

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

INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
COMMENTS AND RECOMMENDATIONS

YEARS ENDED DECEMBER 31, 2009 AND 2008

ATLANTIC MUNICIPAL UTILITIES

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ATLANTIC MUNICIPAL UTILITIES
Officials
December 31, 2009

<u>Trustees</u>	<u>Term Expires</u>
Lawrence E. Turner, Chairperson	April, 2013
Keith C. Stork, Vice-Chairperson	April, 2015
Frank W. Greiner	April, 2015
Sharon L. Winchell	April, 2011
Bernard L. Elming (deceased August, 2009)	April, 2011
Joyce A. Jensen (appointed November, 2009)	April, 2011

Management Personnel

General Manager
Allen J. Bonderman

Comptroller
Steve J. Tjepkes

Director of Electric Operations
Gregory J. Smith

Director of Water Operations
Jon H. Martens

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

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DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited the accompanying statements of net assets of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of December 31, 2009 and 2008, and the related statements of income, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Municipal Utilities (Electric Department and Water Department) as of December 31, 2009 and 2008, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2010 on our consideration of Atlantic Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Trustees
Atlantic Municipal Utilities

The management's discussion and analysis and the budgetary comparison schedule on pages 4 through 4f and 31 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2007 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The other supplementary information (shown on pages 32 through 42) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Atlantic, Iowa
February 22, 2010



Atlantic Municipal Utilities

Management's Discussion and Analysis Audited Financial Statements Years Ended December 31, 2009 and 2008

This section of the Utility's annual Financial Statements presents an analysis of the Utility's financial performance during the calendar year ended December 31, 2009. This information is presented in conjunction with the audited basic financial statements, which follow this section. The Utility is organized into two operating departments, electric and water. This discussion and analysis not only points out the highlights of each department, but also reports and discusses highlights in combined form.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2009

The Utility's combined net assets decreased by \$0.1 million, or 0.39%, from \$26.14 million to \$26.04 million. The Electric Department's net assets decreased by \$13,786, or 0.06%, from \$22.42 million to \$22.41 million. The Water Department's net assets decreased by \$86,924, or 2.34%, from \$3.718 million to \$3.631 million.

Combined operating revenues decreased by \$1.014 million or 10.36%. Electric Department operating revenues decreased by \$1.006 million, or 11.48%, from \$8.76 million to \$7.76 million. Water Department operating revenues decreased by \$8,438, or 0.82%, from \$1.024 million to \$1.015 million.

Long-term debt (see Table 1) of the two departments decreased. Total combined debt decreased from \$8.934 million in 2008, to \$8.266 million. Electric Department debt was reduced by \$465,000, from \$7.80 million to \$7.34 million. Water Department debt was reduced by \$205,000, from \$1.14 million to \$0.93 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The *Statements of Changes in Net Assets* provide information about the equity, or net assets, of the Department, taking into account any transfer of equity to the City of Atlantic.

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

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

The *Comments and Recommendations* section of the report describes AMU's compliance with various state statutes, and accounting principles.

FINANCIAL ANALYSIS OF THE UTILITY

A summary of the Utility's combined Net Assets is presented in *Table 1, Condensed Statement of Net Assets* below. The summary combines the net assets of both the electric and water departments, and also indicates each Department's assets separately.

Table 1												
Condensed Statements of Net Assets												
(In thousands of dollars)	Electric Dept.				Water Dept.				Combined			
			Dollar	Percent			Dollar	Percent			Dollar	Percent
	2009	2008	Change	Change	2009	2008	Change	Change	2009	2008	Change	Change
Current and Other Assets	\$9,230.0	\$11,394.0	-\$2,163.9	-19.0%	\$1,172.4	\$1,224.0	-\$51.6	-4.2%	\$10,402.5	\$12,618.0	-\$2,215.5	-17.6%
Capital Assets	\$21,982.7	\$20,778.3	\$1,204.4	5.8%	\$3,909.1	\$4,093.2	-\$184.1	-4.5%	\$25,891.8	\$24,871.5	\$1,020.3	4.1%
Total Assets	\$31,212.8	\$32,172.3	-\$959.5	-3.0%	\$5,081.5	\$5,317.2	-\$235.7	-4.4%	\$36,294.3	\$37,489.5	-\$1,195.2	-3.2%
Long-Term Debt	\$7,335.0	\$7,800.0	-\$465.0	-6.0%	\$930.9	\$1,135.9	-\$205.0	-18.0%	\$8,265.9	\$8,935.9	-\$670.0	-7.5%
Other Liabilities	\$1,470.9	\$1,951.6	-\$480.7	-24.6%	\$519.1	\$462.9	\$56.2	12.1%	\$1,990.0	\$2,414.5	-\$424.5	-17.6%
Total Liabilities	\$8,805.9	\$9,751.6	-\$945.7	-9.7%	\$1,450.0	\$1,598.8	-\$148.8	-9.3%	\$10,255.9	\$11,350.4	-\$1,094.5	-9.6%
Total Net Assets	\$22,406.9	\$22,420.7	-\$13.8	-0.1%	\$3,631.5	\$3,718.4	-\$86.9	-2.3%	\$26,038.4	\$26,139.1	-\$100.7	-0.4%
Total Liabilities & Net Assets	\$31,212.8	\$32,172.3	-\$959.5	-3.0%	\$5,081.5	\$5,317.2	-\$235.7	-4.4%	\$36,294.3	\$37,489.5	-\$1,195.2	-3.2%

Electric Department

2009 brought a major capital project at Walter Scott Unit 3 (WS3) to its conclusion, with the commissioning of a new sulphur dioxide (SO₂) scrubber and baghouse. The scrubber removes a majority of the SO₂ from the emissions at the plant, and the baghouse removes small particulates that are a direct result of coal combustion. The project also included the addition of "low-NO_x" burners, which reduces the emissions of nitrogen oxides. A planned outage approximately eight weeks long, related to the scrubber/baghouse, also incorporated regular maintenance. This event impacted AMU's financial status due to costs related to the maintenance performed during the outage, for replacement energy while the plant was down, and a reduction in surplus energy sold.

Capital Assets increased by \$1,204,446, or 5.80%. Capital additions included the additions at Walter Scott Unit No. 3 (WS3), as well as additions to local distribution facilities. Capital asset additions were funded from bond proceeds from the 2007 bond sale, as well as cash on hand.

Special Purpose Funds, Current and Other Assets, and Deferred Expenses decreased by \$2,163,925, or 18.99%, due to bond proceeds and cash being used to pay for capital improvements. Total Assets decreased from \$32.17 million to \$31.21 million, or 2.98%.

Total long-term debt of the Electric Department decreased from \$7,800,000 to \$7,335,000, a total of \$465,000. Current and Other Liabilities decreased from \$1,951,594 to \$1,470,901, a change of \$480,693, or 24.63%.

Cash requirements of the Electric Department were provided from cash flows, reserves, and proceeds from debt issued in 2007.

Operating Revenue for the Electric Department decreased by \$1,005,740, or 11.48%. Energy sales to retail customers decreased by 4.54%. Revenues from those sales decreased by \$135,180, or 2.33%. Wholesale sales to other utilities were significantly lower, decreasing from \$2,591,267 to \$1,468,112, a drop of 43.34%. This dramatic decrease in wholesale sales was primarily due to significantly lower market prices for energy, presumably because of the national and global economic recession.

Operating Expenses for the Electric Department also increased, from \$6,779,908 the prior year, to \$7,398,651 in 2009. Increases in expenses were primarily caused by increases in purchased power and transmission costs, which were caused by AMU having to enter the real-time energy markets of the Midwest Independent System Operator (MISO). Costs also increased for operating and maintenance, labor, insurance and other costs.

Net Income decreased from \$2,055,219 to \$291,781, a decrease of \$1,763,438. This decrease in net income was attributable to radically decreased revenues from sales of surplus energy in the wholesale market, coupled with higher purchased power and transmission costs.

Total Assets of the electric utility decreased by \$959,479 to \$31.213 million. Net assets decreased by \$13,786, to \$22.407 million. Transfers to the City of Atlantic totaled \$305,567.

Water Department

AMU did not undertake any significant new capital projects during 2009. Due to depreciation of existing assets, there was a reduction of \$184,118 in Capital Assets. The minor capital asset additions that occurred were funded from cash on hand.

Special Purpose Funds, Current and Other Assets and Deferred Costs decreased by \$51,577, to \$1,172,442. Total Assets decreased from \$5.31 million to \$5.08 million, or 4.33%.

Total long-term debt of the Water Department was reduced from \$1,135,855 to \$930,855, a total of \$205,000. Current and Other Liabilities increased from \$462,910 to \$519,139, a change of \$56,229, or 12.15%.

All cash requirements of the Water Department were provided from cash flows, and no new debt was issued during the reporting period. In December, 2009, AMU's Electric Department called the outstanding water revenue bonds. The Water Department will continue to make debt payments to the Electric Department on the same schedule.

