

VINTON MUNICIPAL ELECTRIC UTILITY

VINTON, IOWA

JUNE 30, 2009

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Officials

Name	Title	Term Expires
Board of Trustees - Appointed by the Mayor of the City of Vinton and approved by the Vinton City Council		
Michael Elwick	Chairman	December, 2013
Jon Kremer	Trustee	December, 2011
John A. Anderson	Trustee	December, 2014
Dr. Alan Woodhouse	Trustee	December, 2009
Michael Barron	Trustee	December, 2010

Nonvoting - Appointed by the Board of Trustees

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

Cindy Michael	Secretary	Indefinite
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Independent Auditor's Report

Board of Trustees
Vinton Municipal Electric Utility
Vinton, Iowa

We have audited the accompanying balance sheets of the Vinton Municipal Electric Utility, a component unit of the City of Vinton, Iowa, at June 30, 2009 and 2008, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Vinton Municipal Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vinton Municipal Electric Utility at June 30, 2009 and 2008, 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 2, 2010 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 4 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included on Page 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Other supplementary information included in the Schedule of Expenditures of Federal Awards on Page 24 required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
March 2, 2010

Vinton Municipal Electric Utility Management's Discussion and Analysis

The Vinton Municipal Electric Utility (Utility) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2009 Financial Highlights

The Utility's operating revenue increased 6.6%, or \$217,418, from fiscal 2008 to fiscal 2009.

The Utility's operating expenses were 12.7%, or \$411,877, more in fiscal 2009 than in fiscal 2008.

The Utility's net assets increased 4.7%, or \$375,839, from June 30, 2008 to June 30, 2009.

The Utility suffered major damage from the flooding in June 2008. On June 11, 2008 at around 10 AM, the Utility was forced to turn power off to all Utility customers due to the massive flooding. East Central Iowa REC offered their help and constructed an overhead tie line between our system and theirs to provide power to some of our customers that same evening. Temporary generators were rented from Ziegler Inc. and Cummins Central Power (Cummins) and placed at three locations to serve the community until normal grid power could be restored. Generator rental from Cummins cost the Utility \$33,942 for a two-week rental of a one megawatt generator and transformer. The Utility rented three generators from Ziegler Inc. and two transformers for a cost of \$124,396. Fuel costs for the generators were paid for in June 2008 under the 2007-2008 budget. Due to the extensive damage, the area was declared a federal disaster area and FEMA brought in case workers to help with project worksheet management. A project worksheet for the cost of temporary generator rental, fuel oil costs, contract labor and replacement switchgear was submitted to FEMA on July 31, 2008 in the amount of \$545,212. The federal share was \$490,691 and the state's share was \$54,521. In August 2008 the general manager of the Utility submitted a request for advance payment of the federal share that amounted to 75% of the federal portion of the project worksheet. In September 2008 the Utility received an advance on the federal share in the amount of \$368,018. In October 2008 a check for the amount of \$136,408 was received reimbursing the Utility for the federal share of four project worksheets. By April 10, 2009, the above project worksheet was closed out and funds from both the state and FEMA had been received. There are hundreds of invoices submitted to FEMA pertaining to flood damage repair and respective reimbursement by FEMA as project worksheets are turned in and money is allocated for payment. These are too numerous to include in this financial highlight.

Due to new OSHA requirements requiring the Utility to conduct an Arc Flash Study and Analysis, bids were taken and ESCO Group submitted the low bid and was awarded the contract for the amount of \$14,955. The Analysis was completed and billing submitted in two parts and final payment was made in October 2008.

In the November board meeting of 2008, the Utility paid Vinton Unlimited the pledged amount of \$6,500 for the Board's continued support of Vinton Unlimited projects.

The Vinton Municipal Electric Utility once again contracted the services of Chapman Metering to come and test about 10% of the Utility's electric meters which is an Iowa Utility Board requirement. Chapman Metering was here about three weeks and the cost to the Utility was \$6,026.

On September 19, 2007, Kris Stubbs from the RPGI notified the Utility by email that the lawsuit with CIPCO had been dismissed by the judge presiding over the case. This was good news to all the RPGI cities. However, the battle was not over because later in 2007, RPGI was notified that CIPCO had appealed the case. As of June 30, 2009, the appeal was still alive in the court system.

