

**Villisca Municipal Power Plant
Independent Auditors' Report
Basic Financial Statements and
Supplementary Information
Schedule of Findings**

December 31, 2004

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Villisca Municipal Power Plant

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Currin	Board Chairman	December 31, 2004
Darwin Williams	Vice-Chairman	December 31, 2007
Danny Lindberg	Trustee	December 31, 2006
Kristine Cooper	Trustee	December 31, 2008
Jim Robertson	Trustee	December 31, 2009
Michael Ensley	Superintendent	Indefinite
Debbie Schneck	Office Manager	Indefinite

Villisca Municipal Power Plant

May 24, 2005

Independent Auditors' Report

To the Board of Trustees
Villisca Municipal Power Plant

We have audited the accompanying financial statements of the Villisca Municipal Power Plant, as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Power Plant officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 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 audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements are prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statements of the Villisca Municipal Power Plant are intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Villisca that is attributable to the transactions of the Power Plant.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the Villisca Municipal Power Plant as of and for the year ended December 31, 2004 and the changes in cash basis financial position for the year then ended, in conformity with the basis of accounting described in Note 1.

As discussed in Note 7, during the year ended December 31, 2004, Villisca Municipal Power Plant 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*.

Continued...

May 24, 2005
Villisca Municipal Power Plant
Independent Auditors' Report

In accordance with *Government Auditing Standards* we have also issued our report dated May 24, 2005, on our consideration of the Power Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 11, and pages 20 through 21, are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied 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 on it.

Our audit was performed for the purpose of forming opinions on the financial statements of the Villisca Municipal Power Plant's basic financial statements. Other supplementary information included in Schedules 1 and 2, 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 audit 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.

Villisca Municipal Power Plant

VILLISCA MUNICIPAL POWER PLANT MANAGEMENT'S DISCUSSION AND ANALYSIS

Villisca Municipal Power Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Villisca Municipal Power Plant is for the fiscal year ended December 31, 2004. We encourage readers to consider this information in conjunction with the Power Plant's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- The Power Plant's operating receipts increased 3%, or approximately \$20,000, from 2003 to 2004.
- The Power Plant's operating disbursements decreased approximately \$118,000, or 14% from 2003 to 2004.
- The Power Plant's net assets increased 4%, or approximately \$27,000, from 2003 to 2004.

USING THIS ANNUAL REPORT

The Villisca Municipal Power Plant has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Power Plant's cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Power Plant's cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Villisca Municipal Power Plant's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Power Plant's financial activities.
- The Statement of Net Assets – Cash Basis presents information on the Power Plant's net assets, including balances restricted for specific purposes and balances unrestricted and available for operating activities.
- The Statement of Cash Receipts, Disbursements and Changes in Net Assets – Cash Basis presents information on the Power Plant's operating receipts and disbursements, non-operating receipts and disbursements and whether the Power Plant's financial position has improved or deteriorated as a result of the year's activities.
- The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE POWER PLANT

Statement of Net Assets – Cash Basis

The Statement of Net Assets – Cash Basis presents the assets and net assets of the Power Plant at the end of the fiscal year. The Statement of Net Assets – Cash Basis is a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of the Power Plant to the readers of the financial statements.

Over time, readers of the financial statements are able to determine the Power Plant’s financial position by analyzing the increases and decreases in net assets.

Assets and Net Assets	
	2004
Assets	
Cash and cash equivalents	\$ 220,350
Investments	<u>420,858</u>
Total assets	<u>\$ 641,208</u>
Net Assets	
Net assets:	
Restricted	\$ 306,790
Unrestricted	<u>334,418</u>
Total net assets	<u><u>\$ 641,208</u></u>

Net assets of \$306,790 are restricted for debt service requirements.

Statement of Receipts, Disbursements and Changes in Net Assets- Cash Basis

Changes in total net assets as presented on the Statement of Net Assets – Cash Basis are based on the activity presented in the Statement of Cash Receipts, Disbursements and Changes in Net Assets – Cash Basis. The purpose of the statement is to present the receipts received by the Power Plant and the disbursements paid by the Power Plant, both operating and non-operating.