Operating Revenue for the Water Department declined by 0.82%, with revenues totaling \$1,015,171 in 2009, as compared to \$1,023,609 in 2008. Sales of water declined by 3.50%, with a total of 243 million gallons billed. Net Income for the year was a loss of \$3,831, a decrease of \$68,643. The decrease was due to increases in operating expenses, including labor and overheads, chemicals, and materials.

Net Assets of the water utility decreased by \$86,924, to \$3.63 million. (Note: Includes Contributions In Aid Of Construction and amortizations of said contributions). Transfers to the City of Atlantic totaled \$84,433.

A summary of the Utility's combined Operating Revenues, Expenses, Net Income and Net Assets is presented in *Table 2 Condensed Statements of Income and Changes in Net Assets*, below. The summary combines the operating data of both the electric and water departments, and also summarizes each Department's operations separately.

Table 2 Condensed Statements of Income and Changes in Net Assets												
(In thousands of dollars)	Electric Dept.				Water Dept.				Combined			
			Dollar	Percent			Dollar	Percent			Dollar	Percent
	2009	2008	Change	Change	2009	2008	Change	Change	2009	2008	Change	Change
Operating Revenues	\$7,756.7	\$8,762.5	(\$1,005.8)	-11.48%	\$1,015.2	\$1,023.6	(\$8.4)	-0.8%	\$8,771.9	\$9,786.1	(\$1,014.2)	-10.36%
Other Income (Deductions)	(\$66.3)	\$72.7	(\$139.0)	-191.2%	(\$23.3)	(\$25.2)	\$1.9	7.5%	(\$89.6)	\$47.4	\$137.0	289.03%
Total Income	\$7,690.4	\$8,835.1	(\$1,144.7)	-13.0%	\$991.9	\$998.4	(\$6.5)	-0.6%	\$8,682.3	\$9,833.5	(\$1,151.2)	-11.71%
Depreciation	\$1,161.2	\$1,143.0	\$18.2	1.6%	\$227.1	\$230.1	(\$3.0)	-1.3%	\$1,388.3	\$1,373.1	\$15.2	1.11%
Other Operating Expenses	\$6,237.5	\$5,636.9	\$600.6	10.7%	\$768.6	\$703.5	\$65.1	9.3%	\$7,006.1	\$6,340.4	\$665.7	10.50%
Total Operating Expense	\$7,398.7	\$6,779.9	\$618.7	9.1%	\$995.7	\$933.6	\$62.2	6.7%	\$8,394.4	\$7,713.5	\$680.9	8.83%
Net Income	\$291.8	\$2,055.2	(\$1,763.4)	-85.8%	(\$3.8)	\$64.8	(\$68.6)	105.9%	\$288.0	\$2,120.0	(\$1,832.1)	-86.42%
Net Assets												
Beginning Balance	\$22,420.7	\$20,639.0	\$1,781.7	8.6%	\$3,718.4	\$3,734.1	(\$15.7)	-0.4%	\$26,139.1	\$24,373.1	\$1,766.0	7.25%
Net Income	\$291.8	\$2,055.2	(\$1,763.4)	-85.8%	(\$3.8)	\$64.8	(\$68.6)	105.9%	\$288.0	\$2,120.0	(\$1,832.1)	-86.42%
Less: Distribution to the City	\$305.6	\$273.5	\$32.0	11.7%	\$84.4	\$81.5	\$3.0	3.6%	\$390.0	\$355.0	\$35.0	9.86%
Plus: *Adjustments					\$1.3	\$1.0	\$0.4	38.9%	\$1.3	\$1.0	\$0.4	38.86%
Ending Balance	\$22,406.9	\$22,420.7	(\$13.8)	-0.1%	\$3,631.5	\$3,718.4	(\$86.9)	-2.3%	\$26,038.4	\$26,139.1	(\$100.7)	-0.39%

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

OUTLOOK FOR THE FUTURE

A volatile 2008 was followed by an even more tumultuous 2009. The U.S. and global economy continued a freefall, which severely impacted the electric utility industry. As the economy deteriorated, industries across the country reduced hours, furloughed employees, and in many cases closed their doors. Loss of industrial electrical loads resulted in a surplus of energy, and forced hourly and daily prices to much lower levels. The value of off-peak electricity dropped to near or below production costs, while the maximum values for power during seasonal peaks fell to levels far below those experienced during the prior several years.

Congress has focused its attention on legislation related to economic stimulus and jobs, leaving climate change, transmission policy and other energy-related matters in a state of uncertainty. Utility CEO's, hoping for firm direction from the government, continue to be unable to make any sort of long-term business decisions, particularly in regard to construction of new baseload resources.

Renewable energy development came almost to a stop, due to the collapse of the credit markets. The federal government responded by extending some federal loans and loan guarantees, and creating some new ones, which has allowed the renewable developers to continue to build facilities on a very limited basis. Costs for those facilities, though, have continued to rise, due to a great extent to the drop in the value of the dollar versus the Euro.

On the positive side, oil and natural gas prices trended downward and have become relatively stable, which to some extent reduces costs for production of peaking energy. Predicted shortages of power during peak hours have turned into the reality of surpluses of energy. The bottom line appears to be that the supply of energy will be adequate for the next several years, but profits related to sales of energy will be much lower.

Another major event occurred during 2009 that will have significant impacts on the way AMU does business. MidAmerican Energy Company, since 2007, had been attempting to find a way for their company to participate in the real-time energy markets of the Midwest Independent System Operator (MISO), without having to make the commitments of becoming a full-blown MISO member. Those efforts failed late in 2008, when the Federal Energy Regulatory Commission (FERC) ruled against MidAmerican's and MISO's proposals to do just that.

In March of 2009, MidAmerican notified all of its transmission customers that it had examined its options, and had concluded that the benefits of them becoming a Transmission-Ownning (TO) member of MISO – in other words, a full-blown member – vastly outweighed the related risks and costs. They would officially be joining MISO by the 1st day of September, 2009. All utilities connected to MidAmerican's transmission system were forced to become MISO Market Participants, and be subject to the MISO Tariffs.

Being part of a day-ahead and real-time energy market is far too complex to describe here. We see the pros and cons being as follows:

Beneficial Impacts:

- Increased revenues from sales of surplus energy (as compared to historical opportunities)
- Increased revenues from others' use of network transmission facilities owned by AMU

Negative Impacts:

- Increased risk related to unplanned outages at Walter Scott Unit 3
- Increased cost for transmission service
- Increased administrative costs

Having only a few months experience in the MISO Market, it is too early to predict the long-term impacts on AMU's operations. We have formed partnerships with other entities which are helping us to operate in the Market, and to recover costs of our transmission facilities. As we move forward, management is comfortable that we are positioned to function in the new environment we have been thrust into. We see our power supply resources and transmission assets as invaluable to the utility and to our customers.

One other major event occurred in June of 2009, when AMU was audited by the Midwest Reliability Organization (MRO), for compliance with the electric reliability standards imposed by the National Electric Reliability Corporation (NERC) and the Federal Energy Regulatory Commission (FERC). AMU's programs and practices were found to be in compliance with applicable standards, which was a major accomplishment in that our utility had only recently begun to have to comply with the reliability rules.

Several projects took shape in 2009. Plans were implemented for the addition of a second substation transformer at AMU's main substation. Bids were received early in the year, and an order placed for the new transformer, with delivery set for late February of 2010. Bids were then received for installation of the transformer and related protective relaying, and several new high voltage breakers, with that work to be completed by June 1, 2010.

Plans and specifications were completed related to the replacement of some outdated breakers at AMU's Chestnut Substation. A 69,000 volt circuit interrupter will be added to enhance the overall system protection. This work will be completed in the fall of 2010.

Some preliminary work was begun late in the fall of 2009 on conversion of all existing paper maps to electronic, geographical information system (GIS) mapping. This project will take at least two full years to complete, and will be the basis for a number of enhanced systems to be added over the next fifteen to twenty years.

AMU continues to offer incentives for its customers to utilize high-efficiency electric heat pumps, geothermal heat pump systems, and efficient appliances. These energy efficiency programs will continue to be expanded in 2010 and beyond.

Finally, AMU's Board of Trustees took action late in 2009 to increase rates for electric service. Projections of revenues and expenses indicated that existing rates would not result in adequate revenues to meet the utility's needs. The revised rates were placed into effect with billings issued on or after February 1, 2010.

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AMU's water utility had a rather uneventful year, and continues to examine the challenges faced by virtually every smaller water system in Iowa.

Water utilities are impacted by federal and state regulations, including the federal Clean Water Act (CWA) and Safe Drinking Water Act (SDWA). AMU is fairly well positioned in terms of compliance with the CWA and SDWA, although there will be some impact on operational costs related to compliance. For example, late in 2009 a "sanitary inspection" was performed by the Iowa Department of Natural Resources. The inspection report indicated that AMU was in violation of regulations which prohibited the discharge of backwash water (water used to flush our filters at the water treatment plant) into a navigable water without a permit. The end result of this is that AMU will construct a backwash collection tank, into which we will pump all backwash water. After allowing time for settling, the water will then be recycled and sent back through the treatment process.

Distribution system infrastructure is another challenge to small utilities, and AMU continues to look for ways to fund replacement of several miles of small pipe.

