

VINTON MUNICIPAL ELECTRIC UTILITY

VINTON, IOWA

JUNE 30, 2010

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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		
Dr. Alan Woodhouse	Chairman	December, 2015
Michael Elwick	Trustee	December, 2013
Jon Kremer	Trustee	December, 2011
John A. Anderson	Trustee	December, 2014
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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A Professional Corporation

Certified Public Accountants and Consultants

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, 2010 and 2009, 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, 2010 and 2009, 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 November 24, 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 18 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 23 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
November 24, 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, 2010. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2010 Financial Highlights

The Utility's operating revenue increased 12%, or \$432,993, from fiscal 2009 to fiscal 2010.

The Utility's operating expenses were 6%, or \$222,976, more in fiscal 2010 than in fiscal 2009.

The Utility's net assets increased less than 1%, or \$46,326, from June 30, 2009 to June 30, 2010.

In August, 2009, Lenny Geiger Construction was hired to replace the north roof of the generation plant. The Board authorized payment for this service in September, 2009 in the amount of \$18,335.41. Lenny Geiger Construction also had the low bid to replace steps and storage cabinets in the generation plant that were destroyed by the flood of 2008. There were numerous payments made for labor to Lenny throughout the fiscal 2009-2010 period.

Two tankers of fuel oil were purchased during the 2009-2010 period, one in September, 2009 in the amount of \$14,500.50 and one in March, 2010 in the amount of \$15,546.96.

In the December Board meeting of 2009, the Utility authorized payment to Vinton Unlimited for the pledged amount of \$6,500 for the Board's continued support of VU projects.

In March, 2010, the Board authorized payment for two more recording voltmeters to replace units damaged in the flood of 2008. The units were provided by Instruments & Technology for the amount of \$8,915 in March, 2010.

In June, 2010, the Board authorized payment for the purchase of a used backyard crawler. The unit was purchased from Maquoketa Municipal Utilities for the amount of \$5,350.

The backup battery system at the South Substation had to be replaced. ESCO Energy Services was employed to install a battery rack to meet government regulations and replace the batteries. ESCO Energy Services agreed to a split billing across fiscal years so in April, the Board authorized payment of \$3,652.90 with the balance to be paid after July 1, 2010.

The Utility once again contracted the services of Chapman Metering to come and test about 10% of the Utility's electric meters which is an Iowa Utility Board requirement. Chapman Metering was here about two weeks, and the cost to the Utility was \$6,903.91.

As part of our Energy Efficiency plan, the Utility has entered into a contract with A-TEC Energy Corp in conjunction with Alliant Energy to provide whole house energy audits. During the energy audit, A-TEC provides CFL bulbs and checks the home for energy efficient hardware like air-conditioning. In March, 2010, we paid A-TEC for actual home inspections the amount of \$2,258.86 and in May, 2010 we paid A-TEC \$1,674.27 for bulbs.

The Energy Adjustment Factor (EAF) was used again in FY 2009-2010. The average EAF for the fiscal year was \$0.0343. The maximum EAF was \$0.0456 which occurred in February, 2010 and the lowest EAF was \$0.0236 which occurred in October, 2009.

The CIPCO lawsuit is ongoing. We are still in the document discovery period. All defendants named in the lawsuit have complied and we are waiting on the plaintiffs to provide all of their documents. This has pushed the trial date back into Spring/Summer of 2011.

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 \$8.4 million and \$8.35 million on June 30, 2010 and 2009, respectively.

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

	2010	2009
Current assets.....	\$ 4,641,338	\$ 5,248,760
Noncurrent, noncapital assets.....	232,565	326,864
Capital assets, net of accumulated depreciation	<u>3,978,009</u>	<u>3,262,326</u>
Total Assets	<u>8,851,912</u>	<u>8,837,950</u>
Current Liabilities	<u>451,073</u>	<u>483,437</u>
Net Assets		
Invested in capital assets	3,978,009	3,262,326
Unrestricted.....	<u>4,422,830</u>	<u>5,092,187</u>
Total Net Assets	<u>\$ 8,400,839</u>	<u>\$ 8,354,513</u>

Net assets invested in capital assets are a large portion of the Utility's net assets, 47% at June 30, 2010, and reflect its net investment in capital assets (e.g., land; structures and improvements; replacement materials; electric generation, supply and distribution systems; meters; machinery; equipment; and construction in progress). 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, 2010 and 2009, 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:

	2010	2009
Operating revenue.....	\$ 3,953,257	\$ 3,520,264
Operating expenses	<u>3,872,748</u>	<u>3,649,772</u>
Operating Income (Loss).....	80,509	(129,508)
Net nonoperating revenue (expenses)	<u>(34,183)</u>	<u>505,347</u>
Change in Net Assets	46,326	375,839
Net Assets - Beginning of Year	<u>8,354,513</u>	<u>7,978,674</u>
Net Assets - End of Year.....	<u>\$ 8,400,839</u>	<u>\$ 8,354,513</u>

Operating revenue is the Utility's primary source of revenue and is generated from electricity sales and other services to customers. For 2010, operating revenue increased \$432,993 from 2009 due to increased rates and usage.

Operating expenses totaled \$3,872,748 for 2010, a \$222,976 increase from 2009. These expenses represent the Utility's costs to provide electricity and services to customers. Operating expenses included depreciation expense of \$190,614 and \$182,844 for the years ended June 30, 2010 and 2009, respectively.

Net nonoperating expense 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 expense for the year ended June 30, 2010 was \$34,183 compared to net nonoperating revenue of \$505,347 for the year ended June 30, 2009. This is primarily due to a decrease in grant revenue.

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, 2010 or 2009.

Actual cash receipts were \$1,082,486 greater than budgeted due to federal reimbursements for flood damage.

Actual cash disbursements were approximately \$500,000 greater than budgeted. However, purchased power disbursements were \$159,975 less than the \$2,500,000 budgeted for purchased power.

Capital Assets and Long-Term Debt

The Utility's investment in capital assets amounted to approximately \$4 million and \$3.3 million at June 30, 2010 and 2009, respectively, (net of accumulated depreciation of approximately \$7.28 million and \$7.09 million at June 30, 2010 and 2009, respectively). This investment in capital assets includes land; structures and improvements; replacement materials; electric generation, supply and distribution systems; meters; machinery; equipment; and construction in progress.

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 2011 are expected to increase modestly over the same expenditures in 2010 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, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash	\$ 1,688,206	\$ 863,170
Certificates of deposit	950,000	1,930,000
Receivables		
Trade accounts (net of allowance for doubtful accounts)	328,444	232,345
City of Vinton	12,277	10,975
Unbilled revenue	231,870	251,717
Federal grants	863,873	1,417,313
State grants	470,520	417,033
Interest	1,812	4,386
Current portion of notes - City of Vinton	5,814	5,588
Inventories	28,589	54,895
Prepaid expenses	59,933	61,338
Total Current Assets	<u>4,641,338</u>	<u>5,248,760</u>
Noncurrent Assets		
Capital Assets		
Not subject to depreciation	1,015,151	180,851
Depreciable (net of accumulated depreciation)	2,962,858	3,081,475
Notes receivable - City of Vinton	40,162	45,976
Investment in RPGI joint venture	192,403	280,888
Total Noncurrent Assets	<u>4,210,574</u>	<u>3,589,190</u>
Total Assets	<u>\$ 8,851,912</u>	<u>\$ 8,837,950</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 355,237	\$ 365,171
Accrued payroll	6,286	30,994
Accrued compensated absences	83,843	82,931
Sales and use tax	5,707	4,341
Total Current Liabilities	<u>451,073</u>	<u>483,437</u>
Net Assets		
Invested in capital assets	3,978,009	3,262,326
Unrestricted	4,422,830	5,092,187
Total Net Assets	<u>8,400,839</u>	<u>8,354,513</u>
Total Liabilities and Net Assets	<u>\$ 8,851,912</u>	<u>\$ 8,837,950</u>