Operating receipts are received for the sale of electricity. Operating disbursements are disbursements paid to operate the Power Plant. Non-operating receipts and disbursements are for interest on investments. A summary of cash receipts, disbursements and changes in net assets for the year ended December 31, 2004 is presented as follows:

	<u>2004</u>
Operating receipts:	
Charges for services	
Sale of electricity	\$ 701,335
Miscellaneous	
Sales tax collected	30,217
Customer deposits	5,159
Miscellaneous	<u>26,104</u>
	<u>61,480</u>
Total operating receipts	762,815
Operating disbursements:	
Business type activities	
Electric operations	
Personal services	138,996
Purchased power	253,108
Insurance	19,771
Operations	121,660
Utilities	6,225
Contractual service	15,934
Sales tax remitted	18,881
Deposits refunded	1,754
Dues and memberships	9,383
Supplies and materials	4,436
Training and travel	2,065
Vehicle maintenance	4,815
Office supplies	1,996
Miscellaneous	<u>6,250</u>
	<u>605,274</u>
Debt service:	
Principal redeemed	80,000
Interest paid	58,470
Miscellaneous	<u>300</u>
	<u>138,770</u>
Total operating disbursements	<u>744,044</u>
Excess of operating receipts over operating disbursements	18,771
Non-operating receipts	
Interest on investments	<u>8,360</u>
Change in cash basis net assets	27,131
Net assets – cash basis beginning of year	<u>614,077</u>
Net assets – cash basis end of year	\$ <u><u>641,208</u></u>

In 2004, operating receipts increased by \$20,000, or 3%. The increase was primarily due to an increase in rates in February 2004. In 2004, operating disbursements decreased by \$118,000, or 14%. The decrease was primarily due to a decrease in employee costs.

LONG-TERM DEBT

At December 31, 2004, the Power Plant had \$1,340,000 of electric revenue notes outstanding.

BUDGETARY HIGHLIGHTS

The budget was not amended during the year.

ECONOMIC FACTORS

Villisca Municipal Power Plant's appointed officials considered many factors when setting the fiscal year 2005 budget.

Included in these factors was an increase in employee wages with the hiring of a new superintendent and a third lineman, an increase in fuel costs and an increase in insurance costs. The officials also considered prior year costs of operations and maintenance.

CONTACTING THE POWER PLANT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Power Plant's finances and to show the Power Plant's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Villisca Municipal Power Plant, 318 South 3rd Avenue, Villisca, Iowa.

Basic Financial Statements

**Villisca Municipal Power Plant
Statement of Net Assets – Cash Basis
As of and for the year ended December 31, 2004**

Assets

Cash and cash equivalents			
Restricted		\$	25,200
Unrestricted			195,150
			<u>220,350</u>
Investments			
Restricted			281,590
Unrestricted			139,268
			<u>420,858</u>
Total assets		\$	<u>641,208</u>

Net Assets

Restricted for:			
Debt service – sinking		\$	25,200
Debt service – reserve			141,590
Improvements			140,000
Total restricted net assets			<u>306,790</u>
Unrestricted			<u>334,418</u>
Total net assets		\$	<u>641,208</u>

See notes to financial statements

**Villisca Municipal Power Plant
Statement of Cash Receipts, Disbursements and
Changes in Net Assets – Cash Basis
As of and for the year ended December 31, 2004**

Operating receipts:		
Charges for service		
Sale of electricity	\$	701,335
Miscellaneous		
Sales tax collected		30,217
Customer deposits		5,159
Miscellaneous		26,104
		<u>61,480</u>
Total operating receipts		762,815
Operating disbursements:		
Business type activities		
Electric operations		
Personal services		138,996
Purchased power		253,108
Insurance		19,771
Operations		121,660
Utilities		6,225
Contractual service		15,934
Sales tax remitted		18,881
Deposits refunded		1,754
Dues and memberships		9,383
Supplies and materials		4,436
Training and travel		2,065
Vehicle maintenance		4,815
Office supplies		1,996
Miscellaneous		6,250
		<u>605,274</u>
Debt service:		
Principal redeemed		80,000
Interest paid		58,470
Miscellaneous		300
		<u>138,770</u>
Total operating disbursements		<u>744,044</u>
Excess of operating receipts over operating disbursements		18,771
Non-operating receipts		
Interest on investments		<u>8,360</u>
Change in cash basis net assets		27,131
Net assets – cash basis beginning of year		<u>614,077</u>
Net assets – cash basis end of year	\$	<u><u>641,208</u></u>