As was the case with the electric utility, the Board approved increased rates for water service, beginning with bills issued on and after February 1, 2010. Management expects that regular increases in rates for water will likely be needed over the next several years, however, rates for water in Atlantic should remain competitive with similar utilities in Iowa.

Generally, the financial position of the water utility is good, as compared to other comparable-sized water systems in Iowa. Adequate reserves exist to provide for emergencies and other unanticipated events. Management and the Board are committed to maintaining rates adequate to meet the cash requirements of the utility, while meeting the needs of the Atlantic community.

Contacting Financial Management

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

The General Manager can be contacted at the same address and phone, or by e-mail at a.bonderman@a-m-u.net.

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

ASSETS

	<u>2009</u>	<u>2008</u>
Utility Plant :		
Depreciable capital assets	\$ 14,766,185	\$ 14,379,519
Non-depreciable capital assets	<u>7,216,558</u>	<u>6,398,778</u>
Total utility plant	21,982,743	20,778,297
Special Purpose Funds:		
Revenue bond funds	1,440,005	2,182,840
Board designated funds	<u>1,761,384</u>	<u>1,830,881</u>
Total special purpose funds	3,201,389	4,013,721
Current Assets:		
Cash	345,918	1,383,767
Operating and capital reserves	2,987,134	3,988,772
Receivables, less allowance for doubtful accounts (\$27,000 in 2009, \$30,000 in 2008)	698,627	619,804
Inventory	735,010	758,789
Prepaid expenses	40,963	38,099
Current due from Water Department	<u>207,570</u>	<u>--</u>
Total current assets	5,015,222	6,789,231
Other Assets:		
Due from Water Department:		
Non-interest bearing note	495,855	495,855
Interest bearing note - non-current	435,000	--
Deferred costs	<u>82,576</u>	<u>95,160</u>
Total other assets	1,013,431	591,015
	<u>\$ 31,212,785</u>	<u>\$ 32,172,264</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Long-Term Debt, less current maturities	\$ 7,335,000	\$ 7,800,000
Current Liabilities:		
Current maturities of long-term debt	465,000	760,000
Accounts payable	488,580	698,444
Accrued employee compensation	123,000	107,200
Accrued payroll taxes and withholdings	12,047	2,914
Accrued property taxes	127,000	126,000
Other accrued taxes	12,386	12,967
Accrued interest	<u>77,401</u>	<u>85,107</u>
Total current liabilities	1,305,414	1,792,632
Other Liabilities:		
Consumer deposits	68,487	65,962
Reserve for employees' retirement	<u>97,000</u>	<u>93,000</u>
Total other liabilities	<u>165,487</u>	<u>158,962</u>
Total liabilities	8,805,901	9,751,594
Net Assets:		
Restricted - expendable	1,440,005	1,915,086
Invested in capital assets net of related debt	14,198,947	12,528,973
Unrestricted	<u>6,767,932</u>	<u>7,976,611</u>
Total net assets	<u>22,406,884</u>	<u>22,420,670</u>
	<u>\$ 31,212,785</u>	<u>\$ 32,172,264</u>

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

	<u>2009</u>	<u>2008</u>
Operating Revenue:		
Retail electricity sales	\$ 5,350,940	\$ 5,487,330
Services provided to the City	312,165	310,955
Sales to other utilities	<u>1,468,112</u>	<u>2,591,267</u>
Total sale of electricity	7,131,217	8,389,552
Other operating revenue	<u>625,499</u>	<u>372,904</u>
Total operating revenue	7,756,716	8,762,456
Operating Expenses:		
Electric production	1,727,064	2,044,917
Purchased power	1,797,915	1,232,802
Transmission	731,271	542,906
Distribution	748,233	681,318
Administrative and accounting	1,232,985	1,134,942
Provision for depreciation	<u>1,161,183</u>	<u>1,143,023</u>
Total operating expenses	7,398,651	6,779,908
Income from Operations	358,065	1,982,548
Other Income and (Deductions):		
Income from investments	165,128	265,660
Interest expense on revenue bonds	(219,690)	(176,073)
Gain on disposal of equipment	3,576	264
Other interest expense	(2,714)	(2,709)
Amortization of bond issue costs	<u>(12,584)</u>	<u>(14,471)</u>
Other income (deductions), net	(66,284)	72,671
Net Income	<u>\$ 291,781</u>	<u>\$ 2,055,219</u>

The accompanying notes are an integral part of these statements.

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

	<u>2009</u>	<u>2008</u>
Balance, Beginning	\$ 22,420,670	\$ 20,638,987
Net Income	291,781	2,055,219
Distribution to the City	<u>(305,567)</u>	<u>(273,536)</u>
Balance, Ending	<u>\$ 22,406,884</u>	<u>\$ 22,420,670</u>

The accompanying notes are an integral part of these statements.

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

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 6,734,248	\$ 7,867,188
Cash paid to suppliers	(5,198,616)	(4,270,227)
Cash paid to employees	(1,191,952)	(1,170,149)
Other operating revenue	<u>622,474</u>	<u>368,996</u>
Net cash provided by operating activities	966,154	2,795,808
Cash flows from noncapital financing activities:		
Consumer deposits, net	2,525	2,515
Interest paid	<u>(2,714)</u>	<u>(2,709)</u>
Net cash used in noncapital financing activities	(189)	(194)
Cash flows from capital and related financing activities:		
Principal payments	(760,000)	(735,000)
Interest paid on revenue bonds	(325,015)	(329,408)
Capital expenditures	<u>(2,255,327)</u>	<u>(3,186,819)</u>
Net cash used in capital and related financing activities	(3,340,342)	(4,251,227)
Cash flows from investing activities:		
Special purpose fund investments		
Acquisitions	(1,263,601)	(1,453,083)
Proceeds	3,346,926	3,733,091
Operating and capital reserves		
Acquisitions	(1,299,873)	(4,547,063)
Proceeds	2,301,511	3,456,387
Investment in Water interest bearing note	(640,000)	--
Income from investments	<u>162,558</u>	<u>299,376</u>
Net cash provided by investing activities	<u>2,607,521</u>	<u>1,488,708</u>
Net increase in cash	233,144	33,095
Cash at beginning of year	<u>2,039,239</u>	<u>2,006,144</u>
Cash at end of year	<u><u>\$ 2,272,383</u></u>	<u><u>\$ 2,039,239</u></u>

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

	<u>2009</u>	<u>2008</u>
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 345,918	\$ 1,383,767
Cash in special purpose funds	<u>1,926,465</u>	<u>655,472</u>
Total cash	<u>\$ 2,272,383</u>	<u>\$ 2,039,239</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 358,065	\$ 1,982,548
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	1,161,183	1,143,023
Materials returned to stock	5,030	1,333
Uncollectible accounts	9,006	16,101
Reserve for employees' retirement	4,000	12,000
Distribution to City	(305,567)	(273,536)
Change in assets and liabilities		
Receivables	(87,829)	(215,317)
Inventory	23,779	(141,495)
Prepaid expenses	(2,864)	42,102
Accounts payable, trade	(224,001)	251,861
Accrued employee compensation	15,800	(20,990)
Accrued payroll taxes and withholdings	9,133	(22,986)
Accrued property taxes	1,000	15,000
Other accrued taxes	<u>(581)</u>	<u>6,164</u>
Total adjustments	<u>608,089</u>	<u>813,260</u>
Net cash provided by operating activities	<u>\$ 966,154</u>	<u>\$ 2,795,808</u>

The accompanying notes are an integral part of these statements.

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

ASSETS

	<u>2009</u>	<u>2008</u>
Utility Plant:		
Depreciable capital assets	\$ 3,783,252	\$ 3,967,370
Non-depreciable capital assets	<u>125,818</u>	<u>125,818</u>
Total utility plant	3,909,070	4,093,188
Special Purpose Funds:		
Revenue bond funds	--	750,000
Board designated funds	768,528	178,965
Memorial fund	<u>3,140</u>	<u>3,717</u>
Total special purpose funds	771,668	932,682
Current Assets:		
Cash	152,607	61,973
Receivables, less allowance for doubtful accounts (\$9,000 in 2009, \$8,000 in 2008)	159,342	134,431
Materials and supplies inventory	76,006	78,946
Prepaid expenses	<u>8,202</u>	<u>8,295</u>
Total current assets	396,157	283,645
Deferred Costs	<u>4,617</u>	<u>7,692</u>
	<u>\$ 5,081,512</u>	<u>\$ 5,317,207</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Long-Term Debt, less current maturities:		
Capital loan notes	\$ --	\$ 640,000
Due to Electric Department non-current	<u>930,855</u>	<u>495,855</u>
Total long-term debt	930,855	1,135,855
Current Liabilities:		
Current maturities of capital loan notes	--	200,000
Current due to Electric Department	207,570	--
Accounts payable:		
Trade	14,489	23,463
Due to City - sewer	184,774	135,520
Accrued employee compensation	46,000	43,100
Accrued payroll taxes and withholdings	2,650	728
Other accrued taxes	4,341	4,321
Accrued interest	<u>--</u>	<u>3,353</u>
Total current liabilities	459,824	410,485
Other Liabilities:		
Consumer deposits	16,315	15,425
Reserve for employees' retirement	<u>43,000</u>	<u>37,000</u>
Total other liabilities	59,315	52,425
Total liabilities	1,449,994	1,598,765
Net Assets:		
Contributions in aid of construction	798,516	813,283
Restricted - expendable	3,140	753,717
Invested in capital assets, net of related debt	2,769,405	2,756,445
Unrestricted	<u>60,457</u>	<u>(605,003)</u>
Total net assets	<u>3,631,518</u>	<u>3,718,442</u>
	<u>\$ 5,081,512</u>	<u>\$ 5,317,207</u>

