

VINTON MUNICIPAL WATER UTILITY

VINTON, IOWA

JUNE 30, 2008

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	20-21

Officials

Name	Title	Term Expires
Elected Officials - Prior to January 1, 2008		
John R. Watson	Mayor	January 1, 2008
Ron Hessenius	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
Elected Officials - After January 1, 2008		
John R. Watson	Mayor	January 1, 2010
Ron Hessenius	Council Member - 1st Ward	January 1, 2010
F. Ronald Elwick	Council Member - 2nd Ward	January 1, 2012
Bud Maynard	Council Member - 3rd Ward	January 1, 2010
Lisa Vermedahl	Council Member - 4th Ward	January 1, 2012
David Redlinger	Council Member at Large	January 1, 2010
Don Burkey	Council Member at Large	January 1, 2012
Appointed Officials		
Cindy Michael	Treasurer/City Clerk	Indefinite
Andrew Lent	City Coordinator	Indefinite
Fischer Law Firm	City Attorney	Indefinite

HOGAN • HANSEN

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, 2008 and 2007, 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, 2008 and 2007, 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 9, 2009 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.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
January 9, 2009

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, 2008. We encourage our readers to consider this information in conjunction with the Utility's financial statements, which follow.

2008 Financial Highlights

- Operating revenue of the Utility increased 0.2%, or approximately \$800, from 2007 to 2008.
- Operating expenses increased 4.5%, or approximately \$20,000, in fiscal 2008 from fiscal 2007.
- The Utility's net assets decreased 2.8%, or approximately \$46,000, from June 30, 2007 to June 30, 2008.
- The Utility has revenue bonds outstanding of \$964,000 at June 30, 2008 which are reported net of unamortized discounts and reacquisition costs of \$5,357.

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 \$1.62 million and \$1.66 million on June 30, 2008 and 2007, respectively.

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

	2008	2007
Current assets.....	\$ 266,990	\$ 257,893
Capital assets, net of accumulated depreciation	2,238,127	2,278,073
Noncurrent, noncapital assets	<u>102,422</u>	<u>227,893</u>
Total Assets	<u>2,607,539</u>	<u>2,763,859</u>
Current liabilities	155,157	145,499
Revenue bonds (net)	<u>836,643</u>	<u>956,657</u>
Total Liabilities	<u>991,800</u>	<u>1,102,156</u>
Net Assets		
Invested in capital assets (net of related debt)	1,493,672	1,419,416
Restricted by debt covenants	—	33,541
Unrestricted	<u>122,067</u>	<u>208,746</u>
Total Net Assets	<u>\$ 1,615,739</u>	<u>\$ 1,661,703</u>

Net assets invested in capital assets are by far the largest portion of the Utility's net assets, 92% at June 30, 2008, 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.

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, 2008 and 2007, 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:

	2008	2007
Operating revenue	\$ 487,627	\$ 486,814
Operating expenses.....	<u>464,345</u>	<u>444,331</u>
Operating Income	23,282	42,483
Net nonoperating expense.....	(29,737)	(25,174)
Net transfers to other funds	<u>(39,509)</u>	<u>(28,495)</u>
Change in Net Assets.....	(45,964)	(11,186)
Net Assets - Beginning of Year.....	<u>1,661,703</u>	<u>1,672,889</u>
Net Assets - End of Year	<u>\$ 1,615,739</u>	<u>\$ 1,661,703</u>

Operating revenue is the Utility's primary source of revenue and is generated from water sales and other services to customers. For 2008, operating revenue increased \$813 from 2007 due primarily to a slight increase in usage.

Operating expenses totaled \$464,345 for 2008, a \$20,014 increase from 2007. These expenses represent the Utility's costs to provide water and services to customers. Operating expenses included depreciation expense of \$97,092 and \$108,088 for the years ended June 30, 2008 and 2007, respectively.

Net nonoperating expense includes interest income and expense, amortization of bond issuance costs, and rent from leasing space. Net nonoperating expense increased by \$4,563 between 2008 and 2007. The increase was due mainly to a decrease in interest income rates and amounts earning interest.

