving loan fund	203,901	-	-	203,901
Deferred Compensation	457,587	12,354	21,856	491,797
Other	3,148	-	-	3,148
	<u>2,480,472</u>	<u>274,457</u>	<u>21,856</u>	<u>2,776,785</u>

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>

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.

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.

For the years ended December 31, 2016 and 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 years ended December 31, 2016 and 2015 were \$197,162 and \$204,172 respectively.

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, 2016 and 2015, the Utility reported a liability of \$1,579,847 and \$1,275,084 for its proportionate share of the net pension liability. The collective net pension liability was measured as of June 30, 2015 and 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, 2015, the Utility's proportion was 0.0319776 percent, which was a decrease of 0.000174% from its proportion measured as of June 30, 2014.

For the years ended December 31, 2016 and 2015 the Utilities' collective pension expense, collective deferred outflows and collective deferred inflows were as follows:

	2016	2015
Pension expense	\$ 337,450	\$ 166,766
Deferred Outflows	398,360	352,305
Deferred Inflows	367,861	486,280

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	97,919	-	13,858	-
Changes of assumptions	12,775	-	56,272	-
Net difference between projected and actual earnings on pension plan investments	-	367,861	-	486,280
Changes in proportion and differences between Utility			(18,028)	-

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contributions and proportionate share of contributions	(8,077)	-			
Utility contributions subsequent to the measurement date	295,743	-	300,203	-	
	398,360	367,861	352,305	486,280	

\$295,743 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 eighteen months ended December 31, 2017. 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
2017	(102,096)
2018	(102,096)
2019	(102,096)
2020	20,523
2021	20,521
	(265,244)

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 and 2014 actuarial valuations 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.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 and 2014 valuations 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.

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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:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	24%	6.29
International Equity	16	6.75
Private Equity/debt	11	11.32
Real Estate	8	3.48
Core Plus Fixed Income	28	2.04
Credit Opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	100%	

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)			
December 31, 2016	\$ 2,766,027	\$ 1,579,847	\$ 578,625
December 31, 2015	\$ 2,409,236	\$ 1,275,084	\$ 317,743

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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.

Payable to the Pension Plan – At December 31, 2016 and 2015, the Utility reported payables to the defined benefit pension plan of \$-0- for legally required employer contributions and \$38,326 and \$38,062 respectively 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, 2016 and 2015, payments in lieu of taxes to the City of Algona by fund were as follows:

	<u>2016</u>	<u>2015</u>
Electric Fund	400,000	400,000
Water Fund	45,000	45,000
Communications Fund	67,105	68,519
	512,105	513,519

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, 2016 and 2015 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

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upon request at the AMU business office.

Condensed financial information for IPPA as of December 31, 2016 and 2015 is as follows:

	December 31, 2016	December 31, 2015
Total assets	\$ 3,402,072	\$ 3,507,751
Total liabilities	2,596,068	2,711,542
Net Position	806,004	796,209
	\$ 3,402,072	\$ 3,507,751
Revenues	645,283	657,085
Expenses	(285,490)	(297,812)
Net income	\$ 359,793	\$ 359,273

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 \$2,451 and \$4,377 as of December 31, 2016 and 2015 respectively.

NOTE 13 – COMPENSATED ABSENCES

AMU employees accumulate a limited amount of earned but unused vacation. The Utilities' approximate liability for earned vacation payments payable to employees at December 31, 2016 and 2015 is as follows:

Type of Benefit	Electric	Water	Communications	Total
December 31, 2016: Vacation	\$ 88,481	11,922	25,444	\$ 125,847
December 31, 2015: Vacation	\$ 85,131	12,746	23,839	\$ 121,716

NOTE 14 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2016 and 2015 was as follows:

					<u>2016</u>
					Electric Fund
Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year	
Capital assets not being depreciated:					
Land	\$ 256,366	-	-	\$ 256,366	
Construction in progress	8,972,084	330,472	1,140,442	8,162,114	
	9,228,450	330,472	1,140,442	8,418,480	
Capital assets being depreciated:					

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Buildings and improvements	2,799,436	-	-	2,799,436
Equipment and vehicles	2,439,719	375,697	67,029	2,748,387
Infrastructure	48,890,930	1,911,532	29,005	50,773,457
Total capital assets being depreciated	<u>54,130,085</u>	<u>2,287,229</u>	<u>96,034</u>	<u>56,321,280</u>
Less accumulated depreciation for:				
Buildings and improvements	1,140,287	67,871	-	1,208,158
Equipment and vehicles	1,982,088	104,113	67,029	2,019,172
Infrastructure, road network	32,027,035	1,350,635	27,438	33,350,232
Total accumulated depreciation	<u>35,149,410</u>	<u>1,522,619</u>	<u>96,035</u>	<u>36,577,562</u>
Total capital assets being depreciated, net	<u>18,980,675</u>			<u>19,743,718</u>
Total capital assets, net	<u>\$28,209,125</u>			<u>\$28,162,198</u>

