

VINTON MUNICIPAL WATER UTILITY

VINTON, IOWA

JUNE 30, 2007

Table of Contents ---

Officials	1
Independent Auditor’s Report	2
Management's Discussion and Analysis	3-6
Financial Statements	
Balance Sheets	7
Statements of Revenue, Expenses and Changes in Net Assets.....	8
Statements of Cash Flows	9
Notes to the Financial Statements.....	10-17
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	18-19
Schedule of Findings	20

Officials

Name	Title	Term Expires
Elected Officials		
John R. Watson	Mayor	January 1, 2008
Ron Hassenius	Council Member - 1st Ward	January 1, 2010
F. Ronald Elwick	Council Member - 2nd Ward	January 1, 2008
Bud Maynard	Council Member - 3rd Ward	January 1, 2010
Lisa Vermedahl	Council Member - 4th Ward	January 1, 2008
David Redlinger	Council Member at Large	January 1, 2010
Don Burkey	Council Member at Large	January 1, 2008
Appointed Officials		
Cindy Michael	Treasurer/City Clerk	Indefinite
Andrew J. Lent	City Coordinator	Indefinite
Fischer Law Firm	City Attorney	Indefinite

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A Professional Corporation

Certified Public Accountants and Consultants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Vinton Municipal Water Utility
Vinton, Iowa

We have audited the accompanying balance sheets of the Vinton Municipal Water Utility, an enterprise fund 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 City of Vinton'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 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 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 Water Utility, an enterprise fund of the City of Vinton, Iowa, 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 March 14, 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 6 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.

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Waterloo, Iowa
March 14, 2008

Vinton Municipal Water Utility Management's Discussion and Analysis

Management of the Vinton Municipal Water Utility (Utility) provides this Management's Discussion and Analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage our readers to consider this information in conjunction with the Utility's financial statements, which follow.

2007 Financial Highlights

- Operating revenue of the Utility decreased 2.3%, or approximately \$12,000, from 2006 to 2007.
- Operating expenses increased 14%, or approximately \$54,000, in fiscal 2007 from fiscal 2006.
- The Utility's net assets decreased 0.7%, or approximately \$11,000, from June 30, 2006 to June 30, 2007.
- The Utility has revenue bonds outstanding of \$1,081,000 at June 30, 2007 which are reported net of unamortized discounts and reacquisition costs of \$7,343.

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 enterprise fund of the City of Vinton, Iowa (City). The Utility provides water to its customers at rates designed to recover the cost of providing the water, including costs associated with installation and maintenance of water pumping, storage and transmission systems, and to provide for the retirement of debt when due. As a result, the Utility prepares financial statements 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 7 through 9 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 10 through 17 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. The Utility's assets exceeded its liabilities by \$1.66 million and \$1.67 million on June 30, 2007 and 2006, respectively.

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

	2007	2006
Current assets.....	\$ 220,666	\$ 180,280
Restricted assets	252,227	467,955
Capital assets, net of accumulated depreciation	2,278,073	2,369,887
Noncurrent, noncapital assets	<u>12,893</u>	<u>15,806</u>
Total Assets	<u>2,763,859</u>	<u>3,033,928</u>
Current liabilities	24,891	16,634
Liabilities payable from restricted assets	252,227	396,351
Other long-term liabilities (net).....	<u>825,038</u>	<u>948,054</u>
Total Liabilities	<u>1,102,156</u>	<u>1,361,039</u>
Net Assets		
Invested in capital assets (net of related debt)	1,204,416	1,196,500
Restricted	248,619	295,104
Unrestricted	<u>208,668</u>	<u>181,285</u>
Total Net Assets	<u>\$ 1,661,703</u>	<u>\$ 1,672,889</u>

Net assets invested in capital assets are by far the largest portion of the Utility's net assets, 72% at June 30, 2007, and reflect its net investment in capital assets (e.g., land, water plant distribution system and equipment). The Utility uses these capital assets to provide water and services to the citizens; consequently, these assets are not available for future spending.