Transfers to the City of Vinton's General Fund and from the City's Wastewater Treatment Fund of \$86,439 and \$33,500 are as directed by the City Council to transfer surplus net assets to the General Fund. Transfers from the SE TIF #1 Special Revenue Fund of \$13,430 are to refund internal advances to construct tax increment financing district assets.

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 \$2.2 million and \$2.3 million at June 30, 2008 and 2007, respectively, (net of accumulated depreciation of approximately \$1.5 million and \$1.4 million at June 30, 2008 and 2007, respectively). This investment in capital assets includes land, water plant, water distribution system, equipment and vehicles.

Interior painting of the water tower and the M Avenue water main extension were the only major capital assets constructed or acquired during the year.

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

	2008	2007
Land	\$ 70,051	\$ 70,051
Water plant.....	2,276,213	2,228,217
Distribution system.....	998,757	989,607
Equipment and vehicles.....	365,001	365,001
Total	<u>\$ 3,710,022</u>	<u>\$ 3,652,876</u>

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

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. During 2008, the Utility repaid \$117,000 of principal and \$43,775 of interest on the debt. For the year, amortization of bond discounts and issue and reacquisition costs of \$774 and \$3,871, respectively, were charged to interest expense and amortization expense, respectively. At June 30, 2008, total Utility long-term debt was \$964,000 less unamortized discounts and reacquisition costs of \$2,835 and \$2,522, respectively, for a net long-term debt of \$958,643. Principal of \$122,000 and interest of \$38,810 will be due during the year ending June 30, 2009.

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. Violations of the rate structure and sinking fund requirements were noted in 2008.

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. Due to increasing costs and rate structure requirements, a water rate increase of approximately 9.3% was placed in effect on July 1, 2008. Since the budget was adopted three months before the rate increase, budgeted revenue reflects only a 2% increase.

Operating expenses for 2009 are expected to increase modestly over the same expenses in 2008 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.

Financial Statements

Balance Sheets

At June 30, 2008 and 2007

	2008	2007
Assets		
Current Assets		
Cash	\$ 53,917	\$ 131,672
Restricted Assets		
Cash.....	2,422	37,227
Certificates of deposit	122,812	—
Receivables		
Trade accounts	44,222	43,892
Accrued interest	548	926
Unbilled revenue	26,057	27,691
Prepaid expenses.....	<u>17,012</u>	<u>16,485</u>
Total Current Assets	<u>266,990</u>	<u>257,893</u>
Noncurrent Assets		
Capital Assets		
Land	70,051	70,051
Water plant.....	2,276,213	2,228,217
Distribution system.....	998,757	989,607
Equipment and vehicles.....	<u>365,001</u>	<u>365,001</u>
Total Capital Assets	3,710,022	3,652,876
Less accumulated depreciation	<u>(1,471,895)</u>	<u>(1,374,803)</u>
Net Capital Assets	2,238,127	2,278,073
Restricted certificate of deposit	92,188	215,000
Bond issue costs (net of accumulated amortization 2008 - \$10,403; 2007 - \$7,744).....	<u>10,234</u>	<u>12,893</u>
Total Noncurrent Assets	<u>2,340,549</u>	<u>2,505,966</u>
Total Assets	<u>\$ 2,607,539</u>	<u>\$ 2,763,859</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 6,977	\$ 6,471
Accrued payroll.....	6,445	6,049
Payables from Restricted Assets		
Accrued interest	3,234	3,608
Revenue bonds.....	122,000	—
Current maturities of revenue bonds	—	117,000
Accrued compensated absences	<u>16,501</u>	<u>12,371</u>
Total Current Liabilities	<u>155,157</u>	<u>145,499</u>
Revenue Bonds Payable from Restricted Assets	92,188	215,000
Revenue Bonds (net of unamortized discount and reacquisition costs 2008 - \$5,357; 2007 - \$7,343)	<u>744,455</u>	<u>741,657</u>
Total Liabilities	<u>991,800</u>	<u>1,102,156</u>
Net Assets		
Invested in capital assets, net of related debt	1,493,672	1,419,416
Restricted by debt covenants	—	33,619
Unrestricted	<u>122,067</u>	<u>208,668</u>
Total Net Assets	<u>1,615,739</u>	<u>1,661,703</u>
Total Liabilities and Net Assets	<u>\$ 2,607,539</u>	<u>\$ 2,763,859</u>