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

	<u>2009</u>	<u>2008</u>
Operating Revenue:		
Sale of water:		
Residential	\$ 604,680	\$ 600,269
Commercial	309,079	315,967
Services provided to the City	<u>92,098</u>	<u>90,358</u>
Total sale of water	1,005,857	1,006,594
Other operating revenue	<u>9,314</u>	<u>17,015</u>
Total operating revenue	1,015,171	1,023,609
Operating Expenses:		
Source of supply	45,795	36,584
Pumping	42,243	41,946
Water treatment	121,475	104,875
Distribution	227,781	216,765
Administrative and accounting	331,341	303,344
Provision for depreciation	<u>227,103</u>	<u>230,056</u>
Total operating expenses	995,738	933,570
Income from Operations	19,433	90,039
Other Income and (Deductions):		
Income from investments	20,070	27,404
Interest expense on revenue bonds	(39,449)	(48,034)
Other interest expense	(810)	(828)
Amortization of bond issue costs	<u>(3,075)</u>	<u>(3,769)</u>
Other income (deductions), net	<u>(23,264)</u>	<u>(25,227)</u>
Net Income (Loss)	<u><u>\$ (3,831)</u></u>	<u><u>\$ 64,812</u></u>

The accompanying notes are an integral part of these statements.

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

	<u>2009</u>	<u>2008</u>
Balance, Beginning	\$ 3,718,442	\$ 3,734,129
Net Income (Loss)	(3,831)	64,812
Contributions in Aid of Construction	1,340	965
Distribution to the City	<u>(84,433)</u>	<u>(81,464)</u>
Balance, Ending	<u>\$ 3,631,518</u>	<u>\$ 3,718,442</u>

The accompanying notes are an integral part of these statements.

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

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 885,442	\$ 915,132
Cash paid to suppliers	(278,357)	(299,474)
Cash paid to employees	(421,551)	(395,559)
Other operating revenue	<u>8,536</u>	<u>16,132</u>
Net cash provided by operating activities	194,070	236,231
Cash flows from noncapital financing activities:		
Consumer deposits, net	890	1,030
Interest paid	<u>(810)</u>	<u>(828)</u>
Net cash provided by noncapital financing activities	80	202
Cash flows from capital and related financing activities:		
Principal payments	(200,000)	(185,000)
Interest paid on revenue bonds	(40,232)	(48,742)
Capital expenditures	(45,708)	(93,311)
Contributions in aid of construction	<u>1,340</u>	<u>965</u>
Net cash used in capital and related financing activities	(284,600)	(326,088)
Cash flows from investing activities:		
Special purpose fund investments:		
Acquisitions	(774,693)	(1,041,652)
Proceeds	909,467	1,040,172
Income from investments	<u>20,070</u>	<u>27,404</u>
Net cash provided by investing activities	<u>154,844</u>	<u>25,924</u>
Net increase (decrease) in cash	64,394	(63,731)
Cash at beginning of year	<u>236,588</u>	<u>300,319</u>
Cash at end of year	<u><u>\$ 300,982</u></u>	<u><u>\$ 236,588</u></u>
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 152,607	\$ 61,973
Cash in special purpose funds	<u>148,375</u>	<u>174,615</u>
Total cash	<u><u>\$ 300,982</u></u>	<u><u>\$ 236,588</u></u>

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

	<u>2009</u>	<u>2008</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 19,433	\$ 90,039
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	227,103	230,056
Uncollectible accounts	4,184	4,192
Reserve for employees' retirement	6,000	5,000
Distribution to City	(84,433)	(81,464)
Change in assets and liabilities		
Receivables	(29,095)	(1,987)
Materials and supplies inventory	2,940	(2,951)
Prepaid expenses	93	1,284
Accounts payable:		
Trade	(6,251)	(305)
Due to City - sewer	49,254	194
Accrued employee compensation	2,900	(4,994)
Accrued payroll taxes and withholdings	1,922	(4,179)
Other accrued taxes	20	1,346
Total adjustments	<u>174,637</u>	<u>146,192</u>
Net cash provided by operating activities	<u>\$ 194,070</u>	<u>\$ 236,231</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

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

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

2. Measurement Focus and Basis of Accounting

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

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

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

3. Use of Estimates

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

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

4. Utility Plant and Depreciation

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

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

5. Accounts Receivable and Revenue Recognition

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

6. Inventory Valuation

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

7. Investments

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

8. Deferred Costs

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

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

9. Purpose of Special Funds

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

10. Compensated Absences

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

11. Property Taxes

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

12. Cash Equivalents

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

13. Debt Costs During Periods of Construction

During construction, costs of related debt are accumulated and capitalized. Interest earned on invested debt proceeds is offset against the accumulated debt costs and the net amount is included in capitalized construction costs.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

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

14. Net Assets

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

NOTE B - TRANSACTIONS WITH CITY OF ATLANTIC, IOWA

The Utilities provide electric and water services to the City in exchange for a partial payment. However, any payment received must be contributed back to the City at the time of receipt. Any excess of the cost and normal charge for services provided over amounts received from the City is charged to a franchise requirement expense account, which is included in administrative expenses on the financial statements.

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

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

<u>Electric Department</u>	<u>2009</u>	<u>2008</u>
Fees for Services Provided to City	\$ 312,165	\$ 310,955
Payment From and Distribution to City	<u>305,567</u>	<u>273,536</u>
Franchise Requirement	<u>\$ 6,598</u>	<u>\$ 37,419</u>
<u>Water Department</u>	<u>2009</u>	<u>2008</u>
Fees for Services Provided to City	\$ 92,098	\$ 90,358
Payment From and Distribution to City	<u>84,433</u>	<u>81,464</u>
Franchise Requirement	<u>\$ 7,665</u>	<u>\$ 8,894</u>
Sewer Fees Collected for City	<u>\$ 807,714</u>	<u>\$ 690,920</u>
Charge to City for Sewer Billing Service	<u>\$ 2,692</u>	<u>\$ 2,683</u>
Account Payable to City	<u>\$ 184,774</u>	<u>\$ 135,520</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE C - TRANSACTIONS BETWEEN ELECTRIC AND WATER DEPARTMENTS

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

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

	<u>2009</u>	<u>2008</u>
Electric sales to Water	\$ <u>25,701</u>	\$ <u>26,690</u>
Water sales to Electric	\$ <u>338</u>	\$ <u>387</u>
Interest income (Electric) and expense (Water) during the year	\$ <u>2,570</u>	\$ <u>--</u>
Non-interest bearing note due to Electric from Water Department	\$ <u>495,855</u>	\$ <u>495,855</u>
Interest bearing note due to Electric from Water Department	\$ <u>640,000</u>	\$ <u>--</u>
Less current portion	<u>205,000</u>	<u>--</u>
	\$ <u>435,000</u>	\$ <u>--</u>
Current portion of interest bearing note due to Electric from Water Department	\$ <u>205,000</u>	\$ <u>--</u>
Interest due to Electric from Water Department	<u>2,570</u>	<u>--</u>
Current due to Electric from Water Department	\$ <u>207,570</u>	<u>--</u>

The Electric Department non-interest bearing note receivable from the Water Department represents a temporary transfer of funds as part of the financing for a water improvement project. The note is non-interest bearing and is due in 2012. It is subordinate to any bonds or other debt obligations payable from revenues of the Water Department.

