

FILE COPY

*Financial Statements*

***Vinton Municipal Electric Utility***

***June 30, 2004 and 2003***

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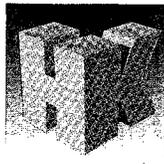
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# Vinton Municipal Electric Utility

## List of Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jon Kremer	Chairman	December 1, 2005
Alan Woodhouse	Trustee	December 1, 2009
Michael Elwick	Trustee	December 1, 2007
Cindy Michael	Secretary	Indefinite
Ralph Mann	Superintendent	Indefinite



**Honkamp Krueger & Co., P.C.**  
Certified Public Accountants  
& Business Consultants

## Independent Auditor's Report

Board of Trustees  
Vinton Municipal Electric Utility  
Vinton, Iowa

We have audited the accompanying financial statements of the Vinton Municipal Electric Utility (Utility), a component unit of the City of Vinton, Iowa, at June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of Utility's management. Our responsibility is to express an opinion 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, Chapter 11 of the Code of Iowa, 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vinton Municipal Electric Utility (Utility), a component unit of the City of Vinton, Iowa at June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13, during the year ended June 30, 2004, Vinton Municipal Electric Utility adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2004, on our consideration of Vinton Municipal Electric Utility's (Utility), a component unit of the City of Vinton, Iowa, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Management's Discussion and Analysis on pages 4 through 8 is not a required part of the basic financial statements, but is 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 supplementary information. We did not audit the information and express no opinion thereon.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included on pages 22 through 24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the information on pages 25 and 26 which is marked "Unaudited" and upon which we express no opinion, has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Walter Krueger & Co.

Dubuque, Iowa  
September 22, 2004

# Vinton Municipal Electric Utility Management's Discussion and Analysis

The Vinton Municipal Electric Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Electric Utility's financial statements, which follow.

Because the Electric Utility is implementing new reporting standards for this fiscal year with changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Electric Utility's financial position and results in operations.

## 2004 FINANCIAL HIGHLIGHTS

The RPGI contract has changed. There was a 36.33% increase from our old contract. This caused the Electric Utility to see a substantial cost over run. The Electric Board decided to watch the market and not act on a rate increase. This resulted in a decline on revenue from \$35,000 to \$45,000 each month.

Final acceptance of the SCADA system was done this reporting year. A total cost of \$450,000 was spent on the project. At this time, there are still a few bugs in the system, but are being worked out. The main one is the breaker calibration has to be performed by the engineers. This causes the breakers to react faster. The old setting was adjusted for the mechanical relays. These new electronic relays react faster and in shorter duration. This is why they need to be recalibrated. The cost for the study was \$13,900.

Natural gas and diesel fuel cost was up significantly this year. This rise in costs is reflected in the losses this year. Because of this factor, the board will be implementing the EAF again. The first raise will take effect in Mid-November, with a .0094 cent raise.

A \$55,000 donation was issued to the Vinton Parks and Recreation Department for the installation of a new water slide. The project was completed in early summer in time for opening of the swimming pool at the beginning of the season.

One project the line crew did this year that took a lot of time and some expense was the 218 Highway Widening Project. The crew started in early spring on moving a line along Highway 218 located by Ervin Motors, building a new line to the north past Pizza Hut. This area was in the right a way of the 3<sup>rd</sup> lane of the highway. Many new poles and wire were installed. The Utility saved \$63,000 by not contracting out. The Vinton crew finished ahead of schedule, but the contractors doing the widening project didn't finish this year. They will return next spring.

In the past year, three new linemen and one new manager were hired. Two linemen came from outside the city, one lineman transferred from the Street Department, and the manager moved from the lead lineman to the manager position. This caused some work slowdown, which was to be expected.

# **Vinton Municipal Electric Utility Management's Discussion and Analysis**

This year the Vinton Municipal Electric Utility switched insurance companies. The switch from Blue Cross to Lineco took effect in June of 2004. This change saved the utility and employees money on premiums.

A radiator was fitted with a new core. This cost was \$67,000. The old one was replaced because of leaks and cooling inefficiencies. This project was finished in late spring, to get ready for the hot run season of summer.

The light plant was tuck pointed this spring. Repairs to the outside walls and structure were done because some of the bricks were falling out, and large cracks were letting water inside the walls. This cost for this project was \$57,918.00.

A journeymen lineman program was implemented this year. Two line personnel will be enrolled in the course each year at a cost of \$1,100 each.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Electric Utility's financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows. This discussion and analysis is intended to serve as an introduction to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

The statement of net assets presents information on all of the Electric Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the Electric Utility's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did the cash come from, what cash was used for and what was the change in cash and cash equivalents during the reporting year.