The Energy Adjustment Factor (EAF) was used again in FY 2008-2009. The average EAF for the fiscal year was \$0.029. The maximum EAF was \$0.0439 which occurred in June 2009 and the lowest EAF was \$0.0137 which occurred in October 2008.

Overview of the Financial Statements

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

The statements of net assets present 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 present 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 present 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 9 through 11 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 12 through 18 of this report.

Financial Analysis

Net assets may serve over time as a useful indicator of an entity's financial position. The Utility's assets exceeded its liabilities by \$8.35 million and \$7.98 million on June 30, 2009 and 2008, respectively.

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

	2009	2008 (Restated - Note 13)
Current assets.....	\$ 5,248,760	\$ 5,249,807
Noncurrent, noncapital assets.....	326,864	259,237
Capital assets, net of accumulated depreciation	<u>3,262,326</u>	<u>3,098,384</u>
Total Assets	<u>8,837,950</u>	<u>8,607,428</u>
Current Liabilities	<u>483,437</u>	<u>628,754</u>
Net Assets		
Invested in capital assets	3,262,326	3,098,384
Unrestricted.....	<u>5,092,187</u>	<u>4,880,290</u>
Total Net Assets	<u>\$ 8,354,513</u>	<u>\$ 7,978,674</u>

Net assets invested in capital assets are a large portion of the Utility's net assets, 39% at June 30, 2009, and reflect its net investment in capital assets (e.g., land; structures and improvements; replacement materials; electric generation, supply and distribution systems; meters; machinery; and equipment). The Utility uses these capital assets to provide electricity and services to the citizens; consequently, these assets are not available for future spending.

Unrestricted net assets may be used to meet the Utility's ongoing obligations to citizens and creditors. It is the Utility's intention to use these assets for future operating purposes and capital asset acquisition and improvements. The Board of Trustees has designated \$750,000 of unrestricted net assets for a self insurance reserve and \$1,802,465 for a capital improvements reserve.

At both June 30, 2009 and 2008, 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:

	2009	2008 (Restated - Note 13)
Operating revenue.....	\$ 3,520,264	\$ 3,302,846
Operating expenses	<u>3,649,772</u>	<u>3,237,895</u>
Operating Loss.....	(129,508)	64,951
Net nonoperating revenue.....	<u>505,347</u>	<u>132,869</u>
Change in Net Assets	375,839	197,820
Net Assets - Beginning of Year	<u>7,978,674</u>	<u>7,780,854</u>
Net Assets - End of Year.....	<u>\$ 8,354,513</u>	<u>\$ 7,978,674</u>

Operating revenue is the Utility's primary source of revenue and is generated from electricity sales and other services to customers. For 2009, operating revenue increased \$217,418 from 2008 due to increased rates and usage.

Operating expenses totaled \$3,649,772 for 2009, a \$411,877 increase from 2008. These expenses represent the Utility's costs to provide electricity and services to customers. Operating expenses included depreciation expense of \$182,844 and \$211,724 for the years ended June 30, 2009 and 2008, respectively.

Net nonoperating revenue includes state and federal grants for flood costs, expenses incurred as a result of the flood, interest income, rent from leasing space, miscellaneous nonoperating items and the change in the Utility's share of net assets of RPGI. Net nonoperating revenue increased by \$372,478 between 2009 and 2008.

Budgetary Highlights

Each year, the Board of Trustees adopts a budget using the modified cash basis of accounting which differs from the accrual basis of accounting used for the accompanying financial statements. The budget information is provided to the City of Vinton and is included in the City's total budget. The Utility's original budget was not amended during either of the years ended June 30, 2009 or 2008.

Actual cash receipts were approximately \$53,000 greater than budgeted.

Actual cash disbursements were approximately \$1.4 million less than budgeted. However, purchased power disbursements were \$172,000 greater than the \$2 million budgeted for purchased power.

Capital Assets and Long-Term Debt

The Utility's investment in capital assets amounted to approximately \$3.3 million and \$3.1 million at June 30, 2009 and 2008, respectively, (net of accumulated depreciation of approximately \$7.09 million and \$6.92 million at June 30, 2009 and 2008, respectively). This investment in capital assets includes land; structures and improvements; replacement materials; electric generation, supply and distribution systems; meters; machinery; and equipment.

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

The Utility has no long-term debt.

Economic Factors and Next Year's Budget and Rates

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

Operating expenses for 2010 are expected to increase modestly over the same expenditures in 2009 due to increases in pay rates, increases in health insurance, energy purchases and additional flood-related expenses.

