

**VINTON MUNICIPAL ELECTRIC UTILITY**

**VINTON, IOWA**

**JUNE 30, 2006**

# Table of Contents

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<b>Officials</b> .....	1
<b>Independent Auditor’s Report</b> .....	2
<b>Management's Discussion and Analysis</b> .....	3-7
<b>Financial Statements</b>	
Balance Sheet .....	8
Statement of Revenue, Expenses and Changes in Net Assets .....	9
Statement of Cash Flows .....	10
Notes to the Financial Statements.....	11-16
<b>Supplementary Information</b>	
Schedules of Operating Expenses .....	17
<b>Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters</b> .....	18-19
<b>Schedule of Findings</b> .....	20

## Officials

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Name	Title	Term Expires
<b>Board of Trustees - Appointed by the Mayor of the City of Vinton and approved by the Vinton City Council</b>		
Jon Kremer	Chairman	December, 2011
Michael Elwick	Trustee	December, 2007
John A. Anderson	Trustee	December, 2008
Dr. Alan Woodhouse	Trustee	December, 2009
Michael Barron	Trustee	December, 2010

### **Nonvoting - Appointed by the Board of Trustees**

Rick Ohrt	General Manager	Indefinite
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### **Nonvoting - City Clerk, City of Vinton**

Cindy Michael	Secretary	Indefinite
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## Independent Auditor's Report

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Board of Trustees  
Vinton Municipal Electric Utility  
Vinton, Iowa

We have audited the accompanying balance sheet of the Vinton Municipal Electric Utility, a component unit of the City of Vinton, Iowa, at June 30, 2006, and the related statement of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Vinton Municipal Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vinton Municipal Electric Utility at June 30, 2006, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2006 on our consideration of the Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. 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.

The accompanying Management's Discussion and Analysis on Pages 3 through 7 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 primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included on Page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit 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.

*HOGAN - HANSEN*

HOGAN - HANSEN

Waterloo, Iowa  
August 11, 2006

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

The Vinton Municipal Electric Utility (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, 2006. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### **2006 Financial Highlights**

For 2006, the Utility revised the reporting of certain assets, cash receipts and cash disbursements. Generation and distribution repair/replacement materials are not expected to be consumed within an operating cycle so they have been reclassified as capital assets not being depreciated. Sales tax is collected for and remitted to the State of Iowa and is neither a revenue nor an expense of the Utility. Therefore, sales taxes received and disbursed are no longer reported as operating revenue or expenses. Payments to the City of Vinton are in exchange for services received and are classified as operating expenses. For comparison purposes, 2005 financial information presented in this Management's Discussion and Analysis has been reclassified to conform with the 2006 presentation.

The Utility's operating revenue increased 16.3%, or \$409,857, from fiscal 2005 to fiscal 2006.

The Utility's operating expenses were 9.7%, or \$266,468, more in fiscal 2006 than in fiscal 2005.

The Utility's net assets increased 2%, or \$149,571, from June 30, 2005 to June 30, 2006.

The Utility was without a general manager after Craig Riffey left on May 6, 2005. A new general manager was hired mid-September of 2005 and began his duties on September 26, 2005 at an annual salary of \$54,500.

Rising power costs incurred by the Utility has forced the continued use of the energy adjustment factor. From July 1, 2005 to June 30, 2006, the energy adjustment factor varied from a high of \$0.0295 in August, 2005 to the low of \$0.0095 in January, 2006.

A tap changer repair for our primary substation transformer exceeded budgeted costs by a considerable amount. Total budgeted cost for an oil containment barrier and the tap changer panel board repair was estimated at \$23,400. A panel board isolating the main transformer oil tank and the tap changer oil tank was leaking and had to be replaced. The panel board replacement cost \$13,137. Upon tap changer removal for the panel board replacement, inspection of the tap changer unit itself revealed broken gears. Obsolete parts forced the complete replacement of the tap changer unit. Cost of the tap changer was \$27,842 plus additional expenses for consulting fees to install the new tap changer. Additional costs to the Utility were incurred since our generation crew had to run the generators rather than buying power while the transformer was being serviced. After installation of the new tap changer, the automatic control circuitry failed and a new auto tap changer control unit purchased. The control unit cost was \$1,806 plus tax and shipping. The containment barriers around our substations were not installed due to a postponement of the deadline for installation and a possible cancellation of the requirement for our utility to install the barriers.