See accompanying notes to the financial statements

Statements of Revenue, Expenses and Changes in Net Assets

Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenue		
Water sales.....	\$ 479,270	\$ 484,532
Miscellaneous sales and services	<u>8,357</u>	<u>2,282</u>
Total Operating Revenue	<u>487,627</u>	<u>486,814</u>
Operating Expenses		
Wages	128,609	109,543
Payroll taxes	9,042	7,590
Retirement plan	7,278	6,081
Employee benefits	36,984	41,413
Advertising and publications.....	449	—
Electric utility.....	17,851	19,783
Communications and other utilities.....	8,333	6,476
Office supplies and postage	5,727	6,857
Administrative services provided by the City of Vinton.....	30,944	37,181
Insurance.....	23,135	22,042
Professional fees.....	4,595	4,426
Permits and licenses	—	80
Dues, memberships and subscriptions.....	1,619	1,167
Laundry and sanitation	1,440	1,255
Chemicals.....	14,467	10,146
Water testing	1,060	1,704
Repairs, Maintenance and Operating Supplies		
Plant and distribution system	24,749	11,958
Vehicles	16,805	12,514
Other	30,434	32,174
Depreciation	97,092	108,088
Miscellaneous.....	<u>3,732</u>	<u>3,853</u>
Total Operating Expenses	<u>464,345</u>	<u>444,331</u>
Operating Income	<u>23,282</u>	<u>42,483</u>
Nonoperating Revenue (Expenses)		
Interest income	15,489	22,525
Rental income.....	2,820	4,320
Interest expense.....	(44,175)	(47,684)
Amortization of bond issue and reacquisition costs.....	<u>(3,871)</u>	<u>(4,335)</u>
Net Nonoperating Expenses	<u>(29,737)</u>	<u>(25,174)</u>
Change in Net Assets Before Transfers	(6,455)	17,309
Transfers in.....	46,930	32,513
Transfers out	<u>(86,439)</u>	<u>(61,008)</u>
Change in Net Assets	(45,964)	(11,186)
Net Assets - Beginning of Year	<u>1,661,703</u>	<u>1,672,889</u>
Net Assets - End of Year	<u>\$ 1,615,739</u>	<u>\$ 1,661,703</u>

See accompanying notes to the financial statements.

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Cash received from customers.....	\$ 488,931	\$ 488,207
Cash paid to City of Vinton for services.....	(33,996)	(37,181)
Cash paid to electric utility (less collection fee).....	(17,464)	(19,783)
Cash paid to or on behalf of employees.....	(177,387)	(159,367)
Cash paid to suppliers.....	<u>(133,901)</u>	<u>(109,760)</u>
Net Cash Provided by Operating Activities	<u>126,183</u>	<u>162,116</u>
Cash Flows From Noncapital Financing Activities		
Billboard and antenna rent.....	2,820	4,320
Net transfers.....	<u>(39,509)</u>	<u>(28,495)</u>
Net Cash Used in Noncapital Financing Activities	<u>(36,689)</u>	<u>(24,175)</u>
Cash Flows From Capital and Related Financing Activities		
Repayments of water revenue bonds.....	(117,000)	(102,000)
Interest paid on water revenue bonds.....	(43,775)	(51,005)
Payments of bond issue costs.....	—	(6,898)
Acquisition of capital assets.....	<u>(57,146)</u>	<u>(174,450)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(217,921)</u>	<u>(334,353)</u>
Cash Flows From Investing Activities		
Proceeds from the maturities of certificates of deposit.....	215,000	—
Purchase of certificates of deposit.....	(215,000)	—
Interest received on savings and certificates of deposits.....	<u>15,867</u>	<u>22,559</u>
Net Cash Provided by Investing Activities	<u>15,867</u>	<u>22,559</u>
Net Decrease in Cash	(112,560)	(173,853)
Cash - Beginning of Year.....	<u>168,899</u>	<u>342,752</u>
Cash - End of Year	<u>\$ 56,339</u>	<u>\$ 168,899</u>
End of Year Total Composed of		
Cash.....	\$ 53,917	\$ 131,672
Restricted cash.....	<u>2,422</u>	<u>37,227</u>
Total	<u>\$ 56,339</u>	<u>\$ 168,899</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income.....	\$ 23,282	\$ 42,483
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation.....	97,092	108,088
Change in Assets and Liabilities		
Decrease in trade accounts and unbilled revenue receivable.....	1,304	1,393
(Increase) decrease in prepaid expenses.....	(527)	62
Increase accounts payable.....	506	4,830
Increase in accrued employee compensation.....	<u>4,526</u>	<u>5,260</u>
Net Cash Provided by Operating Activities	<u>\$ 126,183</u>	<u>\$ 162,116</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. 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, 2008 and 2007 was \$97,092 and \$108,088, 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 \$10,403 and \$7,744 at June 30, 2008 and 2007, respectively. Amortization of bond issue costs for the years ended June 30, 2008 and 2007 was \$2,659 and \$4,335, 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, 2008 and 2007 was \$1,765 and \$991, respectively. Discount amortization for the years ended June 30, 2008 and 2007, which was added to interest expense, was \$774 and \$848, respectively.