Restricted net assets represent resources that are subject to external restrictions on how they may be used.

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.

At both June 30, 2007 and 2006, the Utility reported positive balances in all three 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:

	2007	2006
Operating revenue	\$ 486,814	\$ 498,347
Operating expenses.....	<u>444,331</u>	<u>389,834</u>
Operating Income.....	42,483	108,513
Net nonoperating expense.....	(25,174)	(4,072)
Net transfers to other funds	<u>(28,495)</u>	<u>(61,436)</u>
Change in Net Assets.....	(11,186)	43,005
Net Assets - Beginning of Year.....	<u>1,672,889</u>	<u>1,629,884</u>
 Net Assets - End of Year	 <u>\$ 1,661,703</u>	 <u>\$ 1,672,889</u>

Operating revenue is the Utility's primary source of revenue and is generated from water sales and other services to customers. For 2007, operating revenue decreased \$11,533 from 2006 due primarily to a slight decline in usage.

Operating expenses totaled \$444,331 for 2007, a \$54,497 increase from 2006. These expenses represent the Utility's costs to provide water and services to customers. Operating expenses included depreciation expense of \$108,088 and \$95,229 for the years ended June 30, 2007 and 2006, respectively.

Net nonoperating expense includes interest income and expense, amortization of bond issuance costs, gain on the sale of assets and rent from leasing space. Net nonoperating expense increased by \$21,102 between 2007 and 2006. The increase was due mainly to a decrease in the gain on the sale of assets.

Transfers to the City of Vinton's General Fund and from the City's Wastewater Treatment Fund of \$61,008 and \$32,513 are as directed by the City Council to transfer surplus net assets to the General Fund.

Budgetary Highlights

Each year, the City Council adopts a budget using the cash basis of accounting which differs from the accrual basis of accounting used for the accompanying financial statements. The Utility's budget is included in the total business-type activities budget of the City and its discrete component unit, the Vinton Municipal Electric Utility.

Capital Assets and Long-Term Debt

The Utility's investment in capital assets amounted to approximately \$2.3 million and \$2.4 million at June 30, 2007 and 2006, respectively, (net of accumulated depreciation of approximately \$1.4 million and \$1.3 million at June 30, 2007 and 2006, respectively). This investment in capital assets includes land, construction in progress, water plant, water distribution system, equipment and vehicles.

The 13th Street extension was the only major capital asset constructed or acquired during the year.

The following is a summary of the capital assets, at cost, at June 30:

	2007	2006
Land	\$ 70,051	\$ 70,051
Construction in progress	—	191,498
Water plant.....	2,228,217	2,025,204
Distribution system.....	989,607	989,607
Equipment and vehicles.....	365,001	360,242
Total	<u>\$ 3,652,876</u>	<u>\$ 3,636,602</u>

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

At June 30, 2006, total Utility long-term debt was \$1,183,000 less unamortized discounts and reacquisition costs of \$4,457 and \$5,156, respectively, for a net long-term debt of \$1,173,387. During 2007, the Utility repaid \$102,000 of principal and \$47,684 of interest on the debt. For the year, amortization of bond discounts and issue costs of \$848 and \$2,913, respectively, were charged to interest expense and amortization expense, respectively. At June 30, 2007, total Utility long-term debt was \$1,081,000 less unamortized discounts and reacquisition costs of \$3,609 and \$3,734, respectively, for a net long-term debt of \$1,073,657. Principal of \$117,000 and interest of \$43,298 will be due during the year ending June 30, 2008.

Debt indentures require adherence to certain covenants relating to the maintenance and efficiency of the operating system, the rate structure, restrictions on borrowings, leasing or disposition of assets, minimum insurance coverage, use of proceeds and sinking fund requirements. There were no violations noted in 2007.

Additional information about the Utility's long-term debt can be found in Note 6 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The Utility's primary source of revenue is water sales. Budgeted revenue reflects the rates in effect at June 30, 2007.