See accompanying notes to the financial statements

Statements of Revenue, Expenses and Changes in Net Assets

Years Ended June 30, 2010 and 2009

	2010	2009
Operating Revenue		
Electricity sales.....	\$ 3,742,341	\$ 3,268,814
Sales and services to City of Vinton.....	129,991	111,349
Other charges and miscellaneous.....	<u>80,925</u>	<u>140,101</u>
Total Operating Revenue	<u>3,953,257</u>	<u>3,520,264</u>
Operating Expenses		
Generation and purchased power.....	2,791,677	2,500,163
Distribution.....	300,347	312,609
Customer accounts.....	27,219	19,640
Administration and general.....	350,400	426,086
Administration by City of Vinton.....	212,491	208,430
Depreciation.....	<u>190,614</u>	<u>182,844</u>
Total Operating Expenses	<u>3,872,748</u>	<u>3,649,772</u>
Operating Income (Loss)	<u>80,509</u>	<u>(129,508)</u>
Nonoperating Revenue (Expenses)		
Federal grants.....	585,503	3,753,301
State grants.....	53,487	417,033
Flood expense.....	(650,559)	(3,839,860)
Interest income.....	29,914	87,873
Equity in net income (loss) of RPGL joint venture.....	(65,717)	73,215
Miscellaneous.....	12,950	13,785
Realized gain on transmission investment.....	<u>239</u>	<u>—</u>
Total Nonoperating Revenue (Expenses)	<u>(34,183)</u>	<u>505,347</u>
Change in Net Assets	46,326	375,839
Net Assets - Beginning of Year.....	<u>8,354,513</u>	<u>7,978,674</u>
Net Assets - End of Year	<u>\$ 8,400,839</u>	<u>\$ 8,354,513</u>

See accompanying notes to the financial statements.

Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Cash received from customers.....	\$ 3,747,014	\$ 3,310,276
Cash received from primary government	128,689	110,877
Cash paid to or on behalf of employees	(509,043)	(498,689)
Cash paid to suppliers.....	(3,128,222)	(2,633,266)
Cash paid to primary government	<u>(212,491)</u>	<u>(208,430)</u>
Net Cash Provided by Operating Activities	<u>25,947</u>	<u>80,768</u>
Cash Flows From Noncapital Financing Activities		
Miscellaneous nonoperating revenue.....	12,950	13,785
Noncapital grants.....	1,138,943	2,901,228
Nonoperating expense - flood costs	<u>(728,149)</u>	<u>(4,127,073)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities.....	<u>423,744</u>	<u>(1,212,060)</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	<u>(665,738)</u>	<u>(353,891)</u>
Cash Flows From Investing Activities		
Proceeds from maturities of certificates of deposit.....	2,830,000	4,730,000
Purchase of certificates of deposit.....	(1,850,000)	(4,070,000)
Interest received on savings and certificates of deposits	32,488	129,353
Proceed from redemption of transmission investment	23,007	—
Collections on notes from City of Vinton.....	<u>5,588</u>	<u>20,628</u>
Net Cash Provided by Investing Activities.....	<u>1,041,083</u>	<u>809,981</u>
Net Increase (Decrease) in Cash.....	825,036	(675,202)
Cash - Beginning of Year	<u>863,170</u>	<u>1,538,372</u>
Cash - End of Year.....	<u>\$ 1,688,206</u>	<u>\$ 863,170</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 80,509	\$ (129,508)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		
Depreciation	190,614	182,844
Capital assets not subject to depreciation used for maintenance	(199,632)	(1,628)
Loss on disposal of capital assets	—	8,733
Change in Assets and Liabilities		
Increase in operating receivables	(77,554)	(107,844)
(Increase) decrease in inventories and prepaid expenses	27,711	(13,725)
Increase in accounts payable	26,729	121,370
Increase (decrease) in accrued expenses	<u>(22,430)</u>	<u>20,526</u>
Net Cash Provided by Operating Activities	<u>\$ 25,947</u>	<u>\$ 80,768</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 2010 budget and comparison to cash basis activity is as follows:

	2010	2009
Actual disbursements	\$ 5,243,652	\$ 7,812,886
Budgeted disbursements.....	4,726,528	9,253,290
Actual Disbursements Over (Under) Budget	<u>\$ 517,124</u>	<u>\$ (1,440,404)</u>

Cash and Certificates of Deposit

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Trade Accounts Receivable

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

Unbilled Revenue Receivable

Sales of electricity used from the time of the last meter reading in 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	20 - 50 Years
Generation equipment	10 - 50 Years
Distribution system	25 - 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, 2010 and 2009 was \$190,614 and \$182,844, 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.

Classification Changes

Certain items in the 2009 financial statements have been reclassified to conform with the current year presentation. These reclassifications had no net effects on the financial statements.

Notes to the Financial Statements

(2) Cash Flow Statement Supplementary Information

	2010	2009
Schedule of Noncash Investing and Financing Activities		
Cost of capital assets (excluding materials)	\$ 706,665	\$ 353,891
Amounts Payable		
Current year	<u>(40,927)</u>	<u>—</u>
Cash Paid for Capital Assets (Excluding Materials)	<u>\$ 665,738</u>	<u>\$ 353,891</u>
Equity in Net Income (Loss) of RPGL Joint Venture	<u>\$ (65,717)</u>	<u>\$ 73,215</u>

For purposes of the statements of cash flows, the Utility considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

(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 0.8% to 1.97%.