Contacting the Electric Utility's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cindy Michael, Treasurer/City Clerk, P.O. Box 529, Vinton, IA 52349.

Financial Statements

Balance Sheets

At June 30, 2009 and 2008

	2009	2008 (Restated - Note 13)
Assets		
Current Assets		
Cash	\$ 863,170	\$ 1,538,372
Certificates of deposit	1,930,000	2,590,000
Receivables		
Trade accounts (net of allowance for doubtful accounts)	232,345	196,598
City of Vinton	10,975	10,503
Unbilled revenue	251,717	180,092
Federal grants	1,417,313	508,716
State grants	417,033	56,524
Interest	4,386	45,866
Current portion of notes - City of Vinton	5,588	20,628
Inventories	54,895	38,205
Prepaid expenses	61,338	64,303
Total Current Assets	<u>5,248,760</u>	<u>5,249,807</u>
Noncurrent Assets		
Capital Assets		
Not subject to depreciation	180,851	179,223
Depreciable (net of accumulated depreciation)	3,081,475	2,919,161
Notes receivable - City of Vinton	45,976	51,564
Investment in RPGI joint venture	280,888	207,673
Total Noncurrent Assets	<u>3,589,190</u>	<u>3,357,621</u>
Total Assets	<u>\$ 8,837,950</u>	<u>\$ 8,607,428</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 365,171	\$ 531,014
Accrued payroll	30,994	28,350
Accrued compensated absences	82,931	65,923
Sales and use tax	4,341	3,467
Total Current Liabilities	<u>483,437</u>	<u>628,754</u>
Net Assets		
Invested in capital assets	3,262,326	3,098,384
Unrestricted	5,092,187	4,880,290
Total Net Assets	<u>8,354,513</u>	<u>7,978,674</u>
Total Liabilities and Net Assets	<u>\$ 8,837,950</u>	<u>\$ 8,607,428</u>

See accompanying notes to the financial statements

Statements of Revenue, Expenses and Changes in Net Assets

Years Ended June 30, 2009 and 2008

	2009	2008 (Restated - Note 13)
Operating Revenue		
Electricity sales.....	\$ 3,268,814	\$ 3,116,592
Sales and services to City of Vinton.....	111,349	104,147
Other charges and miscellaneous.....	<u>140,101</u>	<u>82,107</u>
Total Operating Revenue	<u>3,520,264</u>	<u>3,302,846</u>
Operating Expenses		
Generation and purchased power	2,437,408	2,097,847
Distribution.....	249,429	285,439
Customer accounts.....	19,640	19,796
Administration and general.....	552,021	411,231
Administration by City of Vinton.....	208,430	211,858
Depreciation	<u>182,844</u>	<u>211,724</u>
Total Operating Expenses	<u>3,649,772</u>	<u>3,237,895</u>
Operating Income (Loss)	<u>(129,508)</u>	<u>64,951</u>
Nonoperating Revenue (Expenses)		
Federal grants	3,753,301	508,716
State grants	417,033	56,524
Flood expense	(3,839,860)	(642,321)
Interest income	87,873	164,786
Equity in net income of RPGI joint venture.....	73,215	31,690
Miscellaneous.....	<u>13,785</u>	<u>13,474</u>
Total Nonoperating Revenue	<u>505,347</u>	<u>132,869</u>
Change in Net Assets	375,839	197,820
Net Assets - Beginning of Year	<u>7,978,674</u>	<u>7,780,854</u>
Net Assets - End of Year	<u>\$ 8,354,513</u>	<u>\$ 7,978,674</u>

See accompanying notes to the financial statements.