Reacquisition Costs

Reacquisition costs of 1997 water revenue bonds refunded with 2006 water revenue bonds of \$5,156 are amortized using the effective interest method over the life of the reacquired water revenue bonds, six years. Accumulated amortization at June 30, 2008 and 2007 was \$2,634 and \$1,422, respectively. Reacquisition amortization for the years ended June 30, 2008 and 2007 was \$1,212 and \$1,422, respectively.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

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.

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.

Classification Changes

Certain items in the 2007 financial statements have been reclassified to conform with the current year presentation. These reclassifications had no net effects on the financial statements.

(2) Cash Flow Statement Supplementary Information

	2008	2007
Schedule of Noncash Investing and Financing Activities		
Interest expense	\$ 44,175	\$ 47,684
Plus accrued interest payable - beginning of year.....	3,608	7,777
Less accrued interest payable - end of year.....	(3,234)	(3,608)
Noncash amortization of water revenue bond discounts.....	(774)	(848)
Cash Paid for Interest	<u>\$ 43,775</u>	<u>\$ 51,005</u>
Cost of debt issuance	\$ —	\$ —
Accounts Payable		
Prior year	—	6,898
Cash Paid for Debt Issue Costs	<u>\$ —</u>	<u>\$ 6,898</u>
Cost of capital asset acquisitions	\$ 57,146	\$ 16,274
Amounts Payable		
Prior year	—	158,176
Cash Paid for Acquisition of Capital Assets	<u>\$ 57,146</u>	<u>\$ 174,450</u>
Interest income	\$ 15,489	\$ 22,525
Accrued Interest Receivable		
Beginning of year	926	960
End of year.....	(548)	(926)
Cash Received for Interest on Savings and Certificates of Deposit	<u>\$ 15,867</u>	<u>\$ 22,559</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 nine months and yield of 3.08%. Certificates of deposit are restricted to comply with debt covenants.

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 Assets	Corresponding Liability		Restricted Net Assets
		Bonds	Accrued Interest	
2008				
Bond sinking note covenants.....	\$ 2,422	\$ —	\$ 2,422	\$ —
Debt reserve	115,000	114,188	812	—
Debt capital improvement reserve.....	100,000	100,000	—	—
Total	<u>\$ 217,422</u>	<u>\$ 214,188</u>	<u>\$ 3,234</u>	<u>\$ —</u>
2007				
Bond sinking note covenants.....	\$ 37,227	\$ —	\$ 3,608	\$ 33,619
Debt reserve	115,000	115,000	—	—
Debt capital improvement reserve.....	100,000	100,000	—	—
Total	<u>\$ 252,227</u>	<u>\$ 215,000</u>	<u>\$ 3,608</u>	<u>\$ 33,619</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 2008 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, 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	37,227
Required allocations	136,906
Deficiency in required allocations	(10,936)
Interest payments made	(43,775)
Principal payments made	<u>(117,000)</u>
Balance - June 30, 2008	<u>\$ 2,422</u>