At December 1, 2009, the Electric Department paid off the outstanding Capital Loan Notes of the Water Department. In their place, a note receivable from the Water Department was created with the same interest rates and maturity schedule as the Capital Loan Notes (See Note H). The terms of the interest bearing note receivable may be changed at the pleasure of the Utilities Board at any time.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE D - SPECIAL PURPOSE FUNDS

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

Electric Department

	<u>2009</u>	<u>2008</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 1,140,005	\$ 1,615,086
Capital improvements	300,000	300,000
Bond proceeds for capital acquisitions	<u>--</u>	<u>267,754</u>
Total restricted	<u>\$ 1,440,005</u>	<u>\$ 2,182,840</u>
Board Designated for:		
Unforeseen disasters	\$ 350,000	\$ 350,000
Production plant repairs and capital expenditures	1,000,000	1,000,000
Equipment replacement	150,000	150,000
Employee retirement	150,000	153,726
Funding of bond requirements	<u>111,384</u>	<u>177,155</u>
Total board designated	<u>\$ 1,761,384</u>	<u>\$ 1,830,881</u>

Water Department

	<u>2009</u>	<u>2008</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ --	\$ 250,000
Capital improvements	<u>--</u>	<u>500,000</u>
Bond funds	<u>--</u>	<u>750,000</u>
Restricted by donor for well field improvements	<u>3,140</u>	<u>3,717</u>
Total restricted	<u>\$ 3,140</u>	<u>\$ 753,717</u>
Board Designated for:		
System improvements	\$ 728,528	\$ 100,000
Employee retirement	40,000	40,000
Funding of bond requirements	<u>--</u>	<u>38,965</u>
Total board designated	<u>\$ 768,528</u>	<u>\$ 178,965</u>

During the year ended December 31, 2009, the Utilities expended \$267,754 (\$2,309,713 in 2008) of revenue note proceeds on the construction programs.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2009 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

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

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

	<u>2009</u>	<u>2008</u>
Invested Funds:		
Government Agencies	\$ 4,227,861	\$ 7,273,249
Other Interest Bearing Accounts	1,926,465	655,472
Interest Receivable	<u>34,197</u>	<u>73,772</u>
Total Investments	<u>\$ 6,188,523</u>	<u>\$ 8,002,493</u>
Special Purpose Funds:		
Restricted	\$ 1,440,005	\$ 2,182,840
Board Designated	<u>1,761,384</u>	<u>1,830,881</u>
Total Special Purpose Funds	3,201,389	4,013,721
Operating and Capital Reserves	<u>2,987,134</u>	<u>3,988,772</u>
Total Investments	<u>\$ 6,188,523</u>	<u>\$ 8,002,493</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE E - DEPOSITS AND INVESTMENTS - Continued

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

	<u>2009</u>	<u>2008</u>
Invested Funds:		
Government Agencies	\$ 617,688	\$ 751,772
Other Interest Bearing Accounts	148,375	174,615
Interest Receivable	<u>5,605</u>	<u>6,295</u>
Total Investments	<u>\$ 771,668</u>	<u>\$ 932,682</u>
Special Purpose Funds:		
Restricted	\$ 3,140	\$ 753,717
Board Designated	<u>768,528</u>	<u>178,965</u>
Total Special Purpose Funds	<u>\$ 771,668</u>	<u>\$ 932,682</u>

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.

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2009 and 2008 were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 37,698,967	\$ 1,549,303	\$ 201,625	\$ 39,046,645
Depreciation	<u>23,319,448</u>	<u>1,161,183</u>	<u>200,171</u>	<u>24,280,460</u>
Depreciable Capital Assets, Net	<u>\$ 14,379,519</u>	<u>\$ 388,120</u>	<u>\$ 1,454</u>	<u>\$ 14,766,185</u>
Construction in Progress	\$ 5,829,701	\$ 2,367,083	\$ 1,620,196	\$ 6,576,588
Land and Land Rights	<u>569,077</u>	<u>70,893</u>	<u>--</u>	<u>639,970</u>
Non-Depreciable Capital Assets	<u>\$ 6,398,778</u>	<u>\$ 2,437,976</u>	<u>\$ 1,620,196</u>	<u>\$ 7,216,558</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE F - CAPITAL ASSETS - Continued

	<u>Balance 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2008</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 37,070,638	\$ 752,983	\$ 124,654	\$ 37,698,967
Depreciation	<u>22,300,010</u>	<u>1,143,023</u>	<u>123,585</u>	<u>23,319,448</u>
Depreciable Capital Assets, Net	<u>\$ 14,770,628</u>	<u>\$ (390,040)</u>	<u>\$ 1,069</u>	<u>\$ 14,379,519</u>
Construction in Progress	\$ 3,479,471	\$ 3,103,213	\$ 752,983	\$ 5,829,701
Land and Land Rights	<u>569,077</u>	<u>--</u>	<u>--</u>	<u>569,077</u>
Non-Depreciable Capital Assets	<u>\$ 4,048,548</u>	<u>\$ 3,103,213</u>	<u>\$ 752,983</u>	<u>\$ 6,398,778</u>
	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
<u>Water Department</u>				
Plant and Equipment	\$ 8,527,722	\$ 42,985	\$ --	\$ 8,570,707
Depreciation	<u>4,560,352</u>	<u>227,103</u>	<u>--</u>	<u>4,787,455</u>
Depreciable Capital Assets, Net	<u>\$ 3,967,370</u>	<u>\$ (184,118)</u>	<u>\$ --</u>	<u>\$ 3,783,252</u>
Construction in Progress	\$ --	\$ 42,985	\$ 42,985	\$ --
Land and Land Rights	<u>125,818</u>	<u>--</u>	<u>--</u>	<u>125,818</u>
Non-Depreciable Capital Assets	<u>\$ 125,818</u>	<u>\$ 42,985</u>	<u>\$ 42,985</u>	<u>\$ 125,818</u>
	<u>Balance 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2008</u>
<u>Water Department</u>				
Plant and Equipment	\$ 8,435,935	\$ 95,957	\$ 4,170	\$ 8,527,722
Depreciation	<u>4,334,466</u>	<u>230,056</u>	<u>4,170</u>	<u>4,560,352</u>
Depreciable Capital Assets, Net	<u>\$ 4,101,469</u>	<u>\$ (134,099)</u>	<u>\$ --</u>	<u>\$ 3,967,370</u>
Construction in Progress	\$ 10,087	\$ 85,870	\$ 95,957	\$ --
Land and Land Rights	<u>125,818</u>	<u>--</u>	<u>--</u>	<u>125,818</u>
Non-Depreciable Capital Assets	<u>\$ 135,905</u>	<u>\$ 85,870</u>	<u>\$ 95,957</u>	<u>\$ 125,818</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended December 31, 2009 and 2008 follows:

	Balance 2008	Additions	Reductions	Balance 2009
1999 Revenue Bonds	\$ 660,000	\$ --	\$ 660,000	\$ --
2007 Capital Loan Notes	7,900,000	--	100,000	7,800,000
Less Current Portion	<u>(760,000)</u>	<u>(465,000)</u>	<u>(760,000)</u>	<u>(465,000)</u>
Long-Term Debt, Net	7,800,000	(465,000)	--	7,335,000
Consumer Deposits	65,962	2,525	--	68,487
Reserve for Employee Retirement	<u>93,000</u>	<u>4,000</u>	<u>--</u>	<u>97,000</u>
Total Non-Current Liabilities	<u>\$ 7,958,962</u>	<u>\$ (458,475)</u>	<u>\$ --</u>	<u>\$ 7,500,487</u>

	Balance 2007	Additions	Reductions	Balance 2008
1999 Revenue Bonds	\$ 1,295,000	\$ --	\$ 635,000	\$ 660,000
2007 Capital Loan Notes	8,000,000	--	100,000	7,900,000
Less Current Portion	<u>(735,000)</u>	<u>(760,000)</u>	<u>(735,000)</u>	<u>(760,000)</u>
Long-Term Debt, Net	8,560,000	(760,000)	--	7,800,000
Consumer Deposits	63,447	2,515	--	65,962
Reserve for Employee Retirement	<u>81,000</u>	<u>12,000</u>	<u>--</u>	<u>93,000</u>
Total Non-Current Liabilities	<u>\$ 8,704,447</u>	<u>\$ (745,485)</u>	<u>\$ --</u>	<u>\$ 7,958,962</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

Series 1999 Revenue Bonds

The 1999 Series Revenue Bonds constituted a lien on the net income of the Electric Department. They were not general obligations of the City of Atlantic. The last of the bonds matured in 2009. The interest rate on the final bonds which matured during 2009 was 4.125%.

Series 2007 Capital Loan Notes

The 2007 Series Capital Loan Notes constitute a lien on the net income of the Electric Department. They are not general obligations of the City of Atlantic. The notes mature in increasing amounts ranging from \$100,000 in 2008 to \$760,000 in 2022. Interest rates range from 3.60% to 4.30%. The part of these notes maturing on and after April 1, 2016 are subject to early redemption on or after that date.

The annual debt service on the notes is expected to require less than 46% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$1,085,000 and \$1,682,000, respectively.