## **FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets.

# Vinton Municipal Electric Utility Management's Discussion and Analysis

NET ASSETS		
<i><b>ASSETS</b></i>	Year Ended June 30	
	2004	2003
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 1,275,587	\$ 1,718,981
Certificates of Deposit	2,400,000	2,050,000
Receivables:		
Trade Accounts (Net of Allowance for Doubtful Accounts 2004 and 2003: \$4,600)	166,373	128,259
City of Vinton	10,586	9,587
Unbilled Revenue	131,290	132,060
Interest	15,794	6,531
Other	10,512	12,642
Notes Receivable, City of Vinton, Current Portion	115,006	58,558
Economic Development Note Receivable	-----	33,000
Inventories	146,078	152,911
Prepaid Expenses	<u>53,002</u>	<u>51,330</u>
Total Current Assets	<u>4,324,228</u>	<u>4,353,859</u>
<b>Noncurrent Assets</b>		
Investment in RPGI Joint Venture	66,114	68,608
Notes Receivable, City of Vinton, Net of Current Portion	164,450	221,694
Capital Assets (Net of Accumulated Depreciation)	<u>3,465,815</u>	<u>3,490,657</u>
Total Other Assets	<u>3,696,379</u>	<u>3,780,959</u>
Total Assets	<u>\$ 8,020,607</u>	<u>\$ 8,134,818</u>
<b>LIABILITIES &amp; NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 216,163	\$ 104,367
Accrued Expenses		
Payroll	12,629	9,916
Vacation	30,978	33,027
Sick Pay	56,872	54,896
Sales and Use Tax	<u>9,297</u>	<u>9,043</u>
Total Current Liabilities	<u>325,939</u>	<u>211,249</u>
Total Liabilities	<u>325,939</u>	<u>211,249</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	3,465,815	3,490,657
Unreserved	<u>4,228,853</u>	<u>4,432,912</u>
Total Net Assets	<u>7,694,668</u>	<u>7,923,569</u>
Total Liabilities and Net Assets	<u>\$ 8,020,607</u>	<u>\$ 8,134,818</u>

## Vinton Municipal Electric Utility Management's Discussion and Analysis

Net assets of the Electric Utility decreased from fiscal year ended June 30, 2003 by 2.9%. The largest portion of the Electric Utility's net assets is unreserved while the other portion to invested in capital assets (e.g., land, distribution system, buildings and equipment). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements is \$4,228,853 at the end of this year.

### CHANGES IN NET ASSETS

	Year Ended June 30	
	2004	2003
<b>Operating Revenue</b>		
Energy and Excess Capacity Revenue	\$ 2,381,941	\$ 2,314,763
Other Charges and Miscellaneous Income	140,601	158,678
Total Operating Revenue	<u>2,522,542</u>	<u>2,473,441</u>
<b>Operating Expenses</b>		
Generation and Purchased Power	1,573,367	1,223,479
Distribution	254,594	206,549
Customer Accounts	20,590	28,166
Administrative and General	483,757	456,593
Depreciation	<u>203,155</u>	<u>183,876</u>
Total Operating Expenses	<u>2,535,463</u>	<u>2,098,663</u>
Income (Loss) from Operations	(12,921)	374,778
<b>Non-Operating Revenues (Expenses)</b>		
Interest Income	47,066	72,905
Equity in Net (Loss) of RPGI Joint Venture	(2,494)	(8,089)
Gain (Loss) on Disposal of Assets	----	<u>(5,609)</u>
Net Non-Operating Revenue	<u>44,572</u>	<u>59,207</u>
<b>Contributed Assets</b>	----	<u>40,000</u>
Net Income Before Operating Transfers	31,651	473,985
<b>Operating Transfers</b>		
To the City of Vinton	<u>(260,552)</u>	<u>(197,367)</u>
Change in Net Assets	(228,901)	276,618
Net Assets – Beginning of Year	<u>7,923,569</u>	<u>7,646,951</u>
Net Assets – End of Year	<u>\$ 7,694,668</u>	<u>\$ 7,923,569</u>

The Electric Utility's rates stayed the same for fiscal year 2004. Revenues increased only slightly during the year.

# **Vinton Municipal Electric Utility Management's Discussion and Analysis**

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **CAPITAL ASSETS**

The Electric Utility's capital assets include land, buildings, vehicles, machinery and equipment, tools and distribution system. Capital assets totaled \$3,465,815 (net of accumulated depreciation) at June 30, 2004. Additional information on the Electric Utility's assets can be found in Note 6 to the financial statements in this report.

### **ECONOMIC FACTORS BEARING ON THE ELECTRIC UTILITY'S FUTURE**

The Electric Utility has not made any significant rate changes and does not expect any significant changes in the future.

### **CONTACTING THE ELECTRIC UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Electric Utility's finances and to show the Electric Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cindy Michael, Treasurer/City Clerk, PO Box 529, Vinton, IA 52349.

**Vinton Municipal Electric Utility**  
**A Component Unit of the City of Vinton, Iowa**  
**Statements of Net Assets**  
**June 30, 2004 and 2003**

<i><b>ASSETS</b></i>	<u>2004</u>	<u>2003</u>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 1,275,587	\$ 1,718,981
Certificates of Deposit	2,400,000	2,050,000
Receivables:		
Trade Accounts (Net of Allowance for Doubtful Accounts 2004 and 2003: \$4,600)	166,373	128,259
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<b>Total Other Assets</b>	<u>3,696,379</u>	<u>3,780,959</u>
<b>Total Assets</b>	<u>\$ 8,020,607</u>	<u>\$ 8,134,818</u>

**LIABILITIES & NET ASSETS**

	<u>2004</u>	<u>2003</u>
<b>Current Liabilities</b>		
Accounts Payable	\$ 216,163	\$ 104,367
Accrued Expenses		
Payroll	12,629	9,916
Vacation	30,978	33,027
Sick Pay	56,872	54,896
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Total Current Liabilities	<u>325,939</u>	<u>211,249</u>
Total Liabilities	<u>325,939</u>	<u>211,249</u>

**Net Assets**

Invested in Capital Assets, Net of Related Debt	3,465,815	3,490,657
Unreserved	4,228,853	4,432,912
Total Net Assets	<u>7,694,668</u>	<u>7,923,569</u>
Total Liabilities and Net Assets	<u>\$ 8,020,607</u>	<u>\$ 8,134,818</u>