Operating expenses for 2008 are expected to increase modestly over the same expenses in 2007 due to increases in energy costs and other operating expense increases.

Contacting the 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
Assets		
Current Assets		
Cash	\$ 131,672	\$ 89,797
Receivables		
Trade accounts	43,892	46,483
Accrued interest	926	960
Unbilled revenue	27,691	26,493
Prepaid expenses	16,485	16,547
Total Current Assets	<u>220,666</u>	<u>180,280</u>
Restricted Assets		
Cash	37,227	252,955
Certificates of deposit	215,000	215,000
Total Restricted Assets	<u>252,227</u>	<u>467,955</u>
Noncurrent Assets		
Capital Assets		
Land	70,051	70,051
Construction in progress	—	191,498
Water plant	2,228,217	2,025,204
Distribution system	989,607	989,607
Equipment and vehicles	365,001	360,242
Total Capital Assets	3,652,876	3,636,602
Less accumulated depreciation	(1,374,803)	(1,266,715)
Net Capital Assets	2,278,073	2,369,887
Bond issue costs (net of accumulated amortization 2007 - \$7,744; 2006 - \$4,831)	12,893	15,806
Total Noncurrent Assets	<u>2,290,966</u>	<u>2,385,693</u>
Total Assets	<u>\$ 2,763,859</u>	<u>\$ 3,033,928</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 6,471	\$ 1,641
Current maturities of revenue bonds	—	1,833
Accrued payroll	6,049	4,857
Accrued compensated absences	12,371	8,303
Total Current Liabilities	<u>24,891</u>	<u>16,634</u>
Liabilities Payable From Restricted Assets		
Revenue bonds	117,000	102,000
Current maturities of long-term maturities	131,619	121,500
Accounts and retainages	—	165,074
Accrued interest	3,608	7,777
Total Liabilities Payable From Restricted Assets	<u>252,227</u>	<u>396,351</u>
Revenue Bonds (net of unamortized discount and reacquisition costs 2007 - \$7,343; 2006 - \$9,613)	<u>825,038</u>	<u>948,054</u>
Total Liabilities	<u>1,102,156</u>	<u>1,361,039</u>
Net Assets		
Invested in capital assets, net of related debt	1,204,416	1,196,500
Restricted by debt covenants	248,619	295,104
Unrestricted	208,668	181,285
Total Net Assets	<u>1,661,703</u>	<u>1,672,889</u>
Total Liabilities and Net Assets	<u>\$ 2,763,859</u>	<u>\$ 3,033,928</u>

See accompanying notes to the financial statements

Statements of Revenue, Expenses and Changes in Net Assets

Years Ended June 30, 2007 and 2006

	2007	2006
Operating Revenue		
Water sales.....	\$ 362,939	\$ 374,992
Water and service to other City departments and component unit	121,593	118,006
Miscellaneous sales and services	<u>2,282</u>	<u>5,349</u>
Total Operating Revenue	<u>486,814</u>	<u>498,347</u>
Operating Expenses		
Wages	109,543	86,165
Payroll taxes	7,590	7,307
Retirement plan	6,081	5,840
Employee benefits	41,413	40,447
Advertising and publications.....	—	997
Electric utility.....	19,783	17,962
Communications and other utilities.....	6,476	6,635
Office supplies and postage	6,857	5,422
Administrative services provided by the City of Vinton.....	37,181	34,864
Insurance.....	22,042	24,907
Professional fees	4,426	5,165
Permits and licenses	80	—
Dues, memberships and subscriptions.....	1,167	1,167
Laundry and sanitation	1,255	1,091
Chemicals.....	10,146	7,826
Water testing	1,704	1,373
Repairs, Maintenance and Operating Supplies		
Plant and distribution system	11,958	9,637
Vehicles	12,514	8,933
Other	32,174	24,586
Depreciation	108,088	95,229
Miscellaneous.....	<u>3,853</u>	<u>4,281</u>
Total Operating Expenses	<u>444,331</u>	<u>389,834</u>
Operating Income	<u>42,483</u>	<u>108,513</u>
Nonoperating Revenue (Expenses)		
Interest income	22,525	18,073
Rental income.....	4,320	4,320
Gain on disposition of fixed assets	—	25,000
Interest expense	(47,684)	(50,203)
Amortization of bond issue costs.....	<u>(4,335)</u>	<u>(1,262)</u>
Net Nonoperating Expenses	<u>(25,174)</u>	<u>(4,072)</u>
Change in Net Assets Before Transfers	17,309	104,441
Transfers in.....	32,513	31,566
Transfers out	<u>(61,008)</u>	<u>(93,002)</u>
Change in Net Assets	(11,186)	43,005
Net Assets - Beginning of Year	<u>1,672,889</u>	<u>1,629,884</u>
Net Assets - End of Year	<u>\$ 1,661,703</u>	<u>\$ 1,672,889</u>

