

**VINTON MUNICIPAL ELECTRIC UTILITY**

**VINTON, IOWA**

**JUNE 30, 2007**

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## 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>		
<b>Before January, 2007</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
<b>Beginning January 1, 2007</b>		
Michael Elwick	Chairman	December, 2007
Jon Kremer	Trustee	December, 2011
John A. Anderson	Trustee	December, 2008
Dr. Alan Woodhouse	Trustee	December, 2009
Michael Barron	Trustee	December, 2010
<b>Nonvoting - Appointed by the Board of Trustees</b>		
Rick Ohrt	General Manager	Indefinite
<b>Nonvoting - City Clerk, City of Vinton</b>		
Cindy Michael	Secretary	Indefinite

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# HOGAN • HANSEN

*A Professional Corporation*

Certified Public Accountants and Consultants

## Independent Auditor's Report

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Board of Trustees  
Vinton Municipal Electric Utility  
Vinton, Iowa

We have audited the accompanying balance sheets of the Vinton Municipal Electric Utility, a component unit of the City of Vinton, Iowa, at June 30, 2007 and 2006, and the related statements of revenue, expenses and changes in net assets and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 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 the Vinton Municipal Electric Utility at June 30, 2007 and 2006, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2008 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 audits were 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  
January 7, 2008

## **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, 2007. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### **2007 Financial Highlights**

The Utility's operating revenue increased 1.2%, or \$34,042, from fiscal 2006 to fiscal 2007.

The Utility's operating expenses were 2.8%, or \$83,734, more in fiscal 2007 than in fiscal 2006.

The Utility's net assets increased 1.5%, or \$109,217, from June 30, 2006 to June 30, 2007.

In July of 2006, the Utility made the final payment for tuck pointing of the electrical distribution building. Schoonover Tuck Pointing completed the work and had agreed to submit a split bill. So in June of 2006 we paid for part of the job under the 2005-2006 FY and the balance was for the amount of \$8,850 made in July of 2006.

Requirements set forth in our contract with the RPI required the Utility to install new metering for generation at our plant. The metering we had was fine for normal use but since we now sell power on the open market, the metering is required to be much more accurate so after taking bids, Energy Control Systems was awarded the job to install new meters for generation at the plant. The cost of the project was \$9,581.

In October of 2006, the Utility paid Vinton Unlimited (VU) the pledged amount of \$6,500 for the Board's continued support for VU projects.

The Utility once again contracted the services of Chapman Metering to come and test about 10% of the Utility's electric meters which is an Iowa Utility Board requirement. Chapman Metering was here about three weeks and the cost to the Utility was \$5,335.78.

The silencer (muffler) for our number 7 generator rusted out and had to be replaced. Bids were taken and the replacement contract was awarded to Farabee Mechanical. The cost to the Utility was \$65,137. The replacement of the silencer was not a budgeted expense for FY 2006-2007. Replacement was scheduled for early December 2006 but an error on the ordering of the stack delayed installation until late February of 2007.

An arc-fault protective relay panel failed in the main 34,500-volt substation transformer and a replacement was ordered from General Electric in early December of 2006. Delivery time was six to eight weeks. After several postponements of delivery, the panel finally arrived and was installed by the Utility personnel on April 9, 2007. The total cost of the unit was \$2,603.01.

Over the Winter of 2006 and the Spring of 2007, Alliant Energy raised the pressure levels on their gas system in Vinton. This has allowed the Utility to generate almost total system generation capacity on natural gas. One thing to note, however, that even when generating electricity using natural gas, the dual fuel generators still require a 10% to 15% use of fuel oil to generate.

A new auto voltage regulator was installed on unit 6 by H. K. Scholtz Company in late Spring of 2007. This follows the installation of one on unit 7 the year before. The cost of the regulator installation was \$12,878.25.

In June of 2006, the Utility placed an order for a new 65-foot double bucket truck with scheduled delivery to occur in late February of 2007. After a couple of delays, the truck arrived and was placed in service on June 18. The Utility paid for the truck, which cost \$124,196. The City is going to reimburse the Utility for half of the cost of the truck. Payments of \$3,798 will be made semi-annually beginning on December 1, 2007 and will include 4% interest. The last payment is scheduled for June 1, 2017.