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008 (Restated - Note 13)
Cash Flows From Operating Activities		
Cash received from customers	\$ 3,310,276	\$ 3,213,928
Cash received from primary government	110,877	(406,043)
Cash paid to or on behalf of employees	(498,689)	(468,771)
Cash paid to suppliers	(2,633,266)	(1,951,220)
Cash paid to primary government	(208,430)	(211,858)
Net Cash Provided by Operating Activities	<u>80,768</u>	<u>176,036</u>
Cash Flows From Noncapital Financing Activities		
Miscellaneous nonoperating revenue	13,785	13,474
Noncapital grants	2,901,228	—
Nonoperating expense - flood costs	(4,127,073)	(234,189)
Net Cash Used in Noncapital Financing Activities	<u>(1,212,060)</u>	<u>(220,715)</u>
Cash Flows From Capital and Related Financing Activities		
Cash received from sale of capital assets	—	8,210
Acquisition of capital assets	(353,891)	(5,301)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(353,891)</u>	<u>2,909</u>
Cash Flows From Investing Activities		
Proceeds from the sales and maturities of certificates of deposit	4,730,000	2,720,000
Purchase of certificates of deposit	(4,070,000)	(2,810,000)
Interest received on savings and certificates of deposits	129,353	174,244
Collections on notes from City of Vinton	20,628	51,676
Net Cash Provided by Investing Activities	<u>809,981</u>	<u>135,920</u>
Net Increase (Decrease) in Cash	<u>(675,202)</u>	<u>94,150</u>
Cash - Beginning of Year	1,538,372	1,444,222
Cash - End of Year	<u>\$ 863,170</u>	<u>\$ 1,538,372</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (129,508)	\$ 64,951
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	182,844	211,724
Capital assets not subject to depreciation used for maintenance	(1,628)	75,607
(Gain) loss on disposal of capital assets	8,733	(5,852)
Change in Assets and Liabilities		
Increase in operating receivables	(107,844)	(78,146)
Increase in inventories and prepaid expenses	(13,725)	(14,754)
Increase (decrease) in accounts payable	121,370	(85,680)
Decrease in accrued expenses	20,526	8,186
Net Cash Provided by Operating Activities	<u>\$ 80,768</u>	<u>\$ 176,036</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 Electric Utility (Utility) is a municipal utility that is a political subdivision and component unit of the City of Vinton, Iowa. The Utility provides electricity to customers in the City of Vinton, Iowa. The Utility's rates are set by its governing board. The Vinton Municipal Electric Utility Board of Trustees has oversight responsibility for most electricity acquisition and generation and distribution within the City of Vinton. All activities with which the Board has oversight responsibility are included in the financial statements.

Measurement Focus and Basis of Accounting

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

The Utility applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as the Financial Accounting Standards Board Accounting Standards Codification, unless these pronouncements conflict with or contradict GASB pronouncements.

The Utility distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

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

Concentrations

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

Budgeting

The Utility is required to prepare a budget each year and submit it to the City of Vinton. The City combines the Utility's budget with other proprietary activities in the total City budget which is submitted to the State of Iowa. The Utility prepares its budget using the cash basis of accounting. The Utility's 2009 budget and comparison to cash basis activity is as follows:

	2009	2008
Actual disbursements	\$ 7,812,886	\$ 3,379,832
Budgeted disbursements.....	<u>9,253,290</u>	<u>4,169,091</u>
Actual Disbursements Under Budget.....	<u>\$ (1,440,404)</u>	<u>\$ (789,259)</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Cash and Certificates of Deposit

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

Trade Accounts Receivable

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

Unbilled Revenue Receivable

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

Inventories

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

Capital Assets

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

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

Depreciation expense for the years ended June 30, 2009 and 2008 was \$182,844 and \$211,724, respectively.

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

Operating Revenue

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

Notes to the Financial Statements

(2) Cash Flow Statement Supplementary Information

	2009	2008
Schedule of Noncash Investing and Financing Activities		
Equity in Net Income of RPGI Joint Venture	<u>\$ 73,215</u>	<u>\$ 31,690</u>

(3) Deposits and Investments

The Utility's deposits in banks are entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility's certificates of deposit are stated at cost which approximates fair value. Certificates of deposit have maturities of 3 to 12 months and yields of 1.23% to 5.15%.

(4) Notes Receivable

On April 1, 2003, the Utility advanced \$253,000 to the City. The noninterest bearing note is unsecured and payable in quarterly payments of \$12,650. Final payment was made July 1, 2008. The balance outstanding on the note at June 30, 2009 was \$0.

On June 1, 2007, the Utility advanced \$62,098 to the City. The note bears interest of 4%, is unsecured and is payable in semi-annual payments of \$3,798. Final payment is due June 1, 2017. The balance outstanding on the note at June 30, 2009 was \$51,564.