See accompanying notes to the financial statements.

Statements of Cash Flows

Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows From Operating Activities		
Cash received from customers.....	\$ 366,614	\$ 382,076
Cash received from City of Vinton.....	121,593	118,006
Cash paid to City of Vinton for services.....	(37,181)	(34,864)
Cash paid to electric utility (less collection fee).....	(19,783)	(17,962)
Cash paid to or on behalf of employees.....	(159,367)	(97,295)
Cash paid to suppliers.....	<u>(109,760)</u>	<u>(158,078)</u>
Net Cash Provided by Operating Activities.....	<u>162,116</u>	<u>191,883</u>
Cash Flows From Noncapital Financing Activities		
Billboard and antenna rent.....	4,320	4,320
Net transfers.....	<u>(28,495)</u>	<u>(61,436)</u>
Net Cash Used in Noncapital Financing Activities.....	<u>(24,175)</u>	<u>(57,116)</u>
Cash Flows From Capital and Related Financing Activities		
Repayments of water revenue bonds.....	(102,000)	(902,000)
Interest paid on water revenue bonds.....	(51,005)	(48,252)
Proceeds from sale of water revenue bonds.....	—	1,148,478
Payments of bond issue costs.....	(6,898)	(8,064)
Acquisition of capital assets.....	<u>(174,450)</u>	<u>(157,696)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities.....	<u>(334,353)</u>	<u>32,466</u>
Cash Flows From Investing Activities		
Proceeds from the maturities of certificates of deposit.....	—	287,410
Purchase of certificates of deposit.....	—	(245,000)
Interest received on savings and certificates of deposits.....	<u>22,559</u>	<u>17,894</u>
Net Cash Provided by Investing Activities.....	<u>22,559</u>	<u>60,304</u>
Net Increase (Decrease) in Cash.....	(173,853)	227,537
Cash - Beginning of Year.....	<u>342,752</u>	<u>115,215</u>
Cash - End of Year.....	<u>\$ 168,899</u>	<u>\$ 342,752</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income.....	\$ 42,483	\$ 108,513
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation.....	108,088	95,229
Change in Assets and Liabilities		
Decrease in trade accounts and unbilled revenue receivable.....	1,393	1,735
Decrease in prepaid expenses.....	62	1,311
Increase (decrease) in accounts payable.....	4,830	(4,329)
Increase (decrease) in accrued employee compensation.....	<u>5,260</u>	<u>(10,576)</u>
Net Cash Provided by Operating Activities.....	<u>\$ 162,116</u>	<u>\$ 191,883</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Reporting Entity

The Vinton Municipal Water Utility (Utility) is a municipal utility that is an enterprise fund of the City of Vinton, Iowa (City). The Utility provides water to customers within the City. The Utility's rates are set by its governing board. The Mayor and City Council of the City serve as the governing board and have oversight responsibility for the Utility. These financial statements of the Utility are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB).

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 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.

Cash and Certificates of Deposit

The Utility's cash, including amounts restricted by bond covenants, is combined with cash held by other City funds and deposited into a single checking or single money market savings account. Interest earned on accounts is allocated by the City among the various funds. Certificates of deposit are not combined but are held for and identified by specific restricted purpose.