See Accompanying Notes to the Financial Statements

**Vinton Municipal Electric Utility**  
**A Component Unit of the City of Vinton, Iowa**  
**Statements of Revenue, Expenses and Changes in Net Assets**  
**June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Operating Revenue</b>		
Energy and Excess Capacity Revenue	\$ 2,381,941	\$ 2,314,763
Other Charges and Miscellaneous Income	140,601	158,678
Total Operating Revenue	<u>2,522,542</u>	<u>2,473,441</u>
<b>Operating Expenses</b>		
Generation and Purchased Power	1,573,367	1,223,479
Distribution	254,594	206,549
Customer Accounts	20,590	28,166
Administrative and General	483,757	456,593
Depreciation	203,155	183,876
Total Operating Expenses	<u>2,535,463</u>	<u>2,098,663</u>
Income (Loss) from Operations	(12,921)	374,778
<b>Non-Operating Revenues (Expenses)</b>		
Interest Income	47,066	72,905
Equity in Net (Loss) of RPGI Joint Venture	(2,494)	(8,089)
Gain (Loss) on Disposal of Assets	-	(5,609)
Net Non-Operating Revenues	<u>44,572</u>	<u>59,207</u>
<b>Contributed Assets</b>	-	40,000
Net Income Before Operating Transfers	31,651	473,985
<b>Operating Transfers</b>		
To the City of Vinton	<u>(260,552)</u>	<u>(197,367)</u>
Change in Net Assets	(228,901)	276,618
Net Assets - Beginning of Year	<u>7,923,569</u>	<u>7,646,951</u>
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See Accompanying Notes to the Financial Statements

**Vinton Municipal Electric Utility**  
**A Component Unit of the City of Vinton, Iowa**  
**Statements of Cash Flows**  
**June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Energy and Excess Capacity Revenue	\$ 2,345,728	\$ 2,340,495
Cash Received From Other Charges and Miscellaneous Income	140,601	158,678
Cash Paid to Suppliers for Generation and Purchased Power	(1,332,906)	(1,063,263)
Cash Paid to Employees for Services	(493,833)	(483,184)
Cash Paid on Distribution Services	(107,657)	(59,561)
Cash Paid on Administrative and General Services	(278,061)	(259,004)
Net Cash Provided by Operating Activities	<u>273,872</u>	<u>634,161</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Operating Transfers Out	(260,552)	(197,367)
Net Cash (Used) in Noncapital Financing Activities	<u>(260,552)</u>	<u>(197,367)</u>
<b>Cash Flows from Investing Activities</b>		
Investment in Certificates of Deposit	(3,250,000)	(2,450,000)
Proceeds from Maturity of Certificate of Deposit	2,900,000	2,250,000
Issuance of Notes Receivable	(91,875)	(253,000)
Collections on Notes Receivable	125,671	33,480
Interest Income Received	37,803	72,961
Net Cash (Used) by Investing Activities	<u>(278,401)</u>	<u>(346,559)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Payment for Purchase of Property and Equipment	(178,313)	(520,977)
Net Cash (Used) in Capital Financing Activities	<u>(178,313)</u>	<u>(520,977)</u>
Net (Decrease) in Cash	(443,394)	(430,742)
Cash at Beginning of Year	<u>1,718,981</u>	<u>2,149,723</u>
Cash at End of Year	<u>\$ 1,275,587</u>	<u>\$ 1,718,981</u>

(continued)

**Vinton Municipal Electric Utility**  
**A Component Unit of the City of Vinton, Iowa**  
**Statements of Cash Flows (continued)**  
**June 30, 2004 and 2003**

	2004	2003
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ (12,921)	\$ 374,778
Adjustments to Reconcile Income From Operations to Net Cash Provided by Operating Activities		
Depreciation	203,155	183,876
Change in Assets and Liabilities		
(Increase) Decrease in Receivables	(36,213)	25,732
(Increase) Decrease in Inventories	6,833	17,792
(Increase) Decrease in Prepaid Expenses	(1,672)	4,051
Increase (Decrease) in Accounts Payable	111,796	15,768
Increase (Decrease) in Accrued Expenses	2,894	12,164
Net Cash Provided by Operating Activities	\$ 273,872	\$ 634,161

See Accompanying Notes to the Financial Statements

# Vinton Municipal Electric Utility

## Notes to Financial Statements

### NOTE 1. Nature of Organization and Significant Accounting Policies

#### Reporting Entity

The Vinton Municipal Electric Utility is a political subdivision and component unit of the City of Vinton, Iowa. The legally controlling budget of the City of Vinton, Iowa, includes the budget of the Utility as a portion of the Public Works. The Utility supplies electricity and grants credit to approximately 2,400 residential and business customers within the City. The accompanying financial statements present the financial position, results of operations and cash flows of the Utility only. The Utility is governed by a board of trustees appointed by the Mayor of the City of Vinton, Iowa, approved by the City Council and is managed by a superintendent.

#### Basis of Presentation

The accounts of Vinton Municipal Electric Utility are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

#### Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes 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 the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

# Vinton Municipal Electric Utility

## Notes to Financial Statements

### NOTE 1. Nature of Organization and Significant Accounting Policies (Continued)

#### 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 revenue and expenses. Actual results could differ from those estimates.

#### Concentrations

The Utility purchased under contract approximately 94% and 96% of its kilowatt-hour power requirements from Resale Power Group of Iowa (RPGI), during the years ended June 30, 2004 and 2003, respectively. Although there are a limited number of suppliers, the Utility believes that other suppliers could provide comparable power.

#### Cash Equivalents

For purposes of the statements of cash flows, the Utility considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

#### Inventories

Inventories of fuel, operating supplies and repair parts are stated at the lower of average cost or market. Cost is determined on a weighted average basis.