Notes to the Financial Statements

(5) Capital Assets

Capital asset activity for the years ended June 30, 2009 and 2008 was as follows:

	Balance 7-1-07	Increase	Decrease	Balance 6-30-08	Increase	Decrease	Balance 6-30-09
Capital Assets Not Being Depreciated							
Land.....	\$ 72,815	\$ —	\$ —	\$ 72,815	\$ —	\$ —	\$ 72,815
Materials	<u>182,012</u>	<u>—</u>	<u>75,604</u>	<u>106,408</u>	<u>1,628</u>	<u>—</u>	<u>108,036</u>
Total Capital Assets Not Being Depreciated.....	<u>254,827</u>	<u>—</u>	<u>75,604</u>	<u>179,223</u>	<u>1,628</u>	<u>—</u>	<u>180,851</u>
Capital Assets Being Depreciated							
Buildings and improvements.	649,011	—	—	649,011	166,291	—	815,302
Generation equipment	4,986,639	—	—	4,986,639	98,834	6,987	5,078,486
Distribution system	3,201,030	—	—	3,201,030	31,192	—	3,232,222
Plant tools and equipment	494,566	—	—	494,566	34,390	14,522	514,434
Office equipment.....	21,424	5,300	8,870	17,854	—	—	17,854
Jacket radiator equipment.....	114,284	—	—	114,284	—	—	114,284
Transportation equipment.....	<u>431,763</u>	<u>—</u>	<u>57,798</u>	<u>373,965</u>	<u>23,184</u>	<u>910</u>	<u>396,239</u>
Total Capital Assets Being Depreciated.....	<u>9,898,717</u>	<u>5,300</u>	<u>66,668</u>	<u>9,837,349</u>	<u>353,891</u>	<u>22,419</u>	<u>10,168,821</u>
Less Accumulated Depreciation for							
Buildings and improvements.	423,123	16,286	—	439,409	16,825	—	456,234
Generation equipment	3,290,244	72,505	—	3,362,749	72,928	2,035	3,433,642
Distribution system	2,516,165	67,785	—	2,583,950	56,291	—	2,640,241
Plant tools and equipment	96,943	20,832	—	117,775	21,720	10,833	128,662
Office equipment.....	20,364	826	8,868	12,322	1,180	—	13,502
Jacket radiator equipment.....	85,672	4,380	—	90,052	4,380	—	94,432
Transportation equipment.....	<u>338,261</u>	<u>29,110</u>	<u>55,440</u>	<u>311,931</u>	<u>9,520</u>	<u>818</u>	<u>320,633</u>
Total Accumulated Depreciation.....	<u>6,770,772</u>	<u>211,724</u>	<u>64,308</u>	<u>6,918,188</u>	<u>182,844</u>	<u>13,686</u>	<u>7,087,346</u>
Net Capital Assets Being Depreciated.....	<u>3,127,945</u>	<u>(206,424)</u>	<u>2,360</u>	<u>2,919,161</u>	<u>171,047</u>	<u>8,733</u>	<u>3,081,475</u>
Net Capital Assets	<u>\$ 3,382,772</u>	<u>\$ (206,424)</u>	<u>\$ 77,964</u>	<u>\$ 3,098,384</u>	<u>\$ 172,675</u>	<u>\$ 8,733</u>	<u>\$ 3,262,326</u>

(6) Joint Venture

The Utility is a member of Resale Power Group of Iowa (RPGI), a joint and cooperative undertaking under the provisions of Chapter 28E of the Code of Iowa. RPGI is administered by the Iowa Association of Municipal Utilities and was organized to provide members with combined bargaining power in negotiating wholesale power contracts and a method of investing in construction power lines. This joint venture is accounted for under the equity method. The Utility's approximate pro rata interest in RPGI was 6.42% and 6.39% at June 30, 2009 and 2008, respectively. This was determined based on the ratio of the Utility's cumulative energy purchases from RPGI to total energy sales by RPGI to all members. Separate financial statements of RPGI are available to its members.

Notes to the Financial Statements

(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, 2009 and 2008, \$35,404 and \$23,564, 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, 2009 and 2008, \$47,527 and \$42,359, respectively, was accrued for unused sick pay.

(8) Related Party Transactions

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

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

	2009	2008
Amounts billed to the City for electric services	\$ 127,327	\$ 118,469
Amounts received from the City for services	126,856	116,994
Receivable from the City at year end for electric services.....	10,975	10,503
Amounts received from the City for loan repayments.....	20,628	53,156
Note balance at year end	51,564	72,192
Payments made to the City for services received	208,430	211,858

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

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

The Utility purchases electricity for resale from RPGI. Transactions with RPGI for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
Electricity purchased	\$ 2,172,373	\$ 1,904,833
Cash payments to RPGI.....	2,058,207	1,984,043
Payable to RPGI at June 30, 2009	232,356	118,190

Notes to the Financial Statements

(9) Retirement Plan

Plan Description

The Utility contributes, through the City, to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

For the year ended June 30, 2009, most plan members are required to contribute 4.1% of their annual salary and the Utility is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$31,229, \$27,833 and \$25,897, respectively, equal to the required contributions for each year.