See notes to financial statements

**Villisca Municipal Power Plant
Notes to Financial Statements
December 31, 2004**

NOTE 1 Summary of Significant Accounting Policies

A. Reporting Entity

The Villisca Municipal Power Plant is a component unit of the City of Villisca, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Power Plant is governed by a five-member board of trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of Power Plant 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 receipts, disbursements, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Villisca Municipal Power Plant maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Power Plant are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the Power Plant in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2004, disbursements did not exceed the amounts budgeted.

**Villisca Municipal Power Plant
Notes to Financial Statements
December 31, 2004**

NOTE 1 Summary of Significant Accounting Policies - Continued

E. Assets and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets – Cash Basis.

Cash and Cash Equivalents – The Power Plant considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Investments – Investments are stated at cost, which approximates market value.

Restricted Assets and Net Assets – Funds set aside for debt service requirements are classified as restricted.

NOTE 2 Cash and Investments

The Power Plant's deposits in banks at December 31, 2004 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 depositories to insure there will be no loss of public funds.

The Power Plant 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 Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trust; and warrants or improvement certificates of a drainage district.

The Power Plant had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

**Villisca Municipal Power Plant
Notes to Financial Statements
December 31, 2004**

NOTE 3 Notes Payable

Annual debt service requirements to maturity for electric revenue note indebtedness are as follows:

Year Ending December 31,	Interest Rates	Principal	Interest	Total
2005	2.70 %	\$ 85,000	\$ 56,590	\$ 141,590
2006	3.10 %	85,000	54,295	139,295
2007	3.40 %	85,000	51,660	136,660
2008	3.65 %	90,000	48,770	138,770
2009	3.85 %	95,000	45,485	140,485
2010 – 2014	4.05 – 4.70 %	525,000	166,753	691,753
2015 – 2019	4.85 – 5.10 %	<u>375,000</u>	<u>38,210</u>	<u>413,210</u>
Total		<u>\$ 1,340,000</u>	<u>\$ 461,763</u>	<u>\$ 1,801,763</u>

The resolution providing for the issuance of the revenue notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sinking account for the purpose of making the note principal and interest payments when due.
- (c) At the time of delivery of the notes, \$141,590 shall be deposited into a principal and interest reserve account. These funds shall be used for the payment of principal and interest on the notes if, for any reason, funds on deposit in the sinking account are insufficient to pay such when due
- (d) At the time of delivery of the notes, \$140,000 shall be deposited into an improvement and extension account. These funds shall be used if there is a deficiency in the sinking account, reserve account or to pay for capital improvements and extensions to the Power Plant.

The Power Plant has complied with these provisions.

**Villisca Municipal Power Plant
Notes to Financial Statements
December 31, 2004**

NOTE 4 Pension and Retirement Benefits

The Power Plant 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 covered salary and the Power Plant is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Power Plant's contribution to IPERS for the years ended December 31, 2004 and 2003 were \$5,392 and 7,970 respectively, equal to the required contributions for each year.

NOTE 5 Compensated Absences

Power Plant employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time hours for subsequent use, or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Power Plant until used or paid.

The Power Plant's approximate liability for earned vacation, sick leave and compensatory time termination payments payable to employees at December 31, 2004 is \$2,944.

NOTE 6 Risk Management

The Power Plant 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. These risks are covered by the purchase of commercial insurance. The Power Plant assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the year ended December 31, 2004.

NOTE 7 Accounting Change

For the year ended December 31, 2004, the Power Plant implemented 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 –*

**Villisca Municipal Power Plant
Notes to Financial Statements
December 31, 2004**

State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures.