#### Unbilled Revenue

The Utility follows the practice of reading its customers' meters before month end. As a result, as of June 30, 2004 and 2003, the Utility had provided electrical service to its customers for the latter part of the month of June but had not yet billed the customers for that revenue.

Unbilled revenue of \$131,290 and \$132,060 was accrued at June 30, 2004 and 2003, respectively.

# Vinton Municipal Electric Utility

## Notes to Financial Statements

### NOTE 1. Nature of Organization and Significant Accounting Policies (Continued)

#### Capital Assets

Land, buildings and equipment are reflected at cost. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations. Depreciation is computed under the straight-line method over the useful lives as follows:

<u>Type</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	10 to 50 Years
Generation Equipment	20 to 50 Years
Distribution Equipment	25 to 40 Years
Plant Tools and Equipment	10 to 25 Years
Office Equipment	5 Years
Jacket Radiator Equipment	10 to 25 Years
Transportation Equipment	10 to 15 Years

### NOTE 2. Cash Flow Statement Supplementary Information

<u>Schedule of Noncash Investing and Financing Activities</u>	<u>2004</u>	<u>2003</u>
Equity in Net Income (Loss) RPGI Joint Venture	\$ (2,494)	\$ (8,089)
Contributed Assets	\$ -----	\$ 40,000

# Vinton Municipal Electric Utility

## Notes to Financial Statements

### **NOTE 3. Cash and Investments**

The Utility's deposits in banks at June 30, 2004 and 2003 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

### **NOTE 4. Joint Venture**

The Utility is a member of RPGI, a joint and cooperative undertaking under the provisions of Chapter 28E of the Code of Iowa. RPGI is administered by the Iowa Association of Municipal Utilities and was organized to provide members with combined bargaining power in negotiating wholesale power contracts and a method of investing in construction power lines as described in Note 5. This joint venture is accounted for under the equity method. The Utility's approximate pro rata interest in RPGI was 6.8% and 6.9% at June 30, 2004 and June 30, 2003, respectively. This is determined based on the ratio of the Utility's cumulative energy purchases from RPGI to total energy sales by RPGI to all members. Separate financial statements of RPGI are available to its members.

### **NOTE 5. Notes Receivable**

On October 12, 1999, the Utility advanced \$30,000 to the City for the purchase of emergency sirens. The unsecured note is payable in semi-annual payments of \$3,454, including interest at 5.3% through June 1, 2005.

On September 24, 1998, the Utility advanced \$127,353 to the City for the purchase of a road grader. The unsecured note is payable in monthly payments of \$2,241, including interest at 5.3% through December 7, 2003. This note has been paid in full.

# Vinton Municipal Electric Utility

## Notes to Financial Statements

### NOTE 5. Notes Receivable (Continued)

On April 1, 2003, the Utility advanced \$253,000 to the City. The non-interest bearing note is unsecured and payable in quarterly payments of \$12,650, final payment is due July 1, 2008.

The Utility has loaned \$33,000 to West First Street Limited Liability Company to assist in financing a speculative "shell building". The loan bears no interest and repayment is due when West First Street Limited Liability Company sells the building to a third party. This loan has been paid in full.

On February 28, 2004, the Utility agreed to advance \$38,600 to the City Park and Recreation Department to assist in completing the waterslide. The unsecured note is payable in semi-annual payments of \$19,590, including interest at 2%. Final payment is due March 30, 2005.

The Utility loaned \$53,275 to the City Park and Recreation Department to assist in improvements. This non-interest bearing note is unsecured and due in full by June 30, 2005.

### NOTE 6. Capital Assets

A summary of capital assets at June 30, 2004 is as follows:

	Balance, Beginning of Year	Increases	Decreases	Balance, End of Year
Capital Assets not being Depreciated:				
Land and Improvements	\$ 72,815	\$ ----	\$ ----	\$ 72,815
Capital Assets being Depreciated:				
Buildings and Improvements	\$ 568,081	\$ 57,918	\$ ----	\$ 625,999
Generation Equipment	4,700,819	65,816	----	4,766,635
Distribution Equipment	3,105,755	28,355	----	3,134,110
Plant Tools and Equipment	61,109	428,341	----	489,450
Office Equipment	20,224	----	----	20,224
Jacket Radiator Equipment	114,284	----	----	114,284
Transportation Equipment	396,399	----	35,984	360,415
Construction in Progress	402,117	26,224	428,341	----
Total Capital Assets being Depreciated	9,368,788	606,654	464,325	9,511,117

# Vinton Municipal Electric Utility

## Notes to Financial Statements

### NOTE 6. Capital Assets (Continued)

	<u>Balance, Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, End of Year</u>
Less Accumulation Depreciation for:				
Buildings and Improvements, Generation Equipment, Distribution Equipment, Plant Tools & Equipment, Office Equipment, Jacket Radiator Equipment, Transportation Equipment and Construction in Progress	5,950,946	203,155	35,984	6,118,117
Total Accumulated Depreciation	5,950,946	203,155	35,984	6,118,117
Total Capital Assets being Depreciated, Net	<u>3,417,842</u>	<u>403,499</u>	<u>428,341</u>	<u>3,393,000</u>
Total Capital Assets, Net	<u>\$3,490,657</u>	<u>\$ 403,499</u>	<u>\$ 428,341</u>	<u>\$3,465,815</u>

### NOTE 7. Compensated Absences

The Utility's employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. The vacation days are accumulated during the year based on the anniversary date of each employee. Accrued vacation pay was \$30,978 and \$33,027 at June 30, 2004 and 2003, respectively.

The Utility has a sick leave policy for all employees except part-time and probationary employees of less than 30 days. Under the plan, employees earn sick leave hours at the rate of one day per month. Accrued sick pay was \$56,872 and \$54,896 at June 30, 2004 and 2003, respectively.