Generation fuel oil expenses were up this year as expected. The Utility purchased seven tankers of fuel oil in FY 2006-2007. The total cost of the tankers was \$112,040.09. The Utility purchased approximately 52,500 gallons of fuel oil for an average cost of \$2.134 in FY 2006-2007.

The Energy Adjustment Factor (EAF) was used again in FY 2006-2007. The average EAF for the fiscal year was \$0.0127. The maximum EAF was \$0.0395 which occurred in July of 2006. Due to the ice storm, we had an unusual spike of \$0.0359 in the EAF in February 2007 because of forced generation when Vinton was left without incoming Alliant transmission.

## **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 statements 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 statements 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 statements 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 \$7.78 million and \$7.67 million on June 30, 2007 and 2006, respectively.

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

	<b>2007</b>	<b>2006</b>
Current assets.....	\$ 4,450,630	\$ 4,244,985
Noncurrent, noncapital assets.....	245,568	170,164
Capital assets, net of accumulated depreciation .....	<u>3,382,772</u>	<u>3,513,397</u>
<b>Total Assets</b> .....	<b><u>8,078,970</u></b>	<b><u>7,928,546</u></b>
<b>Current Liabilities</b> .....	<b><u>298,116</u></b>	<b><u>256,909</u></b>
<b>Net Assets</b>		
Invested in capital assets .....	3,382,772	3,513,397
Unrestricted.....	<u>4,398,082</u>	<u>4,158,240</u>
<b>Total Net Assets</b> .....	<b><u>\$ 7,780,854</u></b>	<b><u>\$ 7,671,637</u></b>

**Net assets invested in capital assets** are a large portion of the Utility's net assets, 43% at June 30, 2007, 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 \$1,163,746 for a capital improvements reserve.

At both June 30, 2007 and 2006, 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>2007</b>	<b>2006</b>
Operating revenue.....	\$ 2,958,294	\$ 2,924,252
Operating expenses .....	<u>3,096,910</u>	<u>3,013,176</u>
Operating Loss.....	(138,616)	(88,924)
Net nonoperating revenue.....	247,833	214,642
Capital grant.....	<u>—</u>	<u>23,853</u>
Change in Net Assets .....	109,217	149,571
Net Assets - Beginning of Year .....	<u>7,671,637</u>	<u>7,522,066</u>
<b>Net Assets - End of Year.....</b>	<b><u>\$ 7,780,854</u></b>	<b><u>\$ 7,671,637</u></b>

**Operating revenue** is the Utility's primary source of revenue and is generated from electricity sales and other services to customers. For 2007, operating revenue increased \$34,042 from 2006 due primarily to the fuel cost adjustment.

**Operating expenses** totaled \$3,096,910 for 2007, an \$83,734 increase from 2006. These expenses represent the Utility's costs to provide electricity and services to customers. Operating expenses included depreciation expense of \$214,438 and \$221,541 for the years ended June 30, 2007 and 2006, 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 \$33,191 between 2007 and 2006.

### **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, 2007 or 2006.

Actual cash receipts were approximately \$207,000 less than budgeted. The majority of this variance was due to the summer and winter being milder than normal and more customers using energy-efficient heating and cooling equipment.

Actual cash disbursements were approximately \$1,057,000 less than budgeted as \$1,900,000 was budgeted for purchased power which was more than enough to cover the actual costs for the year.

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

The Utility's investment in capital assets amounted to approximately \$3.4 million and \$3.5 million at June 30, 2007 and 2006, respectively, (net of accumulated depreciation of approximately \$6.77 million and \$6.56 million at June 30, 2007 and 2006, 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 acquisition during 2007 included the following:

- One-half interest in a 65-foot double bucket truck.
- New auto voltage regulator.