Trade Accounts Receivable

Water 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 by the customer, service may be discontinued to customers with unpaid bills 30 days or more past due. Uncollected accounts are normally written off against water sales after 90 days. Historically, account balances written off have not been material. Utility management believes that all trade accounts receivable as shown on the balance sheet to be collectible.

Unbilled Revenue Receivable

Sales of water used from the time of the last meter reading in June through June 30 have 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Restricted Resources

When an expense is incurred for which both restricted and unrestricted net assets are available, the Utility first uses the restricted resources. Unrestricted resources are used once the restricted resources have been depleted.

Capital Assets

Except for the cost of capital improvements derived from 1956 and 1967 water revenue bonds, the accompanying balance sheet does not include the cost nor the accumulated depreciation of capital improvements placed in service prior to January 1, 1971. Management believes that the net book value of such assets to be immaterial to total net assets of the Utility.

The capital assets consist of assets in service and assets not in service consisting of land and construction in progress. Capital assets are recorded at cost with depreciation computed under the straight-line method over useful lives as follows:

Type	Estimated Useful Lives
Water plant	5 - 50 Years
Distribution system	6 - 50 Years
Equipment and vehicles	5 - 25 Years

Depreciation expense for the years ended June 30, 2007 and 2006 was \$108,088 and \$95,229, respectively.

Major outlays for capital assets and improvements are capitalized as "in process" while projects are constructed and transferred to capital assets upon completion. Interest incurred on construction debt during the construction phase of capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Unamortized Water Revenue Bond Issuance Costs

Costs to issue the 2002 and 2006 water revenue bonds of \$5,675 and \$14,962, respectively, are amortized using the effective interest method over the life of the bonds, 20 and 9 years, respectively. Accumulated amortization was \$7,744 and \$4,831 at June 30, 2007 and 2006, respectively. Amortization of bond issue costs for the years ended June 30, 2007 and 2006 was \$4,335 and \$1,262, respectively.

Discount on Water Revenue Bonds

Original discount on the 2006 water revenue bonds of \$4,600 is amortized using the effective interest method over the life of the bonds, nine years. Accumulated amortization at June 30, 2007 and 2006 was \$991 and \$143, respectively. Discount amortization for the years ended June 30, 2007 and 2006, which was added to interest expense, was \$848 and \$1,128, respectively, which includes \$0 and \$985, respectively, for 1997 bond discounts.

Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation and sick hours for subsequent payment upon termination of employment. The Utility's liability for compensated absences is computed based on rates of pay in effect on June 30 of the year accrued.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Operating Revenue

The Utility defines operating revenue as revenue derived from the sale of water. Nonoperating revenue is defined as anything other than revenue from the sale of water.

Budgeting

The Utility's budget is included as part of the City's budget and is prepared on the cash basis of accounting. Disbursements are, for legal budget compliance, combined for all City proprietary activities. Budget amounts for capital outlay, debt service and transfers out are presented on a combined basis only.

(2) Cash Flow Statement Supplementary Information

	2007	2006
Schedule of Noncash Investing and Financing Activities		
Interest expense	\$ 47,684	\$ 50,203
Plus		
Accrued interest payable - beginning of year.....	7,777	3,876
Accrued interest received on bonds sold	—	3,078
Less accrued interest payable - end of year.....	(3,608)	(7,777)
Noncash amortization of water revenue bond discounts.....	(848)	(1,128)
Cash Paid for Interest	<u>\$ 51,005</u>	<u>\$ 48,252</u>
Face value of water revenue bonds sold.....	\$ —	\$ 1,150,000
Plus accrued interest received on bonds sold	—	3,078
Less discount on bonds sold	—	(4,600)
Proceeds From Sale of Water Revenue Bonds	<u>\$ —</u>	<u>\$ 1,148,478</u>
Cost of debt issuance	\$ —	\$ 14,962
Accounts Payable		
Current year	—	(6,898)
Prior year	6,898	—
Cash Paid for Debt Issue Costs	<u>\$ 6,898</u>	<u>\$ 8,064</u>
Cost of capital asset acquisitions	\$ 16,274	\$ 340,872
Trade-in value allowed on equipment.....	—	(25,000)
Amounts Payable		
Current year	—	(158,176)
Prior year	158,176	—
Cash Paid for Acquisition of Capital Assets.....	<u>\$ 174,450</u>	<u>\$ 157,696</u>
Interest income	\$ 22,525	\$ 18,073
Accrued Interest Receivable		
Beginning of year	960	781
End of year.....	(926)	(960)
Cash Received for Interest on Savings and Certificates of Deposit.....	<u>\$ 22,559</u>	<u>\$ 17,894</u>