# Vinton Municipal Electric Utility

## Notes to Financial Statements

### **NOTE 8. Pension and Retirement Benefits**

The Utility contributes 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 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$19,645, \$20,313 and \$19,171, equal to the required contributions for each year.

### **NOTE 9. Related Party Transactions**

The Utility charged the City of Vinton, Iowa, \$107,416 and \$105,112 and the Vinton Municipal Water Utility \$17,789 and \$18,317 for electric energy usage during the years ended June 30, 2004 and 2003, respectively. These amounts are included in gross sales and amounts due from these parties are reflected as receivables on the accompanying balance sheets.

The Utility bills customers for water, sewer and landfill usage in addition to electric energy used. As payments are received, the water, sewer and landfill portions of the billing are remitted directly to the Municipal Water Utility and City of Vinton, respectively.

The Utility purchased wholesale electric power totaling \$1,193,310 and \$916,358 from RPGI and sold excess capacity and energy totaling \$108,282 and \$134,856 to RPGI during the years ended June 30, 2004 and 2003, respectively.

During the year ended June 30, 1999, the Utility transferred \$127,353 to the City of Vinton to help finance the purchase of a road grader. The Utility received repayments of \$14,303 and \$27,496 during the years ended June 30, 2004 and 2003, respectively, resulting in a note receivable balance of \$0 and \$14,303 at June 30, 2004 and 2003, respectively.

During the year ended June 30, 2000, the Utility transferred \$50,000 to the City of Vinton to help finance the purchase of emergency sirens. Of this amount, \$20,000 was forgiven by the Utility and was treated as an operating transfer. The Utility received repayments of \$6,305 and \$5,984 during the years ended June 30, 2004 and 2003, respectively, resulting in a note receivable balance of \$6,644 and \$12,948 at June 30, 2004 and 2003, respectively.

# Vinton Municipal Electric Utility

## Notes to Financial Statements

### NOTE 9. Related Party Transactions (Continued)

During the year ended June 30, 2003, the Utility transferred \$253,000 to the City of Vinton to finance the building of a street garage. The Utility received repayments of \$37,950 and \$0 during the years ended June 30, 2004 and 2003, respectively, resulting in a note receivable balance of \$215,050 and \$253,000 at June 30, 2004 and 2003, respectively.

During the year ended June 30, 2004, the Utility transferred \$53,275 to the City of Vinton to help finance park and recreation improvements. The Utility received repayments of \$34,113 during the year ended June 30, 2004, resulting in a note receivable balance of \$19,162 at June 30, 2004.

During the year ended June 30, 2004, the Utility transferred an additional \$38,600 to the City of Vinton to help finance the water slide construction. No payments were received, resulting in a note receivable balance of \$38,600 at June 30, 2004.

### NOTE 10. Comparison of Disbursements with Budget

	<u>2004</u>	<u>2003</u>
Total Disbursements – Cash Basis, Public Works	<u>\$2,664,989</u>	<u>\$2,583,356</u>
Budget	<u>\$3,250,829</u>	<u>\$3,660,563</u>

The amount reflected as the budget is prepared on a cash basis and is not a legally controlling budget at the Utility fund level. The Utility is included, however, within the City of Vinton, Iowa, budget which is a legally controlling budget as a portion of the Public Works budget.

### NOTE 11. Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except for distribution property and equipment, these risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility has retained the risk of damage to and destruction of most distribution property and equipment. There were no material estimated liabilities or claims paid during the past two fiscal years.

# Vinton Municipal Electric Utility

## Notes to Financial Statements

### **NOTE 12. Commitments and Contingent Liabilities**

Under wholesale power agreements, the Utility has committed to purchase its electric power and energy requirements from RPGI (supplied by MidAmerican Energy Company) through December 31, 2008.

### **NOTE 13. Prospective Accounting Change**

For the year ended June 30, 2004, the Utility implemented Governmental Accounting Standards Board issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

Implementation of these statements had no effect on the beginning balances of the Utility.

# **Supplemental Information**

**Vinton Municipal Electric Utility**  
**A Component Unit of the City of Vinton, Iowa**  
**Capital Assets and Accumulated Depreciation**  
**June 30, 2004 and 2003**

<b>ASSETS</b>	Balance 6/30/2002	Additions	Disposals
<b>Land</b>	\$ 72,815	\$ -	\$ -
<b>Buildings and Improvements</b>	530,931	50,505	13,355
<b>Generation Equipment</b>			
1946-1000 H.P. Fairbanks Morse Engine (Engine # 5)	107,734	-	-
1955-1920 H.P. Fairbanks Morse Engine (Engine # 1)	221,319	-	-
1961 Cooper-Bessemer Engine (Engine # 6)	644,610	-	-
1968 DeLaval Enterprise Engine (Engine # 7)	893,838	-	-
1973 Cooper-Bessemer Engine (Engine # 8)	1,235,179	-	-
1962 4210 H.P. Cooper-Bessemer Engine (Engine # 9)	1,420,159	-	-
Cooling Tower	37,311	-	-
Exhaust Improvement Project	57,502	-	-
20 HP Motor and Base Plate	2,121	-	-
Engine Re-insulation	11,896	-	-
Accu Therm Heat Exchanger	20,462	-	-
3 Ton Crane System	48,689	-	-
Air Compressor	-	-	-
Water Cooler Reconstruction	-	-	-
<b>Total Generation Equipment</b>	<u>4,700,820</u>	<u>-</u>	<u>-</u>
<b>Distribution Equipment</b>			
Interconnect System	404,950	-	-
5 and 15 KV Switchgear Equipment	438,447	-	-
Meters and Service Equipment	257,593	10,050	-
Primaries	613,443	9,829	-
Secondaries and Street Lighting System	172,115	2,208	-
Poles, Towers and Fixtures	186,969	-	-
Transformers	525,159	4,681	-
Station Equipment	192,210	-	-
Mainstreet Distribution Project	288,101	-	-
<b>Total Distribution Equipment</b>	<u>3,078,987</u>	<u>26,768</u>	<u>-</u>
<b>Plant Tools and Equipment</b>	<u>57,246</u>	<u>3,863</u>	<u>-</u>
<b>Office Equipment</b>	<u>20,224</u>	<u>-</u>	<u>-</u>
<b>Jacket Radiator Equipment</b>	<u>114,284</u>	<u>-</u>	<u>-</u>
<b>Transportation Equipment</b>	<u>303,821</u>	<u>92,577</u>	<u>-</u>
<b>Construction in Progress</b>	<u>14,853</u>	<u>387,264</u>	<u>-</u>
<b>Total</b>	<u>\$ 8,893,981</u>	<u>\$ 560,977</u>	<u>\$ 13,355</u>