(4) Notes Receivable

On June 1, 2007, the Utility advanced \$62,098 to the City. The note bears interest at 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, 2010 was \$45,976.

Notes to the Financial Statements

(5) Capital Assets

Capital asset activity for the years ended June 30, 2010 and 2009 was as follows:

	Balance 7-1-08	Increase	Decrease	Balance 6-30-09	Increase	Decrease	Balance 6-30-10
Capital Assets Not Being Depreciated							
Land.....	\$ 72,815	\$ —	\$ —	\$ 72,815	\$ 22,500	\$ —	\$ 95,315
Materials	106,408	1,628	—	108,036	199,632	—	307,668
Construction in progress	—	—	—	—	612,168	—	612,168
Total Capital Assets Not Being Depreciated.....	<u>179,223</u>	<u>1,628</u>	<u>—</u>	<u>180,851</u>	<u>834,300</u>	<u>—</u>	<u>1,015,151</u>
Capital Assets Being Depreciated							
Buildings and improvements..	649,011	166,291	—	815,302	58,722	—	874,024
Generation equipment	4,986,639	98,834	6,987	5,078,486	—	—	5,078,486
Distribution system	3,201,030	31,192	—	3,232,222	7,925	—	3,240,147
Plant tools and equipment	494,566	34,390	14,522	514,434	—	—	514,434
Office equipment.....	17,854	—	—	17,854	—	—	17,854
Jacket radiator equipment.....	114,284	—	—	114,284	—	—	114,284
Transportation equipment.....	373,965	23,184	910	396,239	5,350	—	401,589
Total Capital Assets Being Depreciated.....	<u>9,837,349</u>	<u>353,891</u>	<u>22,419</u>	<u>10,168,821</u>	<u>71,997</u>	<u>—</u>	<u>10,240,818</u>
Less Accumulated Depreciation for							
Buildings and improvements..	439,409	16,825	—	456,234	18,439	—	474,673
Generation equipment	3,362,749	72,928	2,035	3,433,642	79,631	—	3,513,273
Distribution system	2,583,950	56,291	—	2,640,241	54,626	—	2,694,867
Plant tools and equipment	117,775	21,720	10,833	128,662	22,283	—	150,945
Office equipment.....	12,322	1,180	—	13,502	1,180	—	14,682
Jacket radiator equipment.....	90,052	4,380	—	94,432	4,380	—	98,812
Transportation equipment.....	311,931	9,520	818	320,633	10,075	—	330,708
Total Accumulated Depreciation.....	<u>6,918,188</u>	<u>182,844</u>	<u>13,686</u>	<u>7,087,346</u>	<u>190,614</u>	<u>—</u>	<u>7,277,960</u>
Net Capital Assets Being Depreciated.....	<u>2,919,161</u>	<u>171,047</u>	<u>8,733</u>	<u>3,081,475</u>	<u>(118,617)</u>	<u>—</u>	<u>2,962,858</u>
Net Capital Assets	<u>\$ 3,098,384</u>	<u>\$ 172,675</u>	<u>\$ 8,733</u>	<u>\$ 3,262,326</u>	<u>\$ 715,683</u>	<u>\$ —</u>	<u>\$ 3,978,009</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 6.52% and 6.42% at June 30, 2010 and 2009, 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. At June 30, 2010 and 2009, \$34,926 and \$35,404, 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, 2010 and 2009, \$48,917 and \$47,527, 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 disclosed in Notes 4 and 11, the Utility also loans money to the City from time to time.

Transactions with the City and balances at year end were as follows:

	2010	2009
Amounts billed to the City for electric services	\$ 133,073	\$ 127,327
Amounts received from the City for services	131,771	126,856
Receivable from the City at year end for electric services.....	12,277	10,975
Amounts received from the City for loan repayments.....	5,588	20,628
Note balance at year end	45,976	51,564
Payments made to the City for services received	212,491	208,430

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, 2010 and 2009 are as follows:

	2010	2009
Electricity purchased	\$ 2,338,012	\$ 2,172,373
Cash payments to RPGI.....	2,328,965	2,058,207
Payable to RPGI at June 30, 2010	241,403	232,356

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, 2010, most plan members are required to contribute 4.3% of their annual salary and the Utility is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$32,365, \$31,229 and \$27,833, 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) Commitments

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, 2011.