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 2008 are expected to increase modestly over the same expenditures in 2007 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 Sheets

At June 30, 2007 and 2006

	2007	2006
<b>Assets</b>		
<b>Current Assets</b>		
Cash .....	\$ 1,444,222	\$ 1,271,284
Certificates of deposit .....	2,500,000	2,475,000
Receivables		
Trade accounts (net of allowance for doubtful accounts) .....	144,997	170,338
City of Vinton .....	9,028	9,824
Unbilled revenue .....	153,542	128,263
Interest .....	55,324	47,987
Current portion of notes - City of Vinton .....	55,763	50,600
Inventories .....	30,148	35,534
Prepaid expenses .....	57,606	56,155
<b>Total Current Assets</b> .....	<b><u>4,450,630</u></b>	<b><u>4,244,985</u></b>
<b>Noncurrent Assets</b>		
Capital Assets		
Not subject to depreciation .....	254,827	303,900
Depreciable (net of accumulated depreciation) .....	3,127,945	3,209,497
Notes receivable, City of Vinton .....	69,585	63,250
Investment in RPGI joint venture .....	175,983	106,914
<b>Total Noncurrent Assets</b> .....	<b><u>3,628,340</u></b>	<b><u>3,683,561</u></b>
<b>Total Assets</b> .....	<b><u>\$ 8,078,970</u></b>	<b><u>\$ 7,928,546</u></b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable .....	\$ 208,562	\$ 167,971
Accrued payroll .....	19,789	22,253
Accrued compensated absences .....	66,180	62,773
Sales and use tax .....	3,585	3,912
<b>Total Current Liabilities</b> .....	<b><u>298,116</u></b>	<b><u>256,909</u></b>
<b>Net Assets</b>		
Invested in capital assets .....	3,382,772	3,513,397
Unrestricted .....	4,398,082	4,158,240
<b>Total Net Assets</b> .....	<b><u>7,780,854</u></b>	<b><u>7,671,637</u></b>
<b>Total Liabilities and Net Assets</b> .....	<b><u>\$ 8,078,970</u></b>	<b><u>\$ 7,928,546</u></b>

# Statements of Revenue, Expenses and Changes in Net Assets

Years Ended June 30, 2007 and 2006

	2007	2006
<b>Operating Revenue</b>		
Electricity sales.....	\$ 2,758,105	\$ 2,750,787
Sales and services to City of Vinton.....	100,256	100,983
Other charges and miscellaneous.....	<u>99,933</u>	<u>72,482</u>
<b>Total Operating Revenue</b> .....	<b><u>2,958,294</u></b>	<b><u>2,924,252</u></b>
<b>Operating Expenses</b>		
Generation and purchased power.....	1,969,656	1,904,660
Distribution.....	270,475	274,145
Customer accounts.....	17,994	17,953
Administration and general.....	406,891	381,096
Administration by City of Vinton.....	217,456	213,781
Depreciation.....	<u>214,438</u>	<u>221,541</u>
<b>Total Operating Expenses</b> .....	<b><u>3,096,910</u></b>	<b><u>3,013,176</u></b>
<b>Operating Loss</b> .....	<b><u>(138,616)</u></b>	<b><u>(88,924)</u></b>
<b>Nonoperating Revenue</b>		
Interest income.....	188,363	141,640
Equity in net income of RPGI joint venture.....	46,301	63,210
Miscellaneous.....	<u>13,169</u>	<u>9,792</u>
<b>Total Nonoperating Revenue</b> .....	<b><u>247,833</u></b>	<b><u>214,642</u></b>
<b>Change in Net Assets Before Capital Grants</b> .....	<b>109,217</b>	<b>125,718</b>
Capital grant.....	<u>—</u>	<u>23,853</u>
<b>Change in Net Assets</b> .....	<b>109,217</b>	<b>149,571</b>
Net Assets - Beginning of Year.....	<u>7,671,637</u>	<u>7,522,066</u>
<b>Net Assets - End of Year</b> .....	<b><u>\$ 7,780,854</u></b>	<b><u>\$ 7,671,637</u></b>

See accompanying notes to the financial statements.