Balance 6/30/2003	Additions	Disposals	Balance 6/30/2004	Carrying Value Less Accumulated Depreciation	
				6/30/2004	6/30/2003
\$ 72,815	\$ -	\$ -	\$ 72,815	\$ 72,815	\$ 72,815
568,081	57,918	-	625,999	254,037	210,893
107,734	-	-	107,734	-	-
221,319	-	-	221,319	63,755	67,295
644,610	-	-	644,610	38,780	42,322
893,838	-	-	893,838	137,284	144,135
1,235,179	-	-	1,235,179	140,597	150,151
1,420,159	-	-	1,420,159	1,094,351	1,122,843
37,311	-	-	37,311	28,233	29,725
57,502	-	-	57,502	43,510	45,810
2,121	-	-	2,121	1,008	1,114
11,896	-	-	11,896	7,573	8,049
20,462	-	-	20,462	18,268	18,682
48,689	-	-	48,689	43,170	45,118
-	6,986	-	6,986	6,753	-
-	58,829	-	58,829	57,603	-
4,700,820	65,815	-	4,766,635	1,680,885	1,675,244
404,950	-	-	404,950	47,595	62,103
438,447	-	-	438,447	4,359	4,688
267,643	-	-	267,643	71,819	77,002
623,272	4,168	-	627,440	221,036	235,271
174,323	3,690	-	178,013	54,300	54,084
186,969	-	-	186,969	24,543	26,860
529,840	20,497	-	550,337	131,208	122,060
192,210	-	-	192,210	59,345	68,275
288,101	-	-	288,101	209,842	217,045
3,105,755	28,355	-	3,134,110	824,047	867,388
61,109	428,341	-	489,450	454,314	33,513
20,224	-	-	20,224	1,533	3,236
114,284	-	-	114,284	42,386	47,244
396,398	-	35,983	360,415	135,798	178,207
402,117	26,224	428,341	-	-	402,117
\$ 9,441,603	\$ 606,653	\$ 464,324	\$ 9,583,932	\$ 3,465,815	\$ 3,490,657

**Vinton Municipal Electric Utility**  
**A Component Unit of the City of Vinton, Iowa**  
**Capital Assets and Accumulated Depreciation**  
**June 30, 2004 and 2003**

<i><b>ACCUMULATED DEPRECIATION</b></i>	<u>Years</u>	<u>Balance 6/30/2002</u>	<u>Depreciation</u>	<u>Disposals</u>
<b>Buildings and Improvements</b>	10 to 50	\$ 351,227	\$ 13,706	\$ 7,745
<b>Generation Equipment</b>				
1946-1000 H.P. Fairbanks Morse Engine (Engine # 5)	20	107,734	-	-
1955-1920 H.P. Fairbanks Morse Engine (Engine # 1)	20	150,484	3,540	-
1961 Cooper-Bessemer Engine (Engine # 6)	20	599,151	3,137	-
1968 DeLaval Enterprise Engine (Engine # 7)	20	742,852	6,851	-
1973 Cooper-Bessemer Engine (Engine # 8)	20	1,075,474	9,554	-
1962 4210 H.P. Cooper-Bessemer Engine (Engine # 9)	50	268,824	28,492	-
Cooling Tower	20	6,094	1,492	-
Exhaust Improvement Project	25	9,392	2,300	-
20 HP Motor and Base Plate	20	901	106	-
Engine Re-insulation	25	3,371	476	-
Accum Therm Heat Exchanger	25	961	819	-
3 Ton Crane System	25	1,623	1,948	-
Air Compressor	10	-	-	-
Water Cooler Reconstruction	20	-	-	-
Total Generation Equipment		<u>2,966,861</u>	<u>58,715</u>	<u>-</u>
<b>Distribution Equipment</b>				
Interconnect System	33	325,234	17,613	-
5 and 15 KV Switchgear Equipment	25	433,430	329	-
Meters and Service Equipment	25	185,437	5,204	-
Primaries	25	369,580	18,421	-
Secondaries and Street Lighting System	25	116,771	3,468	-
Poles, Towers and Fixtures	33	157,792	2,317	-
Transformers	25	396,288	11,492	-
Station Equipment	25	115,005	8,930	-
Mainstreet Distribution Project	40	63,853	7,203	-
Total Distribution Equipment		<u>2,163,390</u>	<u>74,977</u>	<u>-</u>
<b>Plant Tools and Equipment</b>	10 to 25	<u>24,581</u>	<u>3,015</u>	<u>-</u>
<b>Office Equipment</b>	5	<u>14,838</u>	<u>2,150</u>	<u>-</u>
<b>Jacket Radiator Equipment</b>	10 to 25	<u>62,182</u>	<u>4,858</u>	<u>-</u>
<b>Transportation Equipment</b>	10 to 15	<u>191,736</u>	<u>26,455</u>	<u>-</u>
<b>Construction in Progress</b>	-	<u>-</u>	<u>-</u>	<u>-</u>
Total Accumulated Depreciation		<u>\$ 5,774,815</u>	<u>\$ 183,876</u>	<u>\$ 7,745</u>