The resolutions of the Board of Trustees authorizing the issuance of the 2007 and 1999 electric revenue bonds and notes specify the creation and maintenance of a sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Electric Department long-term debt during each of the five years ending December 31, 2010 through 2014 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 465,000	\$ 300,862	\$ 765,862
2011	485,000	284,011	769,011
2012	505,000	265,818	770,818
2013	525,000	246,631	771,631
2014	545,000	226,433	771,433
2015-2019	3,085,000	787,586	3,872,586
2020-2022	<u>2,190,000</u>	<u>142,938</u>	<u>2,332,938</u>
	<u>\$ 7,800,000</u>	<u>\$ 2,254,279</u>	<u>\$ 10,054,279</u>

During the year ended December 31, 2009, approximately \$98,000 (\$172,000 in 2008) of interest cost was capitalized. Interest earned on unexpended debt proceeds of approximately \$ - 0 - (\$34,000 in 2008) was offset against the capitalized interest.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE H - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended December 31, 2009 and 2008 follows:

	Balance 2008	Additions	Reductions	Balance 2009
1998 Capital Loan Notes	\$ 840,000	\$ --	\$ 840,000	\$ --
Less Current Portion	(200,000)	--	(200,000)	--
Capital Loan Notes, Net	640,000	--	640,000	--
Due to Electric Department				
Non-interest bearing note	495,855	--	--	495,855
Interest bearing note	--	640,000	--	640,000
	495,855	640,000	--	1,135,855
Less current portion	--	205,000	--	205,000
Long-term due to Electric Department	495,855	435,000	--	930,855
Consumer Deposits	15,425	890	--	16,315
Reserve for Employees' Retirement	37,000	6,000	--	43,000
Total Non-Current Liabilities	<u>\$ 1,188,280</u>	<u>\$ 441,890</u>	<u>\$ 640,000</u>	<u>\$ 990,170</u>
	Balance 2007	Additions	Reductions	Balance 2008
1998 Capital Loan Notes	\$ 1,025,000	\$ --	\$ 185,000	\$ 840,000
Less Current Portion	(185,000)	(200,000)	(185,000)	(200,000)
Capital Loan Notes, Net	840,000	(200,000)	--	640,000
Non-Interest Bearing Note - Electric	495,855	--	--	495,855
Consumer Deposits	14,395	1,030	--	15,425
Reserve for Employees' Retirement	32,000	5,000	--	37,000
Total Non-Current Liabilities	<u>\$ 1,382,250</u>	<u>\$ (193,970)</u>	<u>\$ --</u>	<u>\$ 1,188,280</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE H - WATER DEPARTMENT NON-CURRENT LIABILITIES - Continued

The 1998 Series Refunding Capital Loan Notes constituted a lien on the net income of the Water Department. They were not general obligations of the City of Atlantic. The notes matured in increasing amounts ranging from \$185,000 in 2008 to \$215,000 in 2012. Interest rates ranged from 4.50% to 4.90%. The notes maturing on and after December 1, 2007 were subject to early redemption on or after that date and have been redeemed by the Electric Department as of December 1, 2009.

The resolution of the Board of Trustees authorizing the issuance of the 1998 Capital Loan Notes specified the creation and maintenance of a sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements had been fulfilled at December 31, 2008, and were no longer applicable at December 31, 2009.

The non-interest bearing note payable to the Electric Department represents a temporary transfer of funds as part of the financing for a water improvement project. The note is non-interest bearing and is due in 2012. It is subordinate to any bonds or other debt obligations payable from revenues of the Water Department.

The interest bearing note payable to the Electric Department resulted when the Electric Department paid off the Capital Loan Notes. A new note was created at December 1, 2009 with the same maturity schedule and interest rates (ranging from 4.75% to 4.90%) as the Capital Loan Notes. The terms of the interest bearing note to Electric from the Water Department may be changed at the pleasure of the Utilities Board at any time. Principal and interest payments required on Water Department long-term debt during subsequent years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 205,000	\$ 30,833	\$ 235,833
2011	220,000	21,095	241,095
2012	<u>710,855</u>	<u>10,535</u>	<u>721,390</u>
	<u>\$ 1,135,855</u>	<u>\$ 62,463</u>	<u>\$ 1,198,318</u>

NOTE I - EMPLOYEE RETIREMENT AND DEFINED BENEFIT PENSION PLAN

Reserve For Employees' Retirement

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE I - EMPLOYEE RETIREMENT AND DEFINED BENEFIT PENSION PLAN -
Continued

Iowa Public Employees Retirement System

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

Plan members are required to contribute 4.10% (4.30% effective July 1, 2009) of their annual salary and the Utilities are required to contribute 6.35% (6.65% effective July 1, 2009) of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended December 31, 2009, 2008, and 2007, were approximately \$115,500, \$104,200, and \$92,300, respectively, equal to the required contributions for each year.

NOTE J - DEFERRED COMPENSATION PLAN

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

- a. The accounting, reconciliations and recordkeeping associated with employees' enrollment.
- b. Withholding employee contributions through payroll deductions.
- c. Timely transfer of withheld funds to the contractor designated by the participant, for investment.
- d. Payout of the deferred compensation to qualified participants after receiving proceeds from the administrators.
- e. Withholding payroll taxes from plan payouts.
- f. Preparation of W-2's resulting from plan payouts.

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

The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The contractors are required to submit monthly reports on participants' accounts to the Utilities. The Utilities are liable to a participant only for mishandled employee contributions or payouts, and the related loss of income to the participants. The market values of the exclusive benefit plan assets at December 31, 2009 were approximately \$401,600.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE K - COMMITMENTS AND CONTINGENCIES

Power Supply

The Electric Utility participates with several other utility companies in the operation of the Walter Scott Energy Center No. 3 (WS #3) to supply power. The project represents an ongoing commitment to provide operating and construction funds as they are needed to maintain and update the facility. The share applicable to Atlantic is approximately 2.5% of the total costs. Periodically WS #3 shuts down production for several weeks for major maintenance and repairs. The last shutdown occurred during 2009 and the next is currently scheduled for 2012. During the alternate years when no shutdown occurs, the Electric Utility accrues an estimate of the pro rata annual expense it will incur related to this shutdown (\$400,000 total accrued at December 31, 2008 included in accounts payable). During the shutdown, the Electric Utility purchases replacement electricity on the open market.

Of the Electric Department's construction in progress, approximately \$6,228,000 represents the Utility's share of ongoing construction projects at WS #3. These projects have an estimated cost to complete of \$300,000. The Utility financed the costs of these projects through Capital Loan Notes issued in 2007 and funds generated internally.

Transmission Lines

The Electric Utility has joined with other Municipal Utilities in Iowa to form the Iowa Public Power Agency (IPPA). IPPA is a 28E Agreement organization which was formed to enable small Municipal Utilities in Iowa to own a share of electric transmission lines. During 2009, the Electric Utility provided approximately \$170,000 of operating and equity funding (currently accounted for as a part of Utility Plant) for an IPPA \$3.5 million share of a transmission line project, in partnership with MidAmerican Energy. The transmission line is expected to be put into service in early 2010. It is expected that, each year, the Electric Utility will provide approximately \$60,000 of operating funding to the project, with net proceeds of the operation returned based on its pro rata share of the operation's net income.

Risk Management

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

Environmental Regulations

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

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2009 and 2008

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Other Post Employment Benefits (OPEB)

The Utilities implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions during the year ended December 31, 2009.

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

Potential for Liability: A review of the Utilities' current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

Subsequent Events

The Utilities has evaluated all subsequent events through February 22, 2010, the date the financial statements were available to be issued.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
Budgetary Comparison Schedule
Year Ended December 31, 2009

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

	<u>Per Financial Statements</u>		<u>Budget</u>	<u>Combined</u>
	<u>Electric</u>	<u>Water</u>	<u>Adjustments</u>	<u>Utilities</u>
Revenues	\$ 7,925,420	\$ 1,035,241	\$ 1,340	\$ 8,962,001
Expenses	<u>7,633,639</u>	<u>1,039,072</u>	<u>960,000</u>	<u>9,632,711</u>
Net	291,781	(3,831)	(958,660)	(670,710)
Balance beginning of year	22,420,670	3,718,442	(10,966,317)	15,172,795
Contributions	--	1,340	(1,340)	--
Transfers to the City	<u>(305,567)</u>	<u>(84,433)</u>	<u>--</u>	<u>(390,000)</u>
Balance end of year	<u>\$ 22,406,884</u>	<u>\$ 3,631,518</u>	<u>\$(11,926,317)</u>	<u>\$ 14,112,085</u>

	<u>Budget</u>	<u>Budget</u>	<u>Variance</u>
	<u>Basis</u>	<u>Budget</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
Revenues	\$ 8,962,001	\$ 10,491,000	\$(1,528,999)
Expenses	<u>9,632,711</u>	<u>10,474,000</u>	<u>841,289</u>
Net	(670,710)	17,000	(687,710)
Balance beginning of year	15,172,795	15,172,795	--
Transfers to the City	<u>(390,000)</u>	<u>(398,000)</u>	<u>8,000</u>
Balance end of year	<u>\$ 14,112,085</u>	<u>\$ 14,791,795</u>	<u>\$(679,710)</u>

See Independent Auditor's Report.