## Statements of Cash Flows

Years Ended June 30, 2007 and 2006

	2007	2006
<b>Cash Flows From Operating Activities</b>		
Cash received from customers .....	\$ 2,945,491	\$ 2,944,730
Cash received from primary government .....	101,052	100,122
Cash paid to or on behalf of employees .....	(454,361)	(413,498)
Cash paid to suppliers .....	(2,260,391)	(2,342,888)
Cash paid to primary government .....	<u>(217,456)</u>	<u>(213,781)</u>
<b>Net Cash Provided by Operating Activities .....</b>	<b><u>114,335</u></b>	<b><u>74,685</u></b>
<b>Cash Flows From Noncapital Financing Activities</b>		
Miscellaneous nonoperating revenue .....	13,169	11,965
Loan to primary government .....	<u>(62,098)</u>	<u>—</u>
<b>Net Cash Provided by (Used in) Noncapital Financing Activities .....</b>	<b><u>(48,929)</u></b>	<b><u>11,965</u></b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Capital grant .....	—	23,853
Acquisition of capital assets .....	<u>(99,094)</u>	<u>(139,831)</u>
<b>Net Cash Used in Capital and Related Financing Activities .....</b>	<b><u>(99,094)</u></b>	<b><u>(115,978)</u></b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from the sales and maturities of certificates of deposit .....	2,475,000	2,425,000
Purchase of certificates of deposit .....	(2,500,000)	(2,475,000)
Interest received on savings and certificates of deposits .....	181,026	121,493
Collections on notes from City of Vinton .....	<u>50,600</u>	<u>55,622</u>
<b>Net Cash Provided by Investing Activities .....</b>	<b><u>206,626</u></b>	<b><u>127,115</u></b>
<b>Net Increase in Cash .....</b>	<b>172,938</b>	<b>97,787</b>
Cash - Beginning of Year .....	<u>1,271,284</u>	<u>1,173,497</u>
<b>Cash - End of Year .....</b>	<b><u>\$ 1,444,222</u></b>	<b><u>\$ 1,271,284</u></b>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>		
Operating loss .....	\$ (138,616)	\$ (88,924)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation .....	214,438	221,541
Capital assets not subject to depreciation used for maintenance .....	15,281	200
Change in Assets and Liabilities		
Decrease in operating receivables .....	858	21,963
(Increase) decrease in inventories .....	5,386	(3,872)
Increase in prepaid expenses .....	(1,451)	(2,747)
Increase (decrease) in accounts payable .....	17,823	(61,817)
Increase (decrease) in accrued payroll and compensated absences .....	943	(3,816)
Decrease in sales and use tax payable .....	<u>(327)</u>	<u>(7,843)</u>
<b>Net Cash Provided by Operating Activities .....</b>	<b><u>\$ 114,335</u></b>	<b><u>\$ 74,685</u></b>

See accompanying notes to the financial statements.

# 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 2007 budget and comparison to cash basis activity is as follows:

	2007	2006
Actual disbursements .....	\$ 3,024,310	\$ 3,102,417
Budgeted disbursements.....	<u>4,081,054</u>	<u>3,443,278</u>
<b>Actual Disbursements Under Budget.....</b>	<b><u>\$ (1,056,744)</u></b>	<b><u>\$ (340,861)</u></b>

# Notes to the Financial Statements

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

### 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.

### 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 .....	10 Years
Jacket radiator equipment .....	10 - 25 Years
Transportation equipment.....	5 - 15 Years

Depreciation expense for the years ended June 30, 2007 and 2006 was \$214,438 and \$221,541, respectively.

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.

## Notes to the Financial Statements

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### (2) Cash Flow Statement Supplementary Information

	2007	2006
<b>Schedule of Noncash Investing and Financing Activities</b>		
Equity in Net Income of RPGI Joint Venture .....	<u>\$ 46,301</u>	<u>\$ 63,210</u>
Investment in RPGI Joint Venture		
Amount Payable - Current Year .....	<u>\$ 22,768</u>	<u>\$ —</u>

### (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 5.5%.

### (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, 2007 was \$63,250.

On June 1, 2007, the Utility advanced \$62,098 to the City. The note bears interest of 4%, is unsecured and is payable in semi-annual payments of \$3,798. Final payment is due June 1, 2017. The balance outstanding on the note at June 30, 2007 was \$62,098.