Balance 6/30/2003	Depreciation	Disposals	Balance 6/30/2004
\$ 357,188	\$ 14,774	\$ -	\$ 371,962
107,734	-	-	107,734
154,024	3,540	-	157,564
602,288	3,542	-	605,830
749,703	6,851	-	756,554
1,085,028	9,554	-	1,094,582
297,316	28,492	-	325,808
7,586	1,492	-	9,078
11,692	2,300	-	13,992
1,007	106	-	1,113
3,847	476	-	4,323
1,780	414	-	2,194
3,571	1,948	-	5,519
-	233	-	233
-	1,226	-	1,226
<u>3,025,576</u>	<u>60,174</u>	<u>-</u>	<u>3,085,750</u>
342,847	14,508	-	357,355
433,759	329	-	434,088
190,641	5,183	-	195,824
388,001	18,403	-	406,404
120,239	3,474	-	123,713
160,109	2,317	-	162,426
407,780	11,349	-	419,129
123,935	8,930	-	132,865
71,056	7,203	-	78,259
<u>2,238,367</u>	<u>71,696</u>	<u>-</u>	<u>2,310,063</u>
<u>27,596</u>	<u>7,540</u>	<u>-</u>	<u>35,136</u>
<u>16,988</u>	<u>1,703</u>	<u>-</u>	<u>18,691</u>
<u>67,040</u>	<u>4,858</u>	<u>-</u>	<u>71,898</u>
<u>218,191</u>	<u>42,410</u>	<u>35,984</u>	<u>224,617</u>
-	-	-	-
<u>\$ 5,950,946</u>	<u>\$ 203,155</u>	<u>\$ 35,984</u>	<u>\$ 6,118,117</u>

**Vinton Municipal Electric Utility**  
**A Component Unit of the City of Vinton, Iowa**  
**Operating Expenses**  
**June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Generation and Purchased Power</b>		
Salaries	\$ 123,504	\$ 122,605
Fuel Oil	38,800	36,840
Natural Gas	170,372	111,024
Lubricants and Chemicals	4,163	10,189
Maintenance	35,090	21,886
Purchased Power	1,193,310	916,358
Other	8,128	4,577
Total Generation and Purchased Power	<u>1,573,367</u>	<u>1,223,479</u>
<b>Distribution</b>		
Salaries	146,937	146,988
Line and Station Supplies and Expense	5,657	8,045
Maintenance:		
Structure and Equipment	26,567	4,464
Overhead Lines	40,617	35,105
Line Transformers	9,821	790
Street Lighting	18,947	2,549
Electric Meters	5,243	8,174
Other	805	434
Total Distribution	<u>254,594</u>	<u>206,549</u>
<b>Customer Accounts</b>		
Salaries and Outside Services	16,009	15,313
Bad Debts	4,581	6,794
Other	-	6,059
Total Customer Accounts	<u>20,590</u>	<u>28,166</u>
<b>Administrative and General</b>		
Salaries	70,629	72,060
Office Supplies	39,743	31,084
Outside Services	19,097	8,712
Property Insurance	49,131	53,973
Worker's Compensation Insurance	12,039	9,386
Transportation	12,739	12,320
Payroll Taxes and Employee Benefits	136,754	126,218
Regulatory Assessments	5,085	2,920
Membership Dues	10,469	6,958
Promotion and Economic Development	22,566	18,635
Energy Efficiency	12,700	14,563
Sales Tax	84,638	92,062
Miscellaneous	8,167	7,702
Total Administrative and General	<u>483,757</u>	<u>456,593</u>
Total Operating Expenses Before Depreciation	<u>2,332,308</u>	<u>1,914,787</u>
Depreciation	<u>203,155</u>	<u>183,876</u>
Total Operating Expenses	<u>\$ 2,535,463</u>	<u>\$ 2,098,663</u>

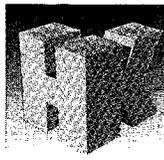
# **Statistical Information**

**Vinton Municipal Electric Utility**  
**A Component Unit of the City of Vinton, Iowa**  
**Generation Statistics**  
**Year Ended June 30, 2004**  
**(Unaudited)**

<u>Generator Number</u>	<u>Year Acquired</u>	<u>Fuel Type</u>	<u>Kilowatt Capacity</u>	<u>Hours Operated</u>	<u>KWH Produced</u>
1	1955	Oil - Gas	1,360	106	102,000
5	1946	Oil	650	37	18,000
6	1960	Oil - Gas	2,500	186	367,416
7	1967	Oil - Gas	3,750	111	343,734
8	1973	Oil - Gas	5,625	245	1,304,018
9	1992	Oil - Gas	3,000	178	505,936
				863	2,641,104
Total KWH Generated					40,192,065
KWH Purchased					42,833,169
Total KWH Available					(840,900)
Less: Station Use					(40,800)
Substations					41,951,469
Net KWH Available for Sales					37,663,212
KWH Distributed					89.78%
Percent Gainfully Applied					
Maximum Demand on Plant					10,262 KWH
Month, Day, Hour of Occurrence					August 20, 2003 - 4:00 P.M.