(5) Capital Assets

Capital asset activity for the year was as follows:

	Balance 7-1-06	Increase	Decrease	Balance 6-30-07	Increase	Decrease	Balance 6-30-08
Capital Assets Not Being Depreciated							
Land	\$ 70,051	\$ —	\$ —	\$ 70,051	\$ —	\$ —	\$ 70,051
Construction in progress	<u>191,498</u>	<u>11,515</u>	<u>203,013</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Capital Assets Not Being Depreciated	<u>261,549</u>	<u>11,515</u>	<u>203,013</u>	<u>70,051</u>	<u>—</u>	<u>—</u>	<u>70,051</u>
Capital Assets Being Depreciated							
Water plant	2,025,204	203,013	—	2,228,217	47,996	—	2,276,213
Distribution system	989,607	—	—	989,607	9,150	—	998,757
Equipment and vehicles	<u>360,242</u>	<u>4,759</u>	<u>—</u>	<u>365,001</u>	<u>—</u>	<u>—</u>	<u>365,001</u>
Total Capital Assets Being Depreciated	<u>3,375,053</u>	<u>207,772</u>	<u>—</u>	<u>3,582,825</u>	<u>57,146</u>	<u>—</u>	<u>3,639,971</u>

Notes to the Financial Statements

(5) Capital Assets

	Balance 7-1-06	Increase	Decrease	Balance 6-30-07	Increase	Decrease	Balance 6-30-08
Less Accumulated Depreciation for							
Water plant	\$ 641,441	\$ 58,104	\$ —	\$ 699,545	\$ 58,149	\$ —	\$ 757,694
Distribution system	449,300	20,092	—	469,392	18,095	—	487,487
Equipment and vehicles.....	175,974	29,892	—	205,866	20,848	—	226,714
Total Accumulated Depreciation	<u>1,266,715</u>	<u>108,088</u>	<u>—</u>	<u>1,374,803</u>	<u>97,092</u>	<u>—</u>	<u>1,471,895</u>
Net Capital Assets Being Depreciated.....	<u>2,108,338</u>	<u>99,684</u>	<u>—</u>	<u>2,208,022</u>	<u>(39,946)</u>	<u>—</u>	<u>2,168,076</u>
Net Capital Assets	<u>\$ 2,369,887</u>	<u>\$ 111,199</u>	<u>\$ 203,013</u>	<u>\$ 2,278,073</u>	<u>\$ (39,946)</u>	<u>\$ —</u>	<u>\$ 2,238,127</u>

(6) Summary of Debt

	Current Portion		Long-Term Portion	
	2008	2007	2008	2007
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	\$ 27,000	\$ 29,000
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 3.9% to 4.2%, depending on maturity, secured by first lien on net revenue and restricted assets.	<u>120,000</u>	<u>115,000</u>	<u>815,000</u>	<u>935,000</u>
Subtotal	122,000	117,000	842,000	964,000
Less				
Unamortized discount.....	—	—	(2,835)	(3,609)
Unamortized reacquisition costs.....	<u>—</u>	<u>—</u>	<u>(2,522)</u>	<u>(3,734)</u>
Total	<u>\$ 122,000</u>	<u>\$ 117,000</u>	<u>\$ 836,643</u>	<u>\$ 956,657</u>

Interest expense for the years ended June 30, 2008 and 2007 includes \$43,401 and \$46,836, respectively, on the bonds and \$774 and \$848, respectively, for discount amortization.

Notes to the Financial Statements

(6) Summary of Debt

At June 30, 2008 annual maturities of long-term debt were as follows:

	Principal	Interest	Total
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
Year ending June 30, 2013	142,000	18,688	160,688
Five years ending June 30, 2018	305,000	20,868	325,868
Five years ending June 30, 2023	<u>9,000</u>	<u>720</u>	<u>9,720</u>
	<u>\$ 964,000</u>	<u>\$ 166,242</u>	<u>\$ 1,130,242</u>

The City has pledged future water customer receipts, net of specified operating disbursements, to repay water revenue bonds of \$40,000 issued in October, 2002 and \$1,150,000 issued in May, 2006. Proceeds from the notes provided financing for the construction of water facilities and to refund Series 1997 water revenue bonds. The bonds are payable solely from water customer net receipts and are payable through 2022. The total principal and interest remaining to be paid on the bonds is \$1,130,242. For the current year, principal and interest paid and net receipts were \$160,297 and \$138,683, respectively.