## Notes to the Financial Statements

### (5) Capital Assets

Capital asset activity for the years ended June 30, 2007 and 2006 was as follows:

	Balance 7-1-05	Increase	Decrease	Balance 6-30-06	Increase	Decrease	Balance 6-30-07
<b>Capital Assets Not Being Depreciated</b>							
Land.....	\$ 72,815	\$ —	\$ —	\$ 72,815	\$ —	\$ —	\$ 72,815
Materials .....	157,468	37,838	200	195,106	2,187	15,281	182,012
Construction in progress .....	—	35,979	—	35,979	—	35,979	—
Total Capital Assets Not Being Depreciated.....	<u>230,283</u>	<u>73,817</u>	<u>200</u>	<u>303,900</u>	<u>2,187</u>	<u>51,260</u>	<u>254,827</u>
<b>Capital Assets Being Depreciated</b>							
Buildings and improvements .....	631,903	17,108	—	649,011	—	—	649,011
Generation equipment .....	4,949,431	7,072	—	4,956,503	30,136	—	4,986,639
Distribution system .....	3,134,110	26,268	—	3,160,378	40,652	—	3,201,030
Plant tools and equipment ....	489,450	5,116	—	494,566	—	—	494,566
Office equipment.....	20,224	1,200	—	21,424	—	—	21,424
Jacket radiator equipment.....	114,284	—	—	114,284	—	—	114,284
Transportation equipment.....	360,415	9,250	—	369,665	62,098	—	431,763
Total Capital Assets Being Depreciated.....	<u>9,699,817</u>	<u>66,014</u>	<u>—</u>	<u>9,765,831</u>	<u>132,886</u>	<u>—</u>	<u>9,898,717</u>
<b>Less Accumulated Depreciation for</b>							
Buildings and improvements .....	388,106	17,331	—	405,437	17,686	—	423,123
Generation equipment .....	3,149,320	69,688	—	3,219,008	71,236	—	3,290,244
Distribution system .....	2,378,746	68,442	—	2,447,188	68,977	—	2,516,165
Plant tools and equipment ....	55,492	20,619	—	76,111	20,832	—	96,943
Office equipment.....	19,444	544	—	19,988	376	—	20,364
Jacket radiator equipment.....	76,657	4,635	—	81,292	4,380	—	85,672
Transportation equipment.....	267,028	40,282	—	307,310	30,951	—	338,261
Total Accumulated Depreciation.....	<u>6,334,793</u>	<u>221,541</u>	<u>—</u>	<u>6,556,334</u>	<u>214,438</u>	<u>—</u>	<u>6,770,772</u>
Net Capital Assets Being Depreciated.....	<u>3,365,024</u>	<u>(155,527)</u>	<u>—</u>	<u>3,209,497</u>	<u>(81,552)</u>	<u>—</u>	<u>3,127,945</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>	<b><u>\$ (79,365)</u></b>	<b><u>\$ 51,260</u></b>	<b><u>\$ 3,382,772</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 6.44% and 6.56% at June 30, 2007 and 2006, respectively. 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.

## Notes to the Financial Statements

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### (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, 2007 and 2006, \$24,316 and \$23,255, respectively, 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, 2007 and 2006, \$41,864 and \$39,518, respectively, was accrued for unused sick pay.

### (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 years and balances at year ends are noted below.

	<b>2007</b>	<b>2006</b>
Amounts billed to the City for electric services .....	\$ 100,256	\$ 100,983
Amounts received from the City for services .....	101,052	100,122
Receivable from the City at year end for electric services.....	9,028	9,824
Amounts received from the City for loan repayments.....	50,600	55,622
Note balance at year end .....	125,348	113,850
Payments made to the City for services received .....	217,456	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, 2007, the Utility paid \$62,098 for its share of the cost (one-half of the total) of a double bucket truck which is shared with the City. The Utility also paid for the City's share of the cost, which the City is going to repay to the Utility as mentioned in Note 4. 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.