Notes to the Financial Statements

(3) Deposits and Investments

The Utility's deposits 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 City Council 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 are purchased with maturities of 6 to 12 months and yield of 5.25%. Certain certificates of deposit are restricted to comply with debt covenants and to secure customer deposits.

The Utility had no investments meeting the disclosure requirements of GASB Statement No. 3, as amended by Statement No. 40.

(4) Restricted Assets

Restricted assets represent monies set aside under terms of bond covenants. The composition of these funds at June 30 was as follows:

	Restricted Asset	<u>Corresponding Liability</u>		Restricted Net Assets (Excludes Bonds)
		Bonds	Other	
2007				
Projects.....	\$ —	\$ —	\$ —	\$ —
Bond sinking note covenants.....	37,227	33,619	3,608	33,619
Debt reserve	115,000	115,000	—	115,000
Debt capital improvement reserve.....	100,000	100,000	—	100,000
Total	<u>\$ 252,227</u>	<u>\$ 248,619</u>	<u>\$ 3,608</u>	<u>\$ 248,619</u>
2006				
Projects.....	\$ 229,780	\$ —	\$ 158,176	\$ 71,604
Bond sinking note covenants.....	23,175	8,500	14,675	8,500
Debt reserve	115,000	115,000	—	115,000
Debt capital improvement reserve.....	100,000	100,000	—	100,000
Total	<u>\$ 467,955</u>	<u>\$ 223,500</u>	<u>\$ 172,851</u>	<u>\$ 295,104</u>

Notes to the Financial Statements

(4) Restricted Assets

Project and bond sinking assets are deposited into checking or savings accounts until needed. Debt reserve and debt capital improvement reserve restricted assets are invested in certificates of deposit. Earnings on restricted assets are considered general revenue of the Utility. Project assets, along with interest earned thereon, can only be used for bond issuance purposes with any remaining balance to be transferred to debt sinking. Debt sinking amounts may only be used for payment of principal and interest on long-term debt and refunding costs. Debt reserve and debt capital improvement reserve assets can only be used to pay 2007 bond principal and interest costs when the balance in debt sinking is inadequate to pay amounts as due. In certain circumstances, monies from the debt capital improvement reserve can be used for system repairs, maintenance, rent or capital improvements. Debt sinking had the following activity:

Balance - July 1, 2005.....	\$ 22,656
Required allocations.....	150,794
Additional allocations.....	9,544
Transfer from debt reserve.....	42,410
Bond proceeds.....	765,630
Issue costs paid.....	(8,064)
Interest payments made.....	(48,251)
Principal payments made.....	(902,000)
Reversal of excess allocations.....	<u>(9,544)</u>
Balance - June 30, 2006.....	23,175
Required allocations.....	153,005
Additional allocations.....	20,950
Issue costs paid.....	(6,898)
Interest payments made.....	(51,005)
Principal payments made.....	<u>(102,000)</u>
Balance - June 30, 2007.....	<u>\$ 37,227</u>

(5) Capital Assets

Capital asset activity for the year was as follows:

	Balance 7-1-05	Increase	Decrease	Balance 6-30-06	Increase	Decrease	Balance 6-30-07
Capital Assets Not Being Depreciated							
Land.....	\$ 70,051	\$ —	\$ —	\$ 70,051	\$ —	\$ —	\$ 70,051
Construction in progress.....	<u>—</u>	<u>191,498</u>	<u>—</u>	<u>191,498</u>	<u>11,515</u>	<u>203,013</u>	<u>—</u>
Total Capital Assets Not Being Depreciated.....	<u>70,051</u>	<u>191,498</u>	<u>—</u>	<u>261,549</u>	<u>11,515</u>	<u>203,013</u>	<u>70,051</u>
Capital Assets Being Depreciated							
Water plant.....	2,025,204	—	—	2,025,204	203,013	—	2,228,217
Distribution system.....	989,607	—	—	989,607	—	—	989,607
Equipment and vehicles.....	<u>297,986</u>	<u>149,374</u>	<u>87,118</u>	<u>360,242</u>	<u>4,759</u>	<u>—</u>	<u>365,001</u>
Total Capital Assets Being Depreciated.....	<u>3,312,797</u>	<u>149,374</u>	<u>87,118</u>	<u>3,375,053</u>	<u>207,772</u>	<u>—</u>	<u>3,582,825</u>

Notes to the Financial Statements

(5) Capital Assets

	Balance 7-1-05	Increase	Decrease	Balance 6-30-06	Increase	Decrease	Balance 6-30-07
Less Accumulated Depreciation for							
Water plant	\$ 586,767	\$ 54,674	\$ —	\$ 641,441	\$ 58,104	\$ —	\$ 699,545
Distribution system	427,040	22,260	—	449,300	20,092	—	469,392
Equipment and vehicles.....	244,797	18,295	87,118	175,974	29,892	—	205,866
Total Accumulated Depreciation	1,258,604	95,229	87,118	1,266,715	108,088	—	1,374,803
Net Capital Assets Being Depreciated.....	2,054,193	54,145	—	2,108,338	99,684	—	2,208,022
Net Capital Assets	\$ 2,124,244	\$ 245,643	\$ —	\$ 2,369,887	\$ 111,199	\$ 203,013	\$ 2,278,073

(6) Summary of Debt

	Current Portion		Long-Term Portion	
	2007	2006	2007	2006
Water Revenue Bonds				
Series 2002 Water Revenue Bonds, Iowa Department of Natural Resources, due in annual payments ranging from \$2,000 to \$3,000 through June 1, 2022, plus interest semi-annually at 3%, secured by first lien on net revenue.	\$ 2,000	\$ 2,000	\$ 29,000	\$ 31,000
Series 2006 Water Revenue Bonds, Bankers Trust Company, Des Moines, Iowa - paying and registered agent, due in annual payments ranging from \$100,000 to \$150,000 through June 1, 2015, plus interest semi-annually at rates ranging from 3.8% to 4.2%, depending on maturity, secured by first lien on net revenue and restricted assets.	115,000	100,000	935,000	1,050,000
Subtotal	117,000	102,000	964,000	1,081,000
Less				
Unamortized discount.....	—	—	(3,609)	(4,457)
Unamortized reacquisition costs.....	—	—	(3,734)	(5,156)
Total	\$ 117,000	\$ 102,000	\$ 956,657	\$ 1,071,387

Interest expense for the years ended June 30, 2007 and 2006 includes \$46,836 and \$49,075, respectively, on the bonds and \$848 and \$1,128, respectively, for discount amortization.

Notes to the Financial Statements

(6) Summary of Debt

On May 28, 2006, the City closed on \$1,150,000 of Series 2006 tax-exempt revenue bonds dated May 1, 2006. Proceeds plus \$42,410 from water debt reserves were used to refund \$790,000 of series 1997 water revenue bonds, pay debt issue costs and provide for water system construction costs and equipment purchases. Series 1997 bonds maturing June 1, 2007 through 2012 were called and retired at face value on June 1, 2006. Interest rates on the 2006 bonds are approximately 1.15% less than the 1997 bonds. The 2006 bonds mature on June 1, 2007 through 2015, three years longer than the 1997 bond maturities. The extended maturity plus costs of issuance resulted in increased current and future debt service costs of approximately \$26,200 and an economic loss of approximately \$19,600.

At June 30, 2007 annual maturities of long-term debt were as follows:

	Principal	Interest	Total
Year ending June 30, 2008	\$ 117,000	\$ 43,298	\$ 160,298
Year ending June 30, 2009	122,000	38,810	160,810
Year ending June 30, 2010	127,000	34,070	161,070
Year ending June 30, 2011	127,000	29,073	156,073
Year ending June 30, 2012	132,000	24,013	156,013
Five years ending June 30, 2017	445,000	39,226	484,226
Five years ending June 30, 2022	11,000	1,050	12,050
	<u>\$ 1,081,000</u>	<u>\$ 209,540</u>	<u>\$ 1,290,540</u>

Resolutions providing for the issuance of tax-exempt water revenue bonds include covenants related to the maintenance and efficiency of the operating system; the rate structure; additional borrowings; restricted assets, including transfers to a restricted bond principal and interest sinking account on the first of each month and payment of bond principal and interest from the sinking account; minimum insurance coverage; proper books and accounts and auditing thereof; and maintaining the tax-exempt status of the bonds.

During the year ended June 30, 2006, transfers to the sinking account were made in approximately the middle of each quarter rather than the first of each month; amounts transferred were not computed in accordance with the specified method; debt principal and interest payments were made from the City's General Obligation Debt Service Fund rather than the Water Fund, debt sinking account as required; and proceeds restricted for projects were commingled with unrestricted City cash. Account balances were reclassified effective June 30, 2006 to provide for year-end compliance.

All covenants relating to the bonds were properly satisfied for the year ended June 30, 2007.

(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, \$4,715 and \$2,303, 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, \$7,656 and \$6,000, respectively, was accrued for unused sick pay.

Notes to the Financial Statements

(8) 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 employer 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 \$6,081, \$5,840 and \$6,231, respectively, equal to the required contributions for each year.

(9) Related Party Transactions

The Utility is an enterprise fund of the City. All transactions are processed by the City, including payroll under the City's employer federal identification number. The Utility provides water to the City and its discretely presented component unit, Vinton Municipal Electric Utility (VMEU). The Utility receives electricity from VMEU and various services from the City. For the years ended June 30, 2007 and 2006, the Utility included \$121,593 and \$118,006, respectively, in operating revenue, for sales and services to the City and VMEU. The Utility recognized operating expenses of \$19,783 and \$37,181 from VMEU and the City, respectively, for the year ended June 30, 2007, and \$17,962 and \$34,864 from VMEU and the City, respectively, for the year ended June 30, 2006.

Bond covenants allow surplus revenue to be used for any legal purpose. Transfers between, from and to other City funds are direct transfers of surplus revenue. At the direction of the City Council, the Utility received a transfer in of \$32,513 from the Wastewater Treatment Enterprise Fund and transferred \$61,008 to the City's General Fund.

(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. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

To the Honorable Mayor and
Members of the City Council
Vinton Municipal Water Utility
Vinton, Iowa

We have audited the accompanying financial statements of the Vinton Municipal Water Utility, an enterprise fund of the City of Vinton, Iowa, as of and for the year ended June 30, 2007, and have issued our report thereon dated March 14, 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 our 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 and Questioned Costs 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, we believe the significant deficiency described above 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*. However, we noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings.

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 and Questioned Costs. 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 Water 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
March 14, 2008

Schedule of Findings

Part I: Findings Related to the Financial Statements

07-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 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.
- 07-C-4 Business Transactions** - No business transactions between the Utility's officials or employees and the Utility were noted.
- 07-C-5 Bond Coverage** - Surety bond coverage of 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 Council Minutes** - No transactions were found that we believe should have been approved in the Council 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 City's investment policy.
- 07-C-8 Water Revenue Bonds** - We noted no instances of noncompliance with any bond covenants.