Water Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	26,245	365,824	-	392,069
	<u>38,551</u>	<u>365,824</u>	<u>-</u>	<u>404,375</u>
Capital assets being depreciated:				
Equipment and vehicles	379,736	43,646	-	423,382
Infrastructure	7,730,573	21,023	9,048	7,742,548
Total capital assets being depreciated	<u>8,110,309</u>	<u>64,669</u>	<u>9,048</u>	<u>8,165,930</u>
Less accumulated depreciation for:				
Equipment and vehicles	270,398	32,008	-	302,406
Infrastructure, road network	3,102,470	246,718	1,145	3,348,043
Total accumulated depreciation	<u>3,372,868</u>	<u>278,726</u>	<u>1,145</u>	<u>3,650,449</u>
Total capital assets being depreciated, net	<u>4,737,441</u>			<u>4,515,481</u>
Business type activities capital assets, net	<u>\$ 4,775,992</u>			<u>4,919,856</u>

Communications Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	119,845	227,162	-	347,007
	<u>169,480</u>	<u>227,162</u>	<u>-</u>	<u>396,642</u>
Capital assets being depreciated:				
Buildings and improvements	271,793	-	-	271,793
Equipment and vehicles	234,424	19,190	-	253,614
Infrastructure	6,533,111	78,471	177,417	6,434,165
Total capital assets being depreciated	<u>7,039,328</u>	<u>97,661</u>	<u>177,417</u>	<u>6,959,572</u>
Less accumulated depreciation for:				
Buildings and improvements	129,179	9,971	-	139,150

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Equipment and vehicles	173,090	16,280	-	189,370
Infrastructure, road network	3,701,754	301,435	175,481	3,827,708
Total accumulated depreciation	<u>4,004,023</u>	<u>327,685</u>	<u>175,481</u>	<u>4,156,228</u>
Total capital assets being depreciated, net	<u>3,035,305</u>			<u>2,803,344</u>
Business type activities capital assets, net	<u>\$ 3,204,785</u>			<u>\$ 3,199,986</u>

**2015
Electric Fund**

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 256,366	-	-	\$ 256,366
Construction in progress	9,177,132	648,570	853,618	8,972,084
	<u>9,433,498</u>	<u>648,572</u>	<u>853,618</u>	<u>9,228,450</u>
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	<u>53,595,242</u>	<u>914,557</u>	<u>379,713</u>	<u>54,130,085</u>
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	1,320,462	377,186	32,027,035
Total accumulated depreciation	<u>34,038,745</u>	<u>1,487,851</u>	<u>377,186</u>	<u>35,149,410</u>
Total capital assets being depreciated, net	<u>19,556,497</u>			<u>18,980,675</u>
Total capital assets, net	<u>\$28,989,995</u>			<u>\$28,209,125</u>

Water Fund

Proprietary Activities	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
	<u>40,270</u>	<u>467,344</u>	<u>469,063</u>	<u>38,551</u>
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	<u>7,599,575</u>	<u>515,600</u>	<u>4,866</u>	<u>8,110,309</u>
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>

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

NOTES TO FINANCIAL STATEMENTS

Communications Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	-	120,778	933	119,845
	49,635	120,778	933	169,480
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	7,010,850	44,195	15,718	7,039,328
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	3,653,932	365,793	15,705	4,004,023
Total capital assets being depreciated, net	3,356,918			3,035,305
Business type activities capital assets, net	\$3,406,553			\$3,204,785

Depreciation expense was charged to the following functions:

Proprietary activities:	December 31, 2016	December 31, 2015
Electric	\$ 1,522,619	\$ 1,487,851
Water	278,726	253,541
Communications	327,685	365,793
	\$ 2,129,030	\$ 2,107,185

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, 2016 and 2015, \$128,622 in lease payments due under this agreement was included in accounts payable. The future minimum lease payments are as follows:

Year Ending	
2017	128,622
2018	128,622

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

NOTES TO FINANCIAL STATEMENTS

2019	128,622
2020	128,622
2021	128,622
2022-2026	643,110
2027-2031	643,110
2032-2036	643,110
2037-2041	643,110
2042-2043	257,244
Total	\$ 3,472,794

NOTE 16 – DEFICIT NET POSITION

The Communications Fund has a deficit balance of \$1,909,821 and \$2,037,911 as of December 31, 2016 and 2015 respectively.

NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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, 2016 and 2015, the amount actually contributed to the plan and changes in AMU's net OPEB obligation:

	Electric	Water	Communications	Total
Annual required contribution	\$ 33,726	\$ 5,977	\$ 13,685	\$ 53,388
Interest on net OPEB obligation	1,349	239	547	2,135

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

NOTES TO FINANCIAL STATEMENTS

Adjustment to annual required contribution	1	(1)	1	1
Annual OPEB cost	35,076	6,215	14,233	55,524
Net OPEB obligation beginning of year	249,283	44,354	102,861	396,498
Net OPEB obligation end of year	\$ 284,359	\$ 50,569	\$ 117,094	\$ 452,022

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, 2016 and 2015.

For the years ended December 31, 2016 and 2015, AMU contributed \$-0- and \$21,725 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:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2016	\$ 55,524	0%	\$ 452,022
December 31, 2015	\$ 55,616	39.1%	\$ 396,498
December 31, 2014	\$ 60,480	0%	\$ 362,607

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, 2016 and 2015, 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.

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

NOTES TO FINANCIAL STATEMENTS

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.

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 June 26, 2017, the date the financial statements were issued.

Required Supplementary Information

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

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

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2016

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
	Receipts:		
Charges for service	\$ 20,008,622	\$ 19,158,000	850,622
Miscellaneous	1,172,444	579,900	592,544
Other financing sources	-	-	-
	<u>21,181,066</u>	<u>19,737,900</u>	<u>1,443,166</u>
Disbursements:			
Program			
Business type activities	21,039,765	19,931,500	(1,108,265)
Transfers out	513,519	520,000	6,481
	<u>21,553,284</u>	<u>20,451,500</u>	<u>(1,101,784)</u>
Change in net assets	(372,218)	(713,600)	
Balance beginning of year	<u>7,642,784</u>	<u>27,863,796</u>	
Balance end of year	<u>\$ 7,270,566</u>	<u>\$ 27,150,196</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	\$ 20,787,476	\$ 393,590	\$ 21,181,066
Disbursements	19,430,073	2,123,211	21,553,284
Other financing sources	-	-	-
Increase (decrease) in net position	<u>\$ 1,357,403</u>	<u>\$ (1,729,621)</u>	<u>\$ (372,218)</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, 2016

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.

AMU exceeded the budgeted disbursement limit for 2016.

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

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

LAST TWO FISCAL YEARS *

	2016	2015
Utilities' proportion of the net pension liability (asset)	0.031978%	0.032151%
Utilities' proportionate share of the net pension liability (asset)	\$1,579,847	\$1,275,084
Utilities' covered-employee payroll	\$2,121,496	\$2,286,365
Utilities' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	74.47%	55.77%
Plan fiduciary net position as a percentage of the total pension liability	87.61%	87.61%

* The amounts presented for each fiscal year were determined as of June 30, 2015 and 2014 respectively.

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.

See accompanying independent auditor's report.

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

SCHEDULE OF UTILITY CONTRIBUTIONS

LAST 10 YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 197,162	\$ 204,171	\$ 183,934	\$ 184,815	\$ 171,312
Contributions in relation to the statutorily required contribution	<u>(197,162)</u>	<u>(204,171)</u>	<u>(183,934)</u>	<u>(184,815)</u>	<u>(171,312)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
City's covered-employee payroll	\$ 2,121,496	\$ 2,286,365	\$ 2,059,729	\$ 2,099,588	\$ 2,045,847
Contributions as a percentage of covered-employee payroll	9.29%	8.93%	8.93%	8.80%	8.37%

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, 2016

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.

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 the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

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
2016	December 31, 2016	-0-	\$548	\$548	0.00%	\$2,200	24.9%
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,**