## Notes to the Financial Statements

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### (8) Related Party Transactions

The Utility purchases electricity for resale from RPGI. Transactions with RPGI for the years ended June 30, 2007 and 2006 are as follows:

	2007	2006
Electricity purchased .....	\$ 1,485,408	\$ 1,608,165
Investment purchased .....	22,768	—
Cash payments to RPGI.....	1,462,169	1,650,250
Payable to RPGI at June 30, 2007 .....	197,400	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, 2007, 2006 and 2005 were \$25,897, \$23,515 and \$21,273, respectively, equal to the required contributions for each year.

### (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.

**Supplemental Data**

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## Schedules of Operating Expenses

Years Ended June 30, 2007 and 2006

	2007	2006
<b>Generation and Purchased Power</b>		
Purchased power.....	\$ 1,492,487	\$ 1,599,159
Natural gas .....	89,333	98,346
Fuel oil .....	116,949	12,877
Production labor .....	178,690	157,916
Lubricants and chemicals .....	4,180	702
Maintenance .....	81,150	22,218
Other.....	<u>6,867</u>	<u>13,442</u>
<b>Total Generation and Purchased Power .....</b>	<b><u>\$ 1,969,656</u></b>	<b><u>\$ 1,904,660</u></b>
<b>Distribution</b>		
Salaries.....	\$ 178,371	\$ 162,839
Line and station supplies and expense .....	3,899	4,521
Maintenance		
Structure and equipment.....	5,786	35,855
Overhead lines.....	46,552	29,976
Line transformers .....	14,451	12,812
Street lighting .....	12,392	2,976
Meters .....	8,367	12,161
Other .....	<u>657</u>	<u>13,005</u>
<b>Total Distribution .....</b>	<b><u>\$ 270,475</u></b>	<b><u>\$ 274,145</u></b>
<b>Customer Accounts</b>		
<b>Salaries and Outside Services .....</b>	<b><u>\$ 17,994</u></b>	<b><u>\$ 17,953</u></b>
<b>Administration and General</b>		
Salaries.....	\$ 80,249	\$ 70,974
Payroll taxes and employee benefits.....	156,280	142,809
Outside services .....	8,643	10,582
Office supplies .....	21,681	23,326
Insurance.....	69,592	63,721
Transportation .....	12,672	18,082
Regulatory assessment.....	6,479	3,633
Membership dues and subscriptions .....	8,644	6,703
Promotion and economic development .....	13,530	12,690
Energy efficiency .....	11,736	8,430
Other.....	<u>17,385</u>	<u>20,146</u>
<b>Total Administration and General .....</b>	<b><u>\$ 406,891</u></b>	<b><u>\$ 381,096</u></b>

## **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 accompanying financial statements of the Vinton Municipal Electric Utility as of and for the year ended June 30, 2007, and have issued our report thereon dated January 7, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item 07-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 or other matters 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, 2007 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.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the Utility's responses and, accordingly, we express no opinion on them.

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  
January 7, 2008

## Schedule of Findings

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### Part I: Findings Related to the Financial Statements

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

**Prior Year Finding and Auditor's Recommendation** - 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. 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.

#### **07-IC-2 Approval of Time Sheets**

**Finding** - Time sheets for Utility employees are normally approved by a supervisor. However, we noted one pay period where time sheets were not approved when the supervisor was gone.

**Auditor's Recommendation** - We recommend that another qualified employee of either the City or Utility be given the responsibility of approving time sheets when the supervisor is gone.

**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

**07-C-1 Budget** - Operating cash disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.

**07-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.

**07-C-3 Travel Expense** - No disbursements of the Utility's money for travel expenses of spouses of the Utility officials or employees were noted.

## Schedule of Findings

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**07-C-4 Business Transactions** - Business transactions between the Utility and its officials or employees are detailed as follows:

<b>Name, Title and Business Connection</b>	<b>Transaction Description</b>	<b>Amount</b>
Rick Ohrt, General Manager, owner of Ohrt Enterprises	Two copies Lotus SmartSuite	\$56

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

No transactions with Utility officials or employees in excess of \$1,500 were entered into in fiscal year 2007.

**07-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.

**07-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.

**07-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.