OTHER SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
Revenue Bonds/Notes
December 31,

ELECTRIC DEPARTMENT:

<u>Due Date</u>	<u>Optional Call Date</u>	<u>Interest Rate</u>	<u>2009</u>	<u>2008</u>
<u>2007 Series</u>				
April 1, 2009	--	3.60%	\$ --	\$ 100,000
April 1, 2010	--	3.60	465,000	465,000
April 1, 2011	--	3.65	485,000	485,000
April 1, 2012	--	3.70	505,000	505,000
April 1, 2013	--	3.75	525,000	525,000
April 1, 2014	--	3.80	545,000	545,000
April 1, 2015	--	3.85	570,000	570,000
April 1, 2016	--	3.90	590,000	590,000
April 1, 2017	April 1, 2016	3.95	615,000	615,000
April 1, 2018	April 1, 2016	4.05	640,000	640,000
April 1, 2019	April 1, 2016	4.15	670,000	670,000
April 1, 2020	April 1, 2016	4.20	700,000	700,000
April 1, 2021	April 1, 2016	4.25	730,000	730,000
April 1, 2022	April 1, 2016	4.30	760,000	760,000
			<u>\$ 7,800,000</u>	<u>\$ 7,900,000</u>
<u>1999 Series</u>				
April 1, 2009	April 1, 2006	4.125%	<u>\$ --</u>	<u>\$ 660,000</u>

WATER DEPARTMENT:

<u>1998 Series*</u>				
Dec. 1, 2009	--	4.70%	\$ --	\$ 200,000
Dec. 1, 2010	--	4.75	--	205,000
Dec. 1, 2011	--	4.80	--	220,000
Dec. 1, 2012	--	4.90	--	215,000
			<u>\$ --</u>	<u>\$ 840,000</u>

* Became obligation to Electric Department on December 1, 2009.

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
Operating Revenue
Year ended December 31,

	<u>2009</u>	<u>2008</u>
<u>ELECTRIC DEPARTMENT</u>		
Retail Electricity Sales:		
Residential	\$ 1,777,493	\$ 1,826,078
Commercial	2,571,821	2,704,489
Rural resident and rural commercial	975,925	930,073
Interdepartmental sales	<u>25,701</u>	<u>26,690</u>
	<u>\$ 5,350,940</u>	<u>\$ 5,487,330</u>
Other Operating Revenue:		
Customer late payment charges	\$ 13,146	\$ 12,154
Service charges	8,310	8,620
Rent from electric properties	11,985	9,980
Net contract work	10,532	5,872
Transmission service	573,032	303,261
Internet wireless services, net	(1,946)	5,137
Scrap sales	4,400	22,610
Bad debts recovered	3,025	3,908
Miscellaneous	<u>3,015</u>	<u>1,362</u>
	<u>\$ 625,499</u>	<u>\$ 372,904</u>
<u>WATER DEPARTMENT</u>		
Other Operating Revenue:		
Service charges	\$ 5,250	\$ 4,835
Net contract work	3,280	10,728
Scrap sales	6	569
Bad debts recovered	<u>778</u>	<u>883</u>
	<u>\$ 9,314</u>	<u>\$ 17,015</u>

See Independent Auditor's Report.

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

	<u>2009</u>	<u>2008</u>
Electric Production:		
WS #3 Production:		
Operating supervision and labor	\$ 63,107	\$ 65,986
Fuel	1,129,094	1,180,081
Operating supplies and expense	132,776	145,717
Maintenance of production plant	<u>249,395</u>	<u>487,436</u>
Total WS #3 production	1,574,372	1,879,220
Atlantic Production:		
Operating supervision and labor	17,054	15,481
Fuel	18,336	31,415
Operating supplies and expense	6,184	3,207
Maintenance of production plant	<u>111,118</u>	<u>115,594</u>
Total Atlantic production	<u>152,692</u>	<u>165,697</u>
Total electric production	1,727,064	2,044,917
Purchased Power	1,797,915	1,232,802
Transmission Expense:		
Maintenance of transmission line and other	731,271	542,906
Distribution Expense:		
City:		
Operating supervision and labor	109,450	105,946
Line and station supplies and expense	103,818	74,710
Meter expense	33,576	31,735
Miscellaneous distribution expense	84,060	87,455
Maintenance of structures and equipment	27,077	13,519
Maintenance of lines	132,938	147,690
Maintenance of line transformers	11,940	20,936
Maintenance of street lighting and signal systems	33,495	30,958
Maintenance of meters	<u>9,781</u>	<u>12,586</u>
Total city distribution expense	546,135	525,535
Rural:		
Operating supervision and labor	46,895	48,709
Line and station supplies and expense	8,812	66
Meter expense	224	74
Miscellaneous distribution expense	11,031	14,436
Maintenance of structures and equipment	13,915	16,981

(continued next page)

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

	<u>2009</u>	<u>2008</u>
Distribution Expense (Continued):		
Rural (Continued):		
Maintenance of lines	\$ 102,353	\$ 64,228
Maintenance of line transformers	17,759	8,461
Maintenance of meters	<u>1,109</u>	<u>2,828</u>
Total rural distribution expense	<u>202,098</u>	<u>155,783</u>
Total distribution expense	748,233	681,318
Administrative and Accounting Expense:		
Customer accounting:		
Meter reading labor	27,475	26,293
Accounting and collecting costs	109,859	107,696
Supplies and expense	1,925	1,370
Uncollectible accounts	<u>9,006</u>	<u>16,101</u>
Total customer accounting	<u>148,265</u>	<u>151,460</u>
Administrative and general:		
Administrative and general salaries	63,722	58,753
Office supplies and expense	30,079	38,525
Outside service employed	20,430	17,613
Property insurance	46,584	53,102
Liability insurance and safety program costs	72,552	52,011
Employees' pension and benefits	221,909	222,705
Franchise requirement	6,598	37,419
Regulatory commission expense	12,425	10,423
Internet	26,221	15,582
Energy efficiency grant/rebate program	95,079	48,709
Miscellaneous general expense	112,143	98,629
Maintenance of general plant	43,309	31,267
Payroll taxes	207,723	192,868
Property taxes	<u>126,896</u>	<u>133,137</u>
Total administrative and general	<u>1,085,670</u>	<u>1,010,743</u>
Administrative adjustments	52,462	40,989
Less administrative expense transferred	<u>(53,412)</u>	<u>(68,250)</u>
Net administrative and general	<u>1,084,720</u>	<u>983,482</u>
Total administrative and accounting expense	1,232,985	1,134,942
Provision for Depreciation	<u>1,161,183</u>	<u>1,143,023</u>
Total operating expenses	<u>\$ 7,398,651</u>	<u>\$ 6,779,908</u>

See Independent Auditor's Report.

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

	<u>2009</u>	<u>2008</u>
Source of Supply Expense:		
Operating supplies and expense	\$ 7,306	\$ 8,028
Maintenance of water source	<u>38,489</u>	<u>28,556</u>
Total source of supply expense	45,795	36,584
Pumping Expense:		
Operating labor	21,547	20,168
Fuel and power pumping	15,852	16,043
Maintenance of pumping station	<u>4,844</u>	<u>5,735</u>
Total pumping expense	42,243	41,946
Water Treatment Expense:		
Operating labor	57,864	52,739
Chemicals	43,227	32,727
Operating supplies and expense	14,780	11,777
Maintenance of water treatment plant	<u>5,604</u>	<u>7,632</u>
Total water treatment expense	121,475	104,875
Distribution Expense:		
Operating labor	133,413	122,073
Operating supplies and expense	10,130	7,826
Maintenance of distribution reservoirs and standpipes	6,560	5,320
Maintenance of mains	69,809	73,063
Maintenance of services	291	1,358
Maintenance of meters	3,371	3,213
Maintenance of hydrants	<u>4,207</u>	<u>3,912</u>
Total distribution expense	227,781	216,765
Administrative and Accounting Expense:		
Customer Accounting:		
Meter reading labor	15,173	14,476
Accounting and collecting labor	46,632	47,182
Supplies and expense	9,766	7,184
Uncollectible accounts	<u>4,184</u>	<u>4,192</u>
Total customer accounting	75,755	73,034

(continued next page)

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

	<u>2009</u>	<u>2008</u>
Administrative and Accounting Expense (Continued):		
Administrative and General:		
Administrative and general salaries	\$ 38,178	\$ 34,808
Office supplies and other expense	15,460	22,113
Outside service employed	10,985	6,306
Property insurance	6,693	8,675
Liability insurance costs	24,220	20,097
Employees' pensions and benefits	83,794	80,090
Franchise requirement	7,665	8,894
Regulatory Commission expense	1,115	983
Miscellaneous general expense	27,025	25,263
Transportation expense	10,890	10,342
Maintenance of general plant	3,824	4,302
Payroll taxes	<u>41,303</u>	<u>38,613</u>
Total administrative and general	271,152	260,486
Administrative adjustments	3,324	(6,363)
Less administrative expense transferred	<u>(18,890)</u>	<u>(23,813)</u>
Net administrative and general	<u>255,586</u>	<u>230,310</u>
Total administrative and accounting expense	331,341	303,344
Provision for Depreciation	<u>227,103</u>	<u>230,056</u>
Total operating expenses	<u>\$ 995,738</u>	<u>\$ 933,570</u>

See Independent Auditor's Report.

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

	<u>2009</u>	<u>2008</u>
Operating Revenue:		
Sale of electricity	\$ 7,131,217	\$ 8,389,552
Other operating revenue	<u>625,499</u>	<u>372,904</u>
Total operating revenue	<u>7,756,716</u>	<u>8,762,456</u>
Operating Expenses (Not Including Depreciation)	<u>6,237,468</u>	<u>5,636,885</u>
Operating Income Before Depreciation	1,519,248	3,125,571
Provision for Depreciation	<u>1,161,183</u>	<u>1,143,023</u>
Income From Operations	358,065	1,982,548
Other Income and (Deductions), Net	<u>(66,284)</u>	<u>72,671</u>
Net Income	<u>\$ 291,781</u>	<u>\$ 2,055,219</u>
Net Income as a Percent of Total Operating Revenue	<u>3.76%</u>	<u>23.45%</u>

See Independent Auditor's Report.