In late December, 2005, a gas regulator failed at our generation plant. In mid-January, Alliant Energy installed a new regulator and since that time, our ability to produce electricity from natural gas has been severely restricted. The lack of natural gas supply cost the Utility some additional financial expenses. Additional costs have been incurred due to having to buy higher-priced diesel fuel to generate with rather than using the lower-cost natural gas. As of June 30, 2006, the issue still had not been resolved with Alliant Energy although they have sent employees on numerous occasions to fix the problem but nothing has been accomplished.

The Vinton Municipal Electric Utility Board voted in January, 2006 to provide \$6,500 in funding for Vinton Unlimited in fiscal year 2006-2007 to help them carry on with their many activities.

Construction of a new high school for Vinton began in the winter of 2005-2006. In January, 2006, a new transformer was ordered for the school and delivered in May, 2006. The transformer expense to the Utility was not budgeted for in fiscal year 2005-2006. The cost of the transformer was \$32,966.

In March, 2006, the Utility learned it was named in a joint action lawsuit with Resale Power Group of Iowa (RPGI) and members of RPGI that purchase power. The lawsuit alleges that RPGI wheeled across Central Iowa Power Cooperative (CIPCO) transmission lines with no payment to them. CIPCO is asking for \$10,000,000 plus ongoing charges. The Utility's insurance company has become involved in the lawsuit.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Utility's basic financial statements. The Utility is a single purpose component unit of the City of Vinton, Iowa (City). The Utility provides electricity to its customers at rates designed to recover the cost of providing the electricity, including costs associated with installation and maintenance of electricity generating, acquisition and transmission systems. As a result, the Utility prepares financial statements as a single purpose enterprise in a manner similar to a private-sector business.

The statement of net assets presents information on all of the 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 of the Utility is improving or deteriorating.

The statement of revenue, expenses and changes in net assets presents information showing how the Utility's net assets changed during the 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 the related cash flows. Thus, revenue and expenses are reported in this statement for some transactions that will result in cash flows in the following year.

The statement of cash flows presents information showing major sources and uses of cash by four types of activities. The activities are operating; noncapital financing; capital and related financing; and investing. Also included is a schedule which reconciles income from operations to net cash provided by operating activities.

The basic financial statements can be found on Pages 8 through 10 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Notes are considered to be an integral part of financial statements prepared in accordance with generally accepted accounting principles. The notes to the financial statements can be found on Pages 11 through 16 of this report.

## Financial Analysis

Net assets may serve over time as a useful indicator of an entity's financial position. The Utility's assets exceeded its liabilities by \$7.67 million and \$7.52 million on June 30, 2006 and 2005, respectively.

The following is a summary of the composition of net assets at June 30:

	<b>2006</b>	<b>2005</b>
Current assets.....	\$ 4,244,985	\$ 4,099,590
Noncurrent, noncapital assets.....	170,164	157,554
Capital assets, net of accumulated depreciation .....	<u>3,513,397</u>	<u>3,595,307</u>
<b>Total Assets</b> .....	<b><u>7,928,546</u></b>	<b><u>7,852,451</u></b>
<b>Current Liabilities</b> .....	<b><u>256,909</u></b>	<b><u>330,385</u></b>
<b>Net Assets</b>		
Invested in capital assets .....	3,513,397	3,595,307
Unrestricted.....	<u>4,158,240</u>	<u>3,926,759</u>
<b>Total Net Assets</b> .....	<b><u>\$ 7,671,637</u></b>	<b><u>\$ 7,522,066</u></b>

**Net assets invested in capital assets** are a large portion of the Utility's net assets, 46% at June 30, 2006, and reflect its net investment in capital assets (e.g., land; structures and improvements; replacement materials; electric generation, supply and distribution systems; meters; machinery; and equipment). The Utility uses these capital assets to provide electricity and services to the citizens; consequently, these assets are not available for future spending.