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

Required Supplementary Information

**Villisca Municipal Power Plant
Notes to Required Supplementary Information – Budgetary Reporting
December 31, 2004**

**Villisca Municipal Power Plant
Budgetary Comparison Schedule of
Receipts, Disbursements, and Changes in Balances
– Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended December 31, 2004**

	Actual	Original Budgeted Amounts	Budget to Actual Variance
Receipts:			
Use of money and property	\$ 8,360	20,000	(11,640)
Charges for service	701,335	768,500	(67,165)
Miscellaneous	61,480	56,494	4,986
Total receipts	771,175	844,994	(73,819)
Disbursements:			
Business type activities	744,044	843,664	99,620
Excess of receipts over disbursements	27,131	1,330	25,801
Balance beginning of year	614,077	897,170	(283,093)
Balance end of year	\$ 641,208	898,500	(257,292)

See accompanying independent auditors' report

The Villisca Municipal Power Plant prepares a budget on the cash basis of accounting and submits it to the City Council.

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

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund. These functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Power Plant's budget is included in the City's budget as a business type activity function.

During the year ended December 31, 2004, disbursements of the Power Plant did not exceed the amount budgeted.

**Villisca Municipal Power Plant
Notes to Required Supplementary Information – Budgetary Reporting
December 31, 2004**

**Villisca Municipal Power Plant
Other Supplementary Information**

**Villisca Municipal Power Plant
Schedule of Indebtedness
December 31, 2004**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue notes: Electric	Feb 1, 2003	2.70 – 5.10 %	\$ 1,500,000	1,420,000	0	80,000	1,340,000	58,470	0

See accompanying independent auditors' report

**Villisca Municipal Power Plant
Note Maturities
December 31, 2004**

Year Ending December 31,	Revenue Notes	
	Electric	
	Issued Feb 1, 2003	
	Interest Rates	Amount
2005	2.70 %	\$ 85,000
2006	3.10 %	85,000
2007	3.40 %	85,000
2008	3.65 %	90,000
2009	3.85 %	95,000
2010	4.05 %	95,000
2011	4.25 %	100,000
2012	4.40 %	105,000
2013	4.55 %	110,000
2014	4.70 %	115,000
2015	4.85 %	120,000
2016	5.00 %	125,000
2017	5.10 %	130,000
		<u>\$ 1,340,000</u>

See accompanying independent auditors' report

**Villisca Municipal Power Plant
Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance**

May 24, 2005

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance

To the Board of Trustees of the
Villisca Municipal Power Plant

We have audited the financial statements of Villisca Municipal Power Plant, for the year ended December 31, 2004, and have issued our report thereon dated May 24, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Villisca Municipal Power Plant's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 Villisca Municipal Power Plant'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 Part I of the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud 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 considerations of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, of the reportable conditions described above, we believe items I-A-04, I-B-04, and I-C-04 are material weaknesses. Prior year reportable conditions have been resolved except for items I-A-04, I-B-04, I-C-04, I-D-04, and I-E-04.

Continued. . .

May 24, 2005
Villisca Municipal Power Plant
Independent Auditors' Report on Compliance

Compliance

As part of obtaining reasonable assurance about whether Villisca Municipal Power Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Power Plant's operations for the year ended December 31, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Power Plant. 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 audit statutory comments have been resolved except for items II-C-04, II-G-04 and II-H-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Villisca Municipal Power Plant and other parties to whom the Power Plant 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 the Villisca Municipal Power Plant 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.

**Villisca Municipal Power Plant
Schedule of Findings
Year Ended December 31, 2004**

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties

Comment – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas of the Power Plant.

- 1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions and handling and recording cash.
- 2) Investments – detailed record keeping, custody of investments and reconciling.
- 3) Receipts – collecting, depositing, journalizing and posting.
- 4) Utility receipts – billings, collecting, depositing, journalizing and posting.
- 5) Disbursements – purchasing, check writing, recording and reconciling.
- 6) Payroll – preparing and distributing.
- 7) Financial reporting – preparing, posting and reconciling.
- 8) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Power Plant should review its control activities to obtain the maximum internal control possible under the circumstances.