<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 7,323,641	\$ 6,728,404	\$ 7,267,100
<u>66,512</u>	<u>78,210</u>	<u>74,766</u>
7,390,153	6,806,614	7,341,866
<u>5,053,799</u>	<u>5,014,533</u>	<u>4,894,535</u>
2,336,354	1,792,081	2,447,331
<u>1,059,460</u>	<u>1,041,292</u>	<u>1,033,679</u>
1,276,894	750,789	1,413,652
<u>73,642</u>	<u>145,813</u>	<u>21,188</u>
<u>\$ 1,350,536</u>	<u>\$ 896,602</u>	<u>\$ 1,434,840</u>
<u>18.27%</u>	<u>13.17%</u>	<u>19.54%</u>

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

	<u>2009</u>	<u>2008</u>
Sale of Electricity:		
Sales to consumers	\$ 5,663,105	\$ 5,798,285
Sales to other utilities	<u>1,468,112</u>	<u>2,591,267</u>
Total Electricity Sales	<u>\$ 7,131,217</u>	<u>\$ 8,389,552</u>
Kilowatt Hours:		
Generated	112,652,715	132,336,100
Purchased	54,701,242	39,237,310
Energy available	167,353,957	171,573,410
Station power/transmission loss	5,311,630	6,046,276
Available for sale	162,042,327	165,527,134
Sales and transfers to other utilities	55,485,400	54,568,516
Output to the system	106,556,927	110,958,618
Billed to consumers	102,042,813	106,895,456
Distribution loss	4,514,114	4,063,162
Distribution loss percent	4.2%	3.7%
Revenue Billed Per KWH to Consumers	5.55¢	5.42¢
Peak Hour Demand in KW	25,287	25,151
Services Provided to the City:		
Street Lighting:		
Energy	\$ 67,827	\$ 71,138
Operation and maintenance	33,709	31,618
Depreciation	<u>35,379</u>	<u>35,650</u>
	136,915	138,406
Energy for public buildings, parks and other uses	175,250	172,549
Other City projects	<u>--</u>	<u>--</u>
	<u>\$ 312,165</u>	<u>\$ 310,955</u>
<u>Consumer Classifications</u>		
Residential	3,260	3,259
Small Commercial	578	573
Large Commercial	39	42
Rural Residential	572	569
Rural Commercial	93	93
Area Lighting	291	290
City and Water Department	<u>89</u>	<u>89</u>
Total number of consumers	<u>4,922</u>	<u>4,915</u>

See Independent Auditor's Report.

<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 5,338,066	\$ 5,167,209	\$ 5,301,244
<u>1,985,575</u>	<u>1,561,195</u>	<u>1,965,856</u>
<u>\$ 7,323,641</u>	<u>\$ 6,728,404</u>	<u>\$ 7,267,100</u>
132,205,200	108,976,400	133,382,000
38,310,816	45,926,151	36,780,027
170,516,016	154,902,551	170,162,027
4,646,224	4,414,598	5,110,260
165,869,792	150,487,953	165,051,767
54,644,192	44,177,753	57,490,867
111,225,600	106,310,200	107,560,900
105,012,973	101,302,223	104,106,914
6,212,627	5,007,977	3,453,986
5.6%	4.7%	3.2%
5.08¢	5.10¢	5.09¢
24,751	25,435	25,211
\$ 64,248	\$ 67,314	\$ 71,494
29,627	26,849	21,374
<u>35,356</u>	<u>35,036</u>	<u>33,625</u>
129,231	129,199	126,493
149,192	146,378	155,828
<u>--</u>	<u>19,670</u>	<u>--</u>
<u>\$ 278,423</u>	<u>\$ 295,247</u>	<u>\$ 282,321</u>
3,232	3,233	3,226
579	583	578
43	43	44
565	566	565
89	91	99
286	285	279
<u>90</u>	<u>89</u>	<u>89</u>
<u>4,884</u>	<u>4,890</u>	<u>4,880</u>

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

	<u>2009</u>	<u>2008</u>
Operating Revenue:		
Sale of water	\$ 1,005,857	\$ 1,006,594
Other operating revenue	<u>9,314</u>	<u>17,015</u>
Total operating revenue	1,015,171	1,023,609
Operating Expenses (Not Including Depreciation)	<u>768,635</u>	<u>703,514</u>
Operating Income Before Depreciation	246,536	320,095
Provision for Depreciation	<u>227,103</u>	<u>230,056</u>
Income From Operations	19,433	90,039
Other Income (Deductions), Net	<u>(23,264)</u>	<u>(25,227)</u>
Net Income (Loss)	<u><u>\$ (3,831)</u></u>	<u><u>\$ 64,812</u></u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u><u>(.38%)</u></u>	<u><u>6.33%</u></u>

See Independent Auditor's Report.

<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 1,033,196	\$ 972,150	\$ 1,009,869
<u>9,635</u>	<u>11,710</u>	<u>13,744</u>
1,042,831	983,860	1,023,613
<u>719,441</u>	<u>688,296</u>	<u>642,242</u>
323,390	295,564	381,371
<u>224,507</u>	<u>222,926</u>	<u>230,298</u>
98,883	72,638	151,073
<u>(19,548)</u>	<u>(36,812)</u>	<u>(51,028)</u>
<u>\$ 79,335</u>	<u>\$ 35,826</u>	<u>\$ 100,045</u>
<u>7.61%</u>	<u>3.64%</u>	<u>9.77%</u>

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

	<u>2009</u>	<u>2008</u>
Total Revenue Billed	<u>\$ 1,005,857</u>	<u>\$ 1,006,594</u>
Gallage:		
Pumped	299,088,000	285,970,000
Billed	242,703,075	251,514,300
Total system maintenance and loss	56,384,925	34,455,700
Accounted for losses*	16,029,963	16,186,860
Unaccounted for losses	40,354,962	18,268,840
Percent unaccounted for	13.49%	6.39%
Revenue Billed Per 100 Gallons	41.4¢	40.0¢
Number of Consumers	3,338	3,332
Peak Day - Gallons Pumped	1,530,000	1,489,000
Services Provided to the City:		
Water for parks, disposal plant and public buildings	\$ 11,852	\$ 9,708
Operation and maintenance	39,683	40,229
Depreciation	<u>40,563</u>	<u>40,421</u>
	<u>\$ 92,098</u>	<u>\$ 90,358</u>

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

See Independent Auditor's Report.

<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>\$ 1,033,196</u>	<u>\$ 972,150</u>	<u>\$ 1,009,869</u>
324,065,000	329,229,000	326,127,000
266,308,200	267,999,725	283,333,025
57,756,800	61,229,275	42,793,975
30,608,938	22,201,896	13,617,295
27,147,862	39,027,379	29,176,680
8.38%	11.85%	8.95%
38.8¢	36.3¢	35.6¢
3,311	3,309	3,310
1,485,000	1,543,000	1,540,000
\$ 9,915	\$ 10,860	\$ 8,966
39,285	27,061	29,501
<u>38,686</u>	<u>35,541</u>	<u>38,330</u>
<u>\$ 87,886</u>	<u>\$ 73,462</u>	<u>\$ 76,797</u>

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

	<u>2009</u>	<u>2008</u>
<u>ELECTRIC DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 291,781	\$ 2,055,219
Add:		
Depreciation	1,161,183	1,143,023
Interest on revenue bonds	219,690	176,073
Gain on disposal of equipment	(3,576)	(264)
Amortization	<u>12,584</u>	<u>14,471</u>
Available For Debt Service	<u>\$ 1,681,662</u>	<u>\$ 3,388,522</u>
Maximum Debt Service in Any Year	<u>\$ 778,405</u>	<u>\$ 1,085,000</u>
Actual Coverage	<u>216%</u>	<u>312%</u>
Minimum Coverage Required	<u>125%</u>	<u>125%</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

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

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

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited the financial statements of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of and for the year ended December 31, 2009, and have issued our report thereon dated February 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utilities' ability to initiate, authorize, record, process, or report financial data reliably, in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood a misstatement of the Utilities' financial statements, that is more than inconsequential, will not be prevented or detected by the Utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Trustees
Atlantic Municipal Utilities

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

Gronewald, Bell, Kyburz & Co. P.C.

Atlantic, Iowa
February 22, 2010

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2009

PART I - SIGNIFICANT DEFICIENCIES

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

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

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

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

09-II-A Certified Budget: The Utilities' expenditures during the year ended December 31, 2009 did not exceed amounts budgeted.

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

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

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

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

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

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings - Continued
Year ended December 31, 2009

PART II - REQUIRED STATUTORY REPORTING (Continued)

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

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

09-II-I Telecommunications Services: No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

* * *