**Vinton Municipal Electric Utility**  
**A Component Unit of the City of Vinton, Iowa**  
**Operating Cost Analysis**  
**Year Ended June 30, 2004**  
**(Unaudited)**

Operating Cost Analysis	<u>Amount</u>		<u>Per KWH Distributed</u>	
	2004	2003	2004	2003
<b>Total Sales</b>	\$ 2,522,542	\$ 2,473,441	6.70 ¢	7.02 ¢
<b>Operating Expenses</b>				
Generation and Purchased	1,573,367	1,223,479	4.18	3.46
Distribution	254,594	206,549	0.68	0.59
Customer Accounts	20,590	28,166	0.05	0.08
Administrative and General	483,757	456,593	1.28	1.30
Depreciation	203,155	183,876	0.54	0.52
<b>Total Operating Expenses</b>	<u>2,535,463</u>	<u>2,098,663</u>	<u>6.73</u>	<u>5.95</u>
<b>Income From Operations</b>	(12,921)	374,778	(0.03)	1.07
Other Income	44,572	59,207	0.12	0.17
<b>Net</b>	<u>\$ 31,651</u>	<u>\$ 433,985</u>	<u>0.09 ¢</u>	<u>1.24 ¢</u>



**Honkamp Krueger & Co., P.C.**  
Certified Public Accountants  
& Business Consultants

## Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

Board of Trustees  
Vinton Municipal Electric Utility  
Vinton, Iowa

We have audited the financial statements of the Vinton Municipal Electric Utility (Utility), a component unit of the City of Vinton, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the component unit financial statements of the Utility. 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. Prior year statutory comments have all been resolved.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Utility's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reported conditions described above, we believe item A is a material weakness. Prior year reportable conditions have been resolved except for item A.

This report, a public record by law, is intended solely for the information and use of the management and Board of Trustees of the Vinton Municipal Electric Utility and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Vinton Municipal Electric Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Dubuque, Iowa  
September 22, 2004

**Vinton Municipal Electric Utility  
Schedule of Findings and Statutory Reporting  
Year Ended June 30, 2004**

**Findings Related to the Financial Statements**

**Instances of Non Compliance:**

No matters were noted.

**Reportable Conditions**

- A      **Segregation of Duties** - One important aspect of the internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that several functions of the Utility may be handled by the same person including collections, recording, posting and adjustments.

**Recommendation** – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its operating procedures to obtain the maximum internal control possible under the circumstances.

**Response** – The Utility is aware of the lack of segregation of duties and has considered alternatives to improve this situation.

**Conclusion** – Response accepted.

**Vinton Municipal Electric Utility  
Schedule of Findings and Statutory Reporting  
Year Ended June 30, 2004**

**Other Findings Related to Required Statutory Reporting**

- (1) **Official Depositories** – A resolution naming official depositories has been approved by the Utility. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) **Certified Budget** – Utility disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- (3) **Questionable Expenses** – We noted no expenses that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (4) **Travel Expense** – No disbursements of the Utility money for travel expenses of spouses of the Utility officials or employees were noted.
- (5) **Business Transactions** - Business transactions between the Utility and its officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Elwick, Council Member Owner of Elwick Electric	Trenching	\$ 2,805

In accordance with Chapter 362.5(10) of the Code of Iowa, transactions with the City officials and employees less than \$1,500 during the fiscal year do not represent conflicts of interest.

The transactions with the Council Member in excess of \$1,500 were entered into through council approval.

- (6) **Bond Coverage** – Surety bond coverage of the Utility officials and employees is in accordance with statutory provisions and was reviewed and updated during the year. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (7) **Trustee Minutes** – No transactions were found that we believe should have been included in the minutes but were not. Minutes of Trustee proceedings were published within 15 days as required by Chapter 372.13(b) of the Code of Iowa.
- (8) **Deposits and Investments** – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy

# News Release

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For Release: \_\_\_\_\_

Honkamp Krueger & Co., P.C. released an audit report on the Vinton Municipal Electric Utility.

The Utility had total revenues of \$2,569,608 for the year ended June 30, 2004, which included energy sales of \$2,381,941, interest income of \$47,066 and miscellaneous charges of \$140,601.

Expenses totaled \$2,798,508 for the year ended June 30, 2004, which included \$1,573,367 for generation and purchased power expenses, \$254,594 in distribution expenses, \$20,590 in customer account expenses, \$483,756 for administrative and general expenses, \$203,155 for depreciation expense and a loss in RPGI Joint Venture of \$2,494. Operating transfers to the City of Vinton totaled \$260,552 for the year ended June 30, 2004.

This report contains recommendations to the Utility. For example, several functions of the accounting system are handled by the same person including collections, recording, posting and adjustments. The Utility has responded that it is aware of the lack of segregation of duties and has considered alternatives to improve this situation.

A copy of the audit report is available for review in the office of Auditor of State and the Vinton Municipal Electric Utility.

December 31, 2004

Vinton Municipal Electric Utility  
Vinton, Iowa

**PREPARATION OF AUDIT FOR THE YEAR ENDED JUNE 30, 2004**

<u>STAFF</u>	<u>HOURS</u>	<u>TOTAL</u>
Heather N. Deininger	49	
Danielle M. Lex	2	
Scott R. Arendsdorf	7	
Sue M. Lawler	7	
Danell A. DeBacker	1	
Chris Splinter – (Typing and Copying)	<u>9</u>	
Total Hours	<u>75</u>	
Total Audit Fee		<u>\$ 2,795</u>