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, 2008, transfers to the sinking account were made in approximately the middle of each quarter rather than the first of each month; and amounts transferred were not computed in accordance with the specified method. At June 30, 2008, the water revenue debt sinking balance was under funded by \$10,936. The deficiency was corrected in July, 2008.

Rate structure covenants require that water rates be set to produce net revenue as statutorily computed equal to at least 120% of debt service payments required in the same year. For the year ended June 30, 2008, net revenue was 96% of debt service requirements.

(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, 2008 and 2007, \$6,076 and \$4,715, 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, 2008 and 2007, \$10,425 and \$7,656, 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 3.9% and 3.7% of their annual salary and the employer is required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by state statute. The Utility's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$7,278, \$6,081 and \$5,840, 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 both of the years ended June 30, 2008 and 2007, the Utility included approximately \$5,000 in operating revenue, for sales and services to the City and VMEU. The Utility recognized operating expenses of \$17,851 and \$30,944 from VMEU and the City, respectively, for the year ended June 30, 2008, and \$19,783 and \$37,181 from VMEU and the City, respectively, for the year ended June 30, 2007.

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 transfers in of \$33,500 from the Wastewater Treatment Enterprise Fund and \$13,430 from the SE TIF #1 Special Revenue Fund and transferred \$86,439 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, 2008, and have issued our report thereon dated January 9, 2009. 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 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, 2008 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 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
January 9, 2009

Schedule of Findings

Part I: Findings Related to the Financial Statements

08-IC-1 Segregation of Duties

Prior Year Finding and 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.

Current Year Finding - We found that the same condition exists.

Auditor's Recommendation - We reiterate our prior year recommendation.

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

- 08-C-1 Budget** - Cash disbursements during the year ended June 30, 2008 did not exceed the amounts budgeted.
- 08-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.
- 08-C-3 Travel Expense** - No disbursements of the Utility's money for travel expenses of spouses of the Utility officials or employees were noted other than normal water utility billings and collections.
- 08-C-4 Business Transactions** - No business transactions between the Utility's officials or employees and the Utility were noted other than normal water utility billings and collections.
- 08-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.
- 08-C-6 Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes that were not.
- 08-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.

Schedule of Findings

08-C-8 Water Revenue Bonds

Finding - Bond covenants require monthly transfers to the sinking account equal to one-sixth of the next interest payment and one-tenth of the next principal payment. Transfers are made quarterly instead of monthly. At June 30, 2008, the water revenue debt sinking balance was under funded by \$10,936.

Auditor's Recommendation - The City should transfer cash to the sinking fund to fully fund the required balance and make monthly transfers as required to meet requirements.

Utility's and City's Response - On July 11, 2008, a transfer was made which exceeded the under funded amount plus the required July transfer. Procedures will be revised to make monthly transfers.

Auditor's Conclusion - Response accepted.

Finding - Water revenue debt covenants require that rates be set to provide net revenue of at least 120% of the debt service required for the same year. For the year ended June 30, 2008, net revenue, using the cash basis of accounting, was approximately 96% of debt service required for the year. Effective July 1, 2008, water rates were increased approximately 9.3%. Had the rate increase been in effect at July 1, 2007, net revenue would be projected at approximately 124% of debt service required for the year.

Auditor's Recommendation - To ensure that net revenue requirements are met, we recommend that the City monitor revenue and costs and, if necessary, take action to reduce costs and/or increase revenue.

Utility's and City's Response - As noted in the finding, rates were increased July 1, 2008. Operating costs are expected to increase; therefore, we will review the rate structure and consider an additional increase in rates.

Auditor's Conclusion - Response accepted.