

VINTON MUNICIPAL ELECTRIC UTILITY

VINTON, IOWA

JUNE 30, 2011

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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, 2016

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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HOGAN ♦ HANSEN

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, 2011 and 2010, 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, 2011 and 2010, 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 December 22, 2011 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. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
December 22, 2011

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, 2011. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2011 Financial Highlights

The Utility's operating revenue increased 19%, or \$757,804, from fiscal 2010 to fiscal 2011 due mainly to higher utility rates.

The Utility's operating expenses were 6%, or \$227,574, more in fiscal 2011 than in fiscal 2010 due mainly to increased power costs.

The Utility's net assets increased 10%, or \$828,589, from June 30, 2010 to June 30, 2011.

In the fiscal year ended June 30, 2011, the Utility's material inventory included in capital assets not subject to depreciation increased \$330,983, or 108%. This was partially funded by federal and state grants.

The Energy Adjustment Factor (EAF) was used again in FY 2010-2011. The average EAF for the fiscal year was \$0.0324. The maximum EAF was \$0.0459 occurred in August, 2010 and the lowest EAF was \$0.0239 which occurred in February, 2011.

The CIPCO lawsuit is ongoing. The trial date was pushed back again to September, 2012.

Three tankers of fuel oil were purchased during the 2010-2011 period, one in August, 2010 for \$16,552.50, one in December, 2010 for \$20,585.38 and one in June, 2011 for \$24,824.14.

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 two weeks in late June and early July and the total cost to the Utility was \$5,386.11.

In July, 2010, the Utility Board approved a rate increase of 15% that took effect on the first billing cycle of July, 2010. At the same meeting, the Board approved a bid from ESCO Electric for \$109,240 for electrical work on the new 69 KV substation, \$14,800 for new batteries at the south substation and payment to the Iowa Braille School of \$20,000 for the AmeriCorps incentive contribution.

In August, the Utility Board approved a bid from Lenny Geiger Construction for \$6,427.75 to replace the flood-damaged concrete apron and sidewalk around the distribution building.

In September, 2010, the Utility Board approved a change order for \$5,250 for the addition of some conduit at the new 69 KV substation not included in the Not To Exceed proposal approved from ESCO Electric back in July.

In November, 2010, the Utility Board approved payment of \$7,551 for the Utility portion of a new four-wheel drive pickup purchased for the water department.

In the December Board meeting of 2010, the Utility Board authorized the following:

Payment to Vinton Unlimited the pledged amount of \$6,500 for the Board's continued support of Vinton Unlimited projects.

Approval of the low bid of \$228,875.14 from Pedersen Power Products for a switch gear to be used in the new 69 KV substation with the equipment to be delivered in late June, 2011 and paid for in July or August, 2011 under a new budget year.

In December, 2010, power was connected to the new Benton County Law Enforcement Center using a new 300 KVA transformer purchased from Power Line Supply for \$7,758.16. The total cost to Benton County was \$9,849.11 after applying a construction cost credit of \$1,000 per our Utility's service rules.

In January, 2011, the Board approved installing catalytic converters on five of the generator units. The expense was created by EPA regulations referred to as NESHAP-RICE rules. The bid amount was \$673,900 with installation to begin this spring.

In February, 2011 the Board approved the purchase of a trash pump to be used for flood preparation. The trash pump was purchased from Northern Tool + Equipment for \$10,030.62.

In April, the Utility Board approved payment to the Iowa Braille School for the AmeriCorps contribution in the amount of \$20,000. The Board also approved the purchase of 36+ acres of ground on West 13th Street for \$359,469. The Utility Board approved a low bid from McDowell Lumber to replace the roof on the south side of the generation plant with steel. The approved amount of the bid was \$15,336.42. Upon the start of construction, it was decided to add an additional ice jam to the project so the total amount of the bill exceeded the original quote.

In May, 2011, the Utility Board approved a loan to the City of Vinton for approximately \$17,000 to extend a new water main along South K Avenue to the new 69 KV substation.

The Utility Board approved roof repair on the east end of the generation plant after it was discovered that the UV protective layer was deteriorating. Stanley Roofing provided a cost estimate of \$5,822.60, but the price was reduced after it was discovered that the roof had been repaired less than ten years ago and should have still had some warranty on it.

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 balance sheets 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 17 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 \$9.2 million and \$8.4 million on June 30, 2011 and 2010, respectively.

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

	2011	2010
Current assets.....	\$ 3,888,693	\$ 4,641,338
Noncurrent, noncapital assets.....	470,038	232,565
Capital assets, net of accumulated depreciation	<u>5,213,509</u>	<u>3,978,009</u>
Total Assets	<u>9,572,240</u>	<u>8,851,912</u>
Current Liabilities	<u>342,812</u>	<u>451,073</u>
Net Assets		
Invested in capital assets	5,213,509	3