**Unrestricted net assets** may be used to meet the Utility's ongoing obligations to citizens and creditors. It is the Utility's intention to use these assets for future operating purposes and capital asset acquisition and improvements. The Board of Trustees has designated \$750,000 of unrestricted net assets for a self insurance reserve and \$1,666,147 for a capital improvements reserve.

At both June 30, 2006 and 2005, the Utility reported positive balances in both categories of net assets.

**Governmental activities.** Since the Utility is a single purpose enterprise, it has no activities classified as "governmental".

The following is a summary of the changes in net assets for the years ended June 30:

	<b>2006</b>	<b>2005</b>
Operating revenue.....	\$ 2,924,252	\$ 2,514,395
Operating expenses .....	<u>3,013,176</u>	<u>2,746,708</u>
Operating Loss.....	(88,924)	(232,313)
Net nonoperating revenue.....	214,642	59,711
Capital grant.....	<u>23,853</u>	<u>—</u>
Change in Net Assets .....	149,571	(172,602)
Net Assets - Beginning of Year .....	<u>7,522,066</u>	<u>7,694,668</u>
<b>Net Assets - End of Year.....</b>	<b><u>\$ 7,671,637</u></b>	<b><u>\$ 7,522,066</u></b>

**Operating revenue** is the Utility's primary source of revenue and is generated from electricity sales and other services to customers. For 2006, operating revenue increased \$409,857 from 2005 due primarily to the fuel cost adjustment.

**Operating expenses** totaled \$3,013,176 for 2006, a \$266,468 increase from 2005. These expenses represent the Utility's costs to provide electricity and services to customers. Operating expenses included depreciation expense of \$221,541 and \$216,676 for the years ended June 30, 2006 and 2005, respectively.

**Net nonoperating revenue** includes interest income, rent from leasing space, miscellaneous nonoperating items and the change in the Utility's share of net assets of RPGI. Net nonoperating revenue increased by \$154,931 between 2006 and 2005.

### **Budgetary Highlights**

Each year, the Board of Trustees adopts a budget using the modified cash basis of accounting which differs from the accrual basis of accounting used for the accompanying financial statements. The budget information is provided to the City of Vinton and is included in the City's total budget. The Utility's original budget was not amended during either of the years ended June 30, 2006 or 2005.

Actual cash receipts were approximately \$134,000 greater than budgeted. The majority of this variance was due to receipts over budget for electric sales from the fuel cost adjustment and interest received from increased rates on savings accounts and certificates of deposit.

Actual cash disbursements were approximately \$333,000 less than budgeted as \$500,000 was budgeted for contingencies which was more than enough to cover unexpected energy and repair/replacement costs.

## **Capital Assets and Long-Term Debt**

The Utility's investment in capital assets amounted to approximately \$3.5 million and \$3.6 million at June 30, 2006 and 2005, respectively, (net of accumulated depreciation of approximately \$6.56 million and \$6.33 million at June 30, 2006 and 2005, respectively). This investment in capital assets includes land; structures and improvements; replacement materials; electric generation, supply and distribution systems; meters; machinery; and equipment.

Major capital asset construction and acquisition during 2006 included the following:

- Purchased materials and began construction of distribution system to the new high school.
- Substation spill prevention and load tap changer.

Additional information about the Utility's capital assets can be found in Note 5 to the financial statements.

The Utility has no long-term debt.

## **Economic Factors and Next Year's Budget and Rates**

The Utility's primary source of revenue is electricity sales. Due to increasing costs of purchasing electricity and fuels to produce electricity, fuel cost adjustments are added to billing rates. Budgeted revenue has been adjusted to reflect the increase in rates.

Operating expenses for 2007 are expected to increase modestly over the same expenditures in 2006 due to increases in pay rates, increases in health insurance and energy purchases.

## **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 Utility's finances and to show the 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, P.O. Box 529, Vinton, IA 52349.