	2016	2015	2014
Sale of electricity:			
Sales to consumers	\$ 11,004,816	\$ 9,949,250	\$ 9,161,643
Sales to other utilities	194,026	176,295	161,555
Sales for resale	3,880,659	2,917,152	3,176,653
	<hr/>	<hr/>	<hr/>
Total electricity sales	<u>15,079,501</u>	<u>13,042,697</u>	<u>12,499,851</u>
Kilowatt hours:			
Wind generation	-	2,732,353	5,609,848
Generated	77,168,343	142,465,775	141,643,781
Purchases	156,566,197	58,769,185	52,444,524
System losses (transmission)	(3,564,774)	(3,480,795)	(3,453,229)
Available for sale	<u>230,169,766</u>	<u>200,486,518</u>	<u>196,244,924</u>
Billed to consumers	110,813,174	111,345,652	111,409,291
Sales to other utilities	4,000,763	4,058,444	4,198,333
Sales for resale	111,343,987	81,728,731	75,527,454
Distribution loss	4,011,842	3,353,691	5,109,846
Distribution loss percent	3.38%	2.82%	4.23%
Revenue billed per kWh to consumers	\$ 0.0993	\$ 0.0894	\$ 0.0822
Peak hour demand in kilowatts	24,650	23,410	22,230
Services provided to the City			
Street lighting:			
Energy	\$ 40,784	\$ 41,708	\$ 35,791
Operation and Maintenance	20,864	18,965	24,516
	<hr/>	<hr/>	<hr/>
	61,648	60,673	60,307
Other Maintenance Costs	6,377	9,024	5,489
Energy for Public Buildings, Parks and Other uses	153,243	134,587	125,773
	<u>\$ 221,268</u>	<u>\$ 204,284</u>	<u>\$ 191,569</u>
Year to date kWh sales			
Residential	28,885,951	29,240,246	30,213,408
Commercial	82,244,843	82,416,328	81,488,568
Area Lighting	770,869	782,629	660,114
Station Power	1,700,590	1,794,995	1,971,065
City	1,211,684	1,169,898	1,274,469
Total number of kWh sales	<u>114,813,937</u>	<u>115,404,096</u>	<u>115,607,624</u>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 2

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

	2016	2015	2014
Total revenue billed	\$ 1,151,100	\$ 1,033,087	\$ 1,029,162
Cubic Foot			
Pumped	34,144,468	34,673,274	38,001,822
Billed	29,259,120	29,754,363	29,753,067
City of Algona	382,426	310,655	307,317
System loss	4,502,922	4,608,256	7,941,438
Percent loss	13.19%	13.29%	20.90%
Revenue billed per cubic foot	\$ 0.0388	\$ 0.0344	\$ 0.0342
Peak day-cubic footage pumped	160,962	157,903	176,512
Services provided to City			
Water for parks, disposal plant and public buildings	\$ 15,592	\$ 12,404	\$ 11,307
Public fire protection	34,776	30,150	30,060
	\$ 50,368	\$ 42,554	\$ 41,367

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 3

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

	2016	2015	2014
Operating revenue:			
Cable TV	\$ 1,347,207	\$ 1,375,564	\$ 1,354,062
Internet	1,089,068	1,025,384	978,065
Telephone	884,896	864,871	973,814
Cell phone	48,593	(46,912)	(15,398)
Miscellaneous	177,574	132,244	84,329
	<u>\$ 3,547,338</u>	<u>\$ 3,351,151</u>	<u>\$ 3,374,872</u>
Customers			
Cable TV	1,610	1,675	1,785
Internet	1,985	1,968	1,940
Telephone	1,261	1,319	1,400
Cell phone	267	344	375
Average monthly revenue per customer			
Cable TV	69.73	68.44	63.21
Internet	45.72	43.42	42.01
Telephone	58.48	54.64	57.97
Services provided to City			
Cable TV	\$ 1,690	\$ 1,649	\$ 2,398
Internet	5,065	4,810	4,956
Telephone	990	1,000	817
	<u>\$ 7,745</u>	<u>\$ 7,459</u>	<u>\$ 8,171</u>

Unaudited - See Accompanying Independent Auditor's Report



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

**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, 2016, and the related notes to the financial statements, which collectively comprise AMU's basic financial statements, and have issued our report thereon dated June 26, 2017.

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.

TP Anderson & Company, PC

Humboldt, Iowa
June 26, 2017

**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:

III-A-16 Certified Budget - Disbursements for the year ended December 31, 2016 exceeded budgeted limitations.

Criteria – Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Cause – The over-expenditure appears to have happened due to an employee oversight.

Recommendation – If necessary, the budget should be amended in accordance with the Code of Iowa to avoid an over-expenditure.

Response – We will amend our budget in the future if necessary.

Conclusion – Response accepted.

III-B-16 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.

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

SCHEDULE OF FINDINGS

- III-C-16 Travel Expense – No disbursements of AMU money for travel expenses of spouses of Utility officials or employees were noted.
- III-D-16 Business Transactions – We noted no transactions conducted with AMU officials.
- III-E-16 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-16 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.
- III-G-16 Revenue Bonds – No violations of revenue bond covenants were noted.
- III-H-16 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policy.
- III-I-16 Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.
- III-J-16 Financial Condition – The Communications Fund had a deficit fund balance of \$1,909,821 at December 31, 2016.

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.