(10) Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except for distribution property and equipment, these risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility has retained the risk of damage to and destruction of most distribution property and equipment. There were no material estimated liabilities or claims paid during the past fiscal year.

(11) Commitment

Under wholesale power agreements, the Utility has contracted to purchase its electric power and energy requirements from RPGI (supplied by AmerenEnergy Marketing) through December 31, 2010.

(12) Commitments and Subsequent Events

Management has evaluated subsequent events through March 2, 2010, the date which the financial statements were available to be issued.

The Utility is involved in the completion of repairs, construction and replacement of capital assets due to a flood in June of 2008 and spent approximately \$564,000 during the period of July through December, 2009, which will be reimbursed through the FEMA grant in FY 2009-10.

Subsequent to June 30, 2009, the Utility approved bids of \$69,800 and \$86,000 for the basement of a line distribution building and for a new energy substation, respectively.

Notes to the Financial Statements

(13) Prior Period Adjustment

During 2009, management determined that trade accounts receivable and unbilled receivable were understated by \$40,040 and \$43,123, respectively, at June 30, 2008. The 2008 financial statements have been restated to correct this error. The effect on each of the following 2008 financial statement lines is shown below:

Increase in trade accounts	\$40,040
Increase in unbilled receivable	43,123
Increase in electricity sales.....	83,163

The restatement had the net effect of increasing net assets and change in net assets by \$83,163 as of June 30, 2008. The restatement had no effect on net assets or net income for the year ended June 30, 2009.

Supplemental Data



Schedules of Operating Expenses

Years Ended June 30, 2009 and 2008

	2009	2008
Generation and Purchased Power		
Purchased power.....	\$ 2,172,373	\$ 1,669,268
Natural gas	39,606	92,463
Fuel oil	7,259	46,102
Production labor	195,880	182,968
Lubricants and chemicals	1,635	6,382
Maintenance	11,750	39,521
Other.....	<u>8,905</u>	<u>61,143</u>
Total Generation and Purchased Power	<u>\$ 2,437,408</u>	<u>\$ 2,097,847</u>
Distribution		
Salaries.....	\$ 197,208	\$ 190,873
Line and station supplies and expense	3,290	3,580
Maintenance		
Structure and equipment.....	7,174	8,222
Overhead lines.....	19,722	54,695
Line transformers	6,995	14,983
Street lighting	3,838	2,093
Meters	9,998	10,487
Other	<u>1,204</u>	<u>506</u>
Total Distribution	<u>\$ 249,429</u>	<u>\$ 285,439</u>
Customer Accounts		
Salaries and Outside Services	<u>\$ 19,640</u>	<u>\$ 19,796</u>
Administration and General		
Salaries.....	\$ 105,613	\$ 83,438
Payroll taxes and employee benefits.....	159,771	156,283
Outside services	13,495	4,923
Office supplies	17,549	11,239
Insurance.....	74,698	66,090
Transportation	15,269	14,982
Regulatory assessment.....	5,907	5,814
Membership dues and subscriptions	9,955	10,202
Promotion and economic development	64,870	16,867
Energy efficiency	27,483	13,056
Other.....	<u>57,411</u>	<u>28,337</u>
Total Administration and General	<u>\$ 552,021</u>	<u>\$ 411,231</u>

Financial Assistance Section

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

Board of Trustees
Vinton Municipal Electric Utility
Vinton, Iowa

We have audited the accompanying financial statements of the Vinton Municipal Electric Utility as of and for the year ended June 30, 2009, and have issued our report thereon dated March 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in Part II 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, of the significant deficiencies described above, we believe items 09-II-IC-1 and 09-II-IC-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2009 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 Electric Utility and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
March 2, 2010

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A Professional Corporation

Certified Public Accountants and Consultants

Independent Auditor's Report on Compliance With Requirements Applicable to the Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Trustees
Vinton Municipal Electric Utility
Vinton, Iowa

Compliance

We have audited the compliance of the Vinton Municipal Electric Utility with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The Vinton Municipal Electric Utility's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the Vinton Municipal Electric Utility's management. Our responsibility is to express an opinion on the Vinton Municipal Electric Utility's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Vinton Municipal Electric Utility's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Vinton Municipal Electric Utility's compliance with those requirements.