# Balance Sheet

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At June 30, 2006

## Assets

### Current Assets

Cash .....	\$ 1,271,284
Certificates of deposit .....	2,475,000
Receivables	
Trade accounts (net of allowance for doubtful accounts) .....	170,338
City of Vinton .....	9,824
Unbilled revenue .....	128,263
Interest .....	47,987
Current portion of note - City of Vinton .....	50,600
Inventories .....	35,534
Prepaid expenses .....	56,155
<b>Total Current Assets</b> .....	<b><u>4,244,985</u></b>

### Noncurrent Assets

Capital Assets	
Not subject to depreciation .....	303,900
Depreciable (net of accumulated depreciation) .....	3,209,497
Note receivable, City of Vinton .....	63,250
Investment in RPGL joint venture .....	106,914
<b>Total Noncurrent Assets</b> .....	<b><u>3,683,561</u></b>

**Total Assets** ..... **\$ 7,928,546**

## Liabilities

### Current Liabilities

Accounts payable .....	\$ 167,971
Accrued payroll .....	22,253
Accrued compensated absences .....	62,773
Sales and use tax .....	3,912
<b>Total Current Liabilities</b> .....	<b><u>256,909</u></b>

### Net Assets

Invested in capital assets .....	3,513,397
Unrestricted .....	4,158,240
<b>Total Net Assets</b> .....	<b><u>7,671,637</u></b>

**Total Liabilities and Net Assets** ..... **\$ 7,928,546**

## Statement of Revenue, Expenses and Changes in Net Assets

Year Ended June 30, 2006

### Operating Revenue

Electricity sales.....	\$ 2,750,787
Sales and services to City of Vinton.....	100,983
Other charges and miscellaneous.....	<u>72,482</u>
<b>Total Operating Revenue.....</b>	<b><u>2,924,252</u></b>

### Operating Expenses

Generation and purchased power.....	1,904,660
Distribution.....	274,145
Customer accounts.....	17,953
Administration and general.....	381,096
Administration by City of Vinton.....	213,781
Depreciation.....	<u>221,541</u>
<b>Total Operating Expenses.....</b>	<b><u>3,013,176</u></b>

**Operating Loss.....** **(88,924)**

### Nonoperating Revenue

Interest income.....	141,640
Equity in net income of RPGI joint venture.....	63,210
Miscellaneous.....	<u>9,792</u>
<b>Total Nonoperating Revenue.....</b>	<b><u>214,642</u></b>

**Change in Net Assets Before Capital Grants.....** **125,718**  
Capital grant..... 23,853

**Change in Net Assets.....** **149,571**

Net Assets - Beginning of Year..... 7,522,066

**Net Assets - End of Year.....** **\$ 7,671,637**

## Statement of Cash Flows

Year Ended June 30, 2006

### Cash Flows From Operating Activities

Cash received from customers.....	\$ 2,944,730
Cash received from primary government .....	100,122
Cash paid to or on behalf of employees .....	(413,498)
Cash paid to suppliers .....	(2,342,888)
Cash paid to primary government .....	(213,781)
<b>Net Cash Provided by Operating Activities .....</b>	<b><u>74,685</u></b>

### Cash Flows From Noncapital Financing Activities

Miscellaneous nonoperating revenue.....	<u>11,965</u>
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### Cash Flows From Capital and Related Financing Activities

Capital grant .....	23,853
Acquisition of capital assets .....	(139,831)
<b>Net Cash Used in Capital and Related Financing Activities.....</b>	<b><u>(115,978)</u></b>

### Cash Flows From Investing Activities

Proceeds from the sales and maturities of certificates of deposit .....	2,425,000
Purchase of certificates of deposit.....	(2,475,000)
Interest received on savings and certificates of deposits .....	121,493
Collections on notes from City of Vinton.....	55,622
<b>Net Cash Provided by Investing Activities.....</b>	<b><u>127,115</u></b>

**Net Increase in Cash .....** **97,787**

Cash - Beginning of Year .....

	<u>1,173,497</u>
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**Cash - End of Year.....** **\$ 1,271,284**

### Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating loss .....	\$ (88,924)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation .....	221,541
Capital assets not subject to depreciation used for maintenance .....	200
Change in Assets and Liabilities	
Decrease in operating receivables.....	21,963
Increase in inventories .....	(3,872)
Increase in prepaid expenses.....	(2,747)
Decrease in accounts payable.....	(61,817)
Decrease in accrued payroll and compensated absences .....	(3,816)
Decrease in sales and use tax payable .....	(7,843)

**Net Cash Provided by Operating Activities .....** **\$ 74,685**

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies and Other Matters

### Reporting Entity

The Vinton Municipal Electric Utility (Utility) is a municipal utility that is a political subdivision and component unit of the City of Vinton, Iowa. The Utility provides electricity to customers in the City of Vinton, Iowa. The Utility's rates are set by its governing board. The Vinton Municipal Electric Utility Board of Trustees has oversight responsibility for most electricity acquisition and generation and distribution within the City of Vinton. All activities with which the Board has oversight responsibility are included in the financial statements.

### Measurement Focus and Basis of Accounting

The Utility is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when incurred.

The Utility applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as the following pronouncements, 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 revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses.

### Concentrations

The Utility either generates its own electricity or purchases electricity for resale to its customers. Most electricity is purchased. Virtually all purchased electricity is from Resale Power Group of Iowa (RPGI). Although there are a limited number of suppliers, the Utility believes that other suppliers could provide comparable power.

### Budgeting

The Utility is required to prepare a budget each year and submit it to the City of Vinton. The City combines the Utility's budget with other proprietary activities in the total City budget which is submitted to the State of Iowa. The Utility prepares its budget using the cash basis of accounting. The Utility's 2006 budget and comparison to cash basis activity is as follows:

Actual disbursements .....	\$ 3,102,417
Budgeted disbursements.....	<u>3,443,278</u>
<b>Actual Disbursements Under Budget.....</b>	<b><u>\$ (340,861)</u></b>

### Cash and Certificates of Deposit

The Utility's deposits at year end were entirely covered by federal depository insurance or by the State Sinking Fund.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies and Other Matters

### Trade Accounts Receivable

Electric sales are billed monthly in conjunction with other City-provided utilities. Payment is due within 20 days of billing. After proper notice, unless other arrangements are made, electric power is turned off on customers 30 days past due. Uncollected accounts are typically written off after 90 days.

### Unbilled Revenue Receivable

Sales of electricity used from the time of the last meter reading in June through June 30 has not been billed and the resulting receivable is not included in trade receivables. The Utility estimates unbilled revenue based on the proportion of unbilled days in June to the number of days in the billing period times the amount billed in July. The result is reported as unbilled revenue receivable.

### Inventories

Inventories, consisting of fuel and lubricants, are stated at the lower of first-in; first-out (FIFO) cost or market.

### Capital Assets

The capital assets consist of assets in service and assets not in service consisting of construction in progress and distribution system and electric plant materials inventories which will generally be converted to other capital assets. Capital assets are recorded at cost with depreciation computed on assets in service except for land under the straight-line method over useful lives as follows:

Type	Estimated Useful Lives
Buildings and improvements .....	5 - 50 Years
Generation equipment .....	10 - 50 Years
Distribution system .....	5 - 40 Years
Plant tools and equipment .....	10 -25 Years
Office equipment .....	5 - 10 Years
Jacket radiator equipment .....	10 - 25 Years
Transportation equipment.....	5 - 15 Years

Depreciation expense for the year ended June 30, 2006 was \$221,541.

Major outlays for capital assets and improvements are capitalized as "in process" while projects are constructed and transferred to capital assets in service upon completion.

### Operating Revenue

The Utility defines operating revenue as revenue derived from sales and services related to the delivery of electricity to customers. Nonoperating revenue is defined as any other revenue.

## (2) Cash Flow Statement Supplementary Information

### Schedule of Noncash Investing and Financing Activities

Equity in Net Income of RPI Joint Venture..... \$ 63,210

## Notes to the Financial Statements

### (3) Deposits and Investments

The Utility's deposits in banks are 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility's certificates of deposit are stated at cost which approximates fair value. Certificates of deposit have maturities of 12 months and yields of 4.11% to 5.43%.

### (4) Notes Receivable

On April 1, 2003, the Utility advanced \$253,000 to the City. The noninterest bearing note is unsecured and payable in quarterly payments of \$12,650. Final payment is due July 1, 2008. The balance outstanding on the note at June 30, 2006 was \$113,850.

On February 28, 2004, the Utility advanced \$38,600 to the City Park and Recreation Department to assist in completing the waterslide. The final payment of \$5,022 was received in July, 2005.