During the year ended June 30, 2010, the Utility entered into a contract for engineering work for a new substation totaling \$86,800. At June 30, 2010, costs of \$20,919 had been incurred on the project.

In addition, during the year ended June 30, 2010, the Utility approved a \$330,000 loan to the City of Vinton at a rate of 2.5%. The loan was not disbursed to the City until July, 2010.

(12) Subsequent Events

Management has evaluated subsequent events through November 24, 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. An additional \$142,000 was spent during the period of July through mid-November, 2010, which will be reimbursed through the FEMA grant in FY 2010-2011.

Subsequent to June 30, 2010, the Utility approved a contract for work on a new energy substation totaling \$109,240.

Supplemental Data

Schedules of Operating Expenses

Years Ended June 30, 2010 and 2009

	2010	2009
Generation and Purchased Power		
Purchased power.....	\$ 2,338,012	\$ 2,172,373
Natural gas	83,617	39,606
Fuel oil	60,204	7,259
Payroll taxes and employee benefits.....	60,958	62,755
Production labor	184,482	195,880
Lubricants and chemicals.....	12,927	1,635
Maintenance	42,633	11,750
Other.....	<u>8,844</u>	<u>8,905</u>
Total Generation and Purchased Power	<u>\$ 2,791,677</u>	<u>\$ 2,500,163</u>
Distribution		
Salaries.....	\$ 179,578	\$ 197,208
Payroll taxes and employee benefits.....	59,337	63,180
Line and station supplies and expense	2,838	3,290
Maintenance		
Structure and equipment.....	14,200	7,174
Overhead lines.....	26,245	19,722
Line transformers	—	6,995
Street lighting	4,809	3,838
Meters	13,188	9,998
Other	<u>152</u>	<u>1,204</u>
Total Distribution.....	<u>\$ 300,347</u>	<u>\$ 312,609</u>
Customer Accounts		
Salaries and Outside Services	<u>\$ 27,219</u>	<u>\$ 19,640</u>
Administration and General		
Salaries.....	\$ 93,968	\$ 105,613
Payroll taxes and employee benefits.....	31,049	33,836
Outside services	22,909	13,495
Office supplies	15,513	17,549
Insurance.....	71,694	74,698
Transportation	17,910	15,269
Regulatory assessment.....	7,747	5,907
Membership dues and subscriptions.....	12,920	9,955
Promotion and economic development	14,630	64,870
Energy efficiency	29,428	27,483
Other.....	<u>32,632</u>	<u>57,411</u>
Total Administration and General.....	<u>\$ 350,400</u>	<u>\$ 426,086</u>

See accompanying notes to the financial statements

Financial Assistance Section

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Certified Public Accountants and Consultants

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, 2010, and have issued our report thereon dated November 24, 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 Vinton Municipal Electric Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Vinton Municipal Electric Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Vinton Municipal Electric 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weaknesses is a deficiency, or a combination of deficiencies, in internal control such that that there is a reasonable possibility a material misstatement of the Vinton Municipal Electric Utility's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying schedule of findings and questioned costs as items 10-II-IC-1 and 10-II-IC-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vinton Municipal Electric Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters which are described in Part IV of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2010 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 Vinton Municipal Electric 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 Vinton Municipal Electric 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 Vinton Municipal Electric Utility may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



HOGAN - HANSEN

Waterloo, Iowa
November 24, 2010

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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, 2010. 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, 2010.

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 the 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in Part III of the accompanying schedule of findings and questioned costs as item 10-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. While we have expressed our conclusions on the Utility's responses, we did not audit the Vinton Municipal Electric 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 other parties to whom the Vinton Municipal Electric Utility may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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Waterloo, Iowa
November 24, 2010

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

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	011-0542C-00	<u>\$ 585,503</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 on the accrual 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, 2010

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

Internal Control Deficiencies

10-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 continue to 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.

10-II-IC-2 Financial Statement Preparation

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

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 - 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

Internal Control 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**

10-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 10-II-IC-1 for additional information.

Instances of Noncompliance

There were no instances of noncompliance reported.

Part IV: Compliance and Other Matters

10-C-1 Budget - Operating cash disbursements during the year ended June 30, 2010 exceeded the amount budgeted. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Auditor's Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Utility's and City's Response - The budget will be amended in the future, if applicable.

Auditor's Conclusion - Response accepted.

10-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.

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

10-C-4 Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.

10-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.

10-C-6 Board of Trustees Minutes - No transactions were found that we believe should have been approved in the Board of Trustees minutes that were not.

10-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.