In our opinion, the Vinton Municipal Electric Utility complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Vinton Municipal Electric Utility is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Vinton Municipal Electric Utility's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Vinton Municipal Electric Utility's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 09-III-IC-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 09-III-IC-1 to be a material weakness.

The Vinton Municipal Electric Utility's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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 use of the management and the Board of Trustees of the Vinton Municipal Electric Utility and federal awarding agencies and pass-through entities. 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 2, 2010

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Number	Federal Program/Cluster Expenditures
U.S. Department of Homeland Security			
Indirect			
Federal Emergency Management Agency			
Pass-Through Iowa Department of Public Defense, Iowa Homeland Security and Emergency Management Division			
Disaster Grants - Public Assistance			
(Presidentially Declared Disasters)			
	97.036		<u>\$ 3,753,301</u>

Note 1. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Vinton Municipal Electric Utility and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Subrecipients

There were no amounts provided to subrecipients from the Utility's federal awards programs.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

Part I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness identified? yes no
Significant deficiency identified not considered to be
material weaknesses? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:
Material weakness identified? yes no
Significant deficiency identified not considered to be
material weakness? yes no

Type of auditor's report issued on compliance for major
programs: Unqualified

Any audit findings disclosed that are required to be reported
in accordance with Section .510(a) of Circular A-133? yes no

Identification of major program:

CFDA Numbers

97.036

Name of Federal Program or Cluster

Disaster Grants - Public Assistance
(Presidentially Declared Disasters)

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Part II: Findings Related to the Financial Statements

Significant Deficiencies

09-II-IC-1 Segregation of Duties

Prior Year Finding and Auditor's Recommendation - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated. With a limited number of office employees, segregation of duties is difficult. However, the Utility management should review its control procedures to obtain the maximum internal control possible under the circumstances, segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

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 Board and City Council is aware of the condition. We will review procedures and make changes when appropriate and cost effective.

Auditor's Conclusion - Response accepted.

09-II-IC-2 Financial Statement Preparation

Current Year Finding - The Utility does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with generally accepted accounting principles. As is inherent in many organizations of this size, the Utility has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply accrual basis accounting principles in preparing the financial statements and the related disclosures.

Auditor's Recommendation - Utility staff should consider obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

Utility's and City's Response - Utility staff will consider obtaining additional knowledge where cost effective but will continue to rely on its audit firm for assistance with drafting the financial statements and disclosures.

Auditor's Conclusion - Response accepted.

Instances of Noncompliance

There were no instances of noncompliance reported.

Schedule of Findings and Questioned Costs

Part III: Findings and Questioned Costs for Federal Awards

Significant Deficiencies

**CFDA Number 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Emergency Management Agency
Pass-Through Iowa Department of Public Defense,
Iowa Homeland Security and Emergency Management Division**

09-III-IC-1 Segregation of Duties Over Major Programs

Adequate control procedures through the segregation of employee duties is difficult to achieve due to the limited number of staff administering grants and performing accounting functions. See finding 09-II-IC-1 for additional information.

Instances of Noncompliance

There were no instances of noncompliance reported.

Part IV: Compliance and Other Matters

09-C-1 Budget - Operating cash disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted.

09-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.

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

09-C-4 Business Transactions

Name, Title and Business Connection	Transaction Description	Amount
Ron Elwick, City Council Member, Elwick Electric	Trenching and electrical parts	\$2,755

The transaction with the City Council member may represent a conflict of interest since a competitive bidding process was not utilized and transactions were in excess of \$1,500.

Auditor's Recommendation - The Utility should use a competitive bidding process in the future or consider alternatives for the services noted above.

Utility's Response - The transactions were normal operating expenses.

A competitive bidding process is not always practical; however, we will endeavor to competitively bid the work when practicable in the future.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs ---

- 09-C-5 Bond Coverage** - Surety bond coverage of Utility and City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 09-C-6 Board of Trustee Minutes** - No transactions were found that we believe should have been approved in the Board of Trustees minutes that were not.
- 09-C-7 Deposits and Investments** - We noted no instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's or City's investment policy.