### (5) Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
<b>Capital Assets Not Being Depreciated</b>				
Land .....	\$ 72,815	\$ —	\$ —	\$ 72,815
Materials.....	157,468	37,838	200	195,106
Construction in progress .....	<u>—</u>	<u>35,979</u>	<u>—</u>	<u>35,979</u>
Total Capital Assets Not Being Depreciated.....	<u>230,283</u>	<u>73,817</u>	<u>200</u>	<u>303,900</u>
<b>Capital Assets Being Depreciated</b>				
Buildings and improvements.....	631,903	17,108	—	649,011
Generation equipment.....	4,949,431	7,072	—	4,956,503
Distribution system.....	3,134,110	26,268	—	3,160,378
Plant tools and equipment.....	489,450	5,116	—	494,566
Office equipment.....	20,224	1,200	—	21,424
Jacket radiator equipment.....	114,284	—	—	114,284
Transportation equipment.....	<u>360,415</u>	<u>9,250</u>	<u>—</u>	<u>369,665</u>
Total Capital Assets Being Depreciated	<u>9,699,817</u>	<u>66,014</u>	<u>—</u>	<u>9,765,831</u>

## Notes to the Financial Statements

### (5) Capital Assets

	Beginning Balance	Increase	Decrease	Ending Balance
Less Accumulated Depreciation for				
Buildings and improvements.....	\$ 388,106	\$ 17,331	\$ —	\$ 405,437
Generation equipment.....	3,149,320	69,688	—	3,219,008
Distribution system.....	2,378,746	68,442	—	2,447,188
Plant tools and equipment.....	55,492	20,619	—	76,111
Office equipment.....	19,444	544	—	19,988
Jacket radiator equipment.....	76,657	4,635	—	81,292
Transportation equipment.....	<u>267,028</u>	<u>40,282</u>	<u>—</u>	<u>307,310</u>
Total Accumulated Depreciation .....	<u>6,334,793</u>	<u>221,541</u>	<u>—</u>	<u>6,556,334</u>
Net Capital Assets Being Depreciated	<u>3,365,024</u>	<u>(155,527)</u>	<u>—</u>	<u>3,209,497</u>
<b>Net Capital Assets .....</b>	<b><u>\$ 3,595,307</u></b>	<b><u>\$ (81,710)</u></b>	<b><u>\$ 200</u></b>	<b><u>\$ 3,513,397</u></b>

### (6) Joint Venture

The Utility is a member of Resale Power Group of Iowa (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. This joint venture is accounted for under the equity method. The Utility's approximate pro rata interest in RPGI was 6.56% at June 30, 2006. This was 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.

### (7) Compensated Absences

The Utility's employees accumulate vacation days during the year based on the anniversary date of their employment. As of June 30, 2006, \$23,255 was accrued for unused vacation days.

The Utility has a sick time policy for all hourly employees. Under this plan, employees earn eight sick time hours per month. At retirement, death or permanent disability, one-half of the unused hours, with a maximum of 480 hours, is paid to the employee. At June 30, 2006, \$39,518 was accrued for unused sick pay.

## Notes to the Financial Statements

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### (8) Related Party Transactions

The Utility provides electricity to other City departments and bills the City for the usage. The City provides meter reading, certain administration and accounting services to the Utility. The Utility pays one-half the salary of the Meter Reader and the City Clerk. The Utility makes various payments to the City for services received. As mentioned in Note 4, the Utility loans money to the City from time to time.

Transactions with the City for the year and balances at year end are noted below.

Amounts billed to the City for electric services .....	\$ 100,983
Amounts received from the City for services .....	100,122
Receivable from the City at year end for electric services.....	9,824
Amounts received from the City for loan repayments.....	55,622
Note balance at year end .....	113,850
Payments made to the City for services received .....	213,781

For payroll reporting purposes, Utility employees are classified as City employees. Payroll costs are transferred by the Utility to the City's bank accounts for payment to or on behalf of employees.

The Utility shares equipment with the City. During the year ended June 30, 2006, the Utility paid \$1,200 for its share of the cost (approximately one-third) of a sorter/insertor and \$9,250 (one-half the total) for a chipper which are shared with the City.