**Villisca Municipal Power Plant
Schedule of Findings
Year Ended December 31, 2004**

Part I: Findings Related to the Financial Statements (continued):

I-A-04 Segregation of Duties - Continued

Response –

- 1) We will have the Treasurer review and reconcile all fund balances and provide a report to the Board at monthly meetings.
- 2) We will have all bills presented for review and initialed by a Board member.
- 3) We will have as a monthly agenda item at the Board of Trustees meeting, the review and approval of cash disbursements.
- 4) We will have the Superintendent review, initial and date all timesheets prior to payroll.
- 5) We will have the Secretary prepare and present an accurate monthly statement of revenue and expense also comparing the statement to the budget.
- 6) We will have an annual audit.

Conclusion – Response accepted.

I-B-04 Disbursements

Comment – Invoices were not always marked paid or cancelled to help prevent possible duplicate payment. Invoices or other supporting documents were not always attached to the vouchers. In addition, evidence of review by the Board was not documented and certain invoices were not on the paid bills listing published. Also, travel claims did not include specific documentation regarding destination, purpose and dates of travel. One week of time sheets to support payroll disbursements was missing.

Recommendation – All invoices and supporting documentation should be cancelled to help prevent possible duplicate payment and should be attached to the vouchers. All invoices should be approved by the Board, and a complete and accurate listing of bills should be included in the minutes. The Board should determine specific requirements for travel claims to provide reasonable documentation for the request of reimbursement. All support documentation including invoices and timesheets should be properly filed.

Response – We will have all bills presented for review and initialed by a Board member. We will have as a monthly agenda item at the Board of Trustees meeting, the review and approval of cash disbursements. Following a signature of the second person, invoices will be stamped paid and initialed. Disbursements will not be

**Villisca Municipal Power Plant
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allowed to be paid without supporting documentation. All support documentation will be properly filed.

Conclusion – Response accepted.

Part I: Findings Related to the Financial Statements (continued):

I-C-04 Credit Cards

Comment – The Power Plant approved the use of a credit card by certain employees while on Power Plant business. The Power Plant has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Total purchases of \$2,110 were made with the credit card for which supporting documentation was not always available.

Recommendation – The Power Plant should adopt a formal written policy regulating the use of credit cards. The policy at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – We will adopt a policy establishing credit card use including:

- Recommending one account with two cards.
- Credit cards are to be kept with the Secretary when not being used.
- Receipts must support each transaction or the employee will be asked to reimburse the Power Plant.

Conclusion – Response accepted.

I-D-04 Public Property

Comment – The Power Plant has not established a policy for usage of utility property for other than City purposes. Private use of public property is prohibited by Article III Section 31 of the constitution of the State of Iowa which states in part, "...no public money or property shall be appropriated for local or private purpose."

Recommendation – The City should establish a policy prohibiting private usage of all utility property.

Response – We will establish a policy stating that any personal use of utility property will result in a written reprimand and possible termination depending on the reason and severity. The policy should state that the Superintendent or any Board member may invoke the policy but formal reprimand has to receive majority Board consent.

Conclusion – Response accepted.

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Part I: Findings Related to the Financial Statements (continued):

I-E-04 Information Systems

Comment – The following weaknesses in the Power Plant’s computer based systems were noted:

The Power Plant does not have written policies for:

- Password privacy and confidentiality.
- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Ownership of in-house developed software and data.
- Logging off when a terminal is unattended and no automatic log off exists.
- Requiring backups to be performed weekly, monthly and yearly.
- Storing system backup tapes at an off-site facility.
- Ensuring only software licensed to the Power Plant is installed on computers and monitoring software licensing requirements to ensure the Power Plant is in compliance.
- Usage of the internet.

Also, the Power Plant does not have a written disaster recovery plan to help ensure the continuity of Power Plant operations in the event of a disaster.

Recommendation – The Power Plant should develop written policies addressing the above items in order to improve the Power Plant’s control over computer based systems.