Certain commercial insurance coverage is combined between the Utility and the City. The Utility pays its share of the premium to the insurer.

The Utility purchases electricity for resale from RPGI. Transactions with RPGI for the year are as follows:

Electricity purchased .....	\$ 1,608,165
Cash payments to RPGI.....	1,650,250
Payable to RPGI at June 30, 2006.....	151,393

### (9) Retirement Plan

#### Plan Description

The Utility contributes, through the City, 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 3.7% of their annual salary and the Utility 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, 2006, 2005 and 2004 were \$23,515, \$21,273 and \$19,645, respectively, equal to the required contributions for each year.

## Notes to the Financial Statements

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### **(10) 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 fiscal year.

### **(11) Commitment**

Under wholesale power agreements, the Utility has contracted to purchase its electric power and energy requirements from RPGI (supplied by AmerenEnergy Marketing) through December 31, 2008.

The Utility has agreed to purchase a bucket truck at a cost of approximately \$124,000. The City is responsible for one-half of the cost. The Utility has agreed to allow the City to reimburse the Utility over a ten-year period at cost plus 4% interest.

**Supplemental Data**

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## Schedules of Operating Expenses

Year Ended June 30, 2006

### Generation and Purchased Power

Purchased power.....	\$ 1,599,159
Natural gas .....	98,346
Fuel oil .....	12,877
Production labor .....	157,916
Lubricants and chemicals .....	702
Maintenance .....	22,218
Other.....	<u>13,442</u>

**Total Generation and Purchased Power .....** **\$ 1,904,660**

### Distribution

Salaries.....	\$ 162,839
Line and station supplies and expense .....	4,521
Maintenance	
Structure and equipment.....	35,855
Overhead lines.....	29,976
Line transformers .....	12,812
Street lighting .....	2,976
Meters .....	12,161
Other .....	<u>13,005</u>

**Total Distribution.....** **\$ 274,145**

### Customer Accounts

**Salaries and Outside Services .....** **\$ 17,953**

### Administration and General

Salaries.....	\$ 70,974
Payroll taxes and employee benefits.....	142,809
Outside services .....	10,582
Office supplies .....	23,326
Insurance.....	63,721
Transportation .....	18,082
Regulatory assessment.....	3,633
Membership dues and subscriptions .....	6,703
Promotion and economic development .....	12,690
Energy efficiency .....	8,430
Other.....	<u>20,146</u>

**Total Administration and General.....** **\$ 381,096**

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

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Board of Trustees  
Vinton Municipal Electric Utility  
Vinton, Iowa

We have audited the financial statements of the Vinton Municipal Electric Utility as of and for the year ended June 30, 2006, and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered 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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of 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 Part I of 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 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 consideration of internal control over financial reporting would not necessarily disclose all matters in 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, we believe that reportable condition 06-IC-1 is a material weakness.

**Compliance and Other Matters**

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, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the 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.

This report, a public record by law, is intended solely for the information and the use of the officials and customers 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.

*HOGAN - HANSEN*

HOGAN - HANSEN

Waterloo, Iowa  
August 11, 2006

# Schedule of Findings

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## Part I: Findings Related to the Financial Statements

### **06-IC-1 Segregation of Duties**

**Finding** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

**Auditor's Recommendation** - With a limited number of office employees, segregation of duties is difficult. However, the Utility management should review its control procedures to obtain the maximum internal control possible under the circumstances, segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

**Utility's and City's Response** - The Board and City Council is aware of the condition. We will review procedures and make changes when appropriate.

**Auditor's Conclusion** - Response accepted.

## Part II: Compliance and Other Matters

- 06-C-1 Budget** - Operating cash disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- 06-C-2 Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 06-C-3 Travel Expense** - No disbursements of the Utility's money for travel expenses of spouses of the Utility officials or employees were noted.
- 06-C-4 Business Transactions** - No business transactions between the Utility's officials or employees and the Utility were noted.
- 06-C-5 Bond Coverage** - Surety bond coverage of Utility and City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 06-C-6 Board of Trustee Minutes** - No transactions were found that we believe should have been approved in the Board of Trustees minutes that were not.
- 06-C-7 Deposits and Investments** - We noted no instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's or City's investment policy.