Response –

- 1) We will have the software provider set up passwords and require they be changed monthly.
- 2) We will ask the software provider to set up an automatic log off system when computer is unattended.
- 3) We will develop a policy clarifying the ownership of in-house developed software including:
 - a. If it is developed on company time, it belongs to the Power Plant. Personally developed software must be approved by the Board.
 - b. Only licensed software licensed to the Power Plant can be installed.

**Villisca Municipal Power Plant
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Year Ended December 31, 2004**

- c. The policy will state that Internet use is for business purposes only.
- 4) We will develop a written disaster plan including backup procedures and offsite storage.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.

II-B-04 Certified Budget - Total disbursements for the year ended December 31, 2004, did not exceed the amounts budgeted.

II-C-04 Questionable Disbursements

Comment – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Transaction Description</u>	<u>Amount</u>
VISA	Meals	\$ 6
VISA	Movies for employee attending training	30

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between proper and an improper purpose is very thin.

Recommendation – The Board should determine and document the public purpose and propriety of these disbursements or, if appropriate, request reimbursement. If this practice is continued, the Board should establish written policies and procedures, including the requirement for proper documentation.

Response – We will review the policy and clarify that there will not be any expenditures made that would not meet the requirements of public purpose. We will also acquire a copy of a nearby County’s policy on travel and training, to use as a guideline.

Conclusion – Response accepted.

II-D-04 Travel Expense - No disbursements of Power Plant money for travel expenses of spouses of Power Plant officials or employees were noted.

**Villisca Municipal Power Plant
Schedule of Findings
Year Ended December 31, 2004**

II-E-04 Business Transactions – No business transactions were noted between the Power Plant and City officials or employees.

Part II: Other Findings Related to Statutory Reporting (continued):

II-F-04 Bond Coverage - Surety bond coverage of Power Plant officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes

Comment – Except as noted, no transactions were noted that we believe should have been approved in the Board minutes but were not. The Board did not always document the specific information regarding closed sessions as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

The publication of the Board minutes for the meeting held in June did not contain a listing of the approved bills.

The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The Power Plant should comply with Chapter 21 of the Code of Iowa, the minutes should reflect the actions of the Board and salaries should be published annually.

Response – All minutes and gross salaries will be published, as required, and any closed sessions will be done in accordance with Chapter 21 of the Code of Iowa.

Conclusion – Response accepted.

II-H-04 Deposits and Investments

Comment - No instances of noncompliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Power Plant's investment policy were noted. However, the current investment policy adopted by the Board does not contain the correct references to the Code of Iowa.

Recommendation – An updated investment policy should be adopted by the Board with correct code references to Chapters 12B and 12C of the Code of Iowa.

Response – Along with updating our official depository, the Board will properly refer to Chapters 12B and 12C of the Code of Iowa.

**Villisca Municipal Power Plant
Schedule of Findings
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Conclusion – Response accepted.

II-I-04 Electric Revenue Notes – The Power Plant is in compliance with the provisions of the electric revenue note resolution.

NEWS RELEASE

VILLISCA MUNICIPAL POWER PLANT

Schroer & Associates, P.C., 300 West Broadway, Suite 41, Council Bluffs, Iowa today released an audit report on the Villisca Municipal Power Plant.

The Power Plant had total receipts of \$771,175 during the year ended December 31, 2004, which included sale of electricity of \$701,335.

Disbursements totaled \$744,044 for the year ended December 31, 2004, which included \$253,108 for purchased power, \$138,996 for personal services and \$138,770 for debt service.

A copy of the audit report is available for review in the office of Schroer and Associates, P.C. and the Villisca Municipal Power Plant Secretary's office.

July 12, 2005

Villisca Municipal Power Plant
318 South 3rd Avenue
Villisca, IA 50864
Battlefield, MO 65619-8254

To Whom It May Concern:

Enclosed are 2 DRAFTS of your audit report for Villisca Municipal Power Plant. Please review and let me know as soon as possible if you would like changes made and the number of copies you will need.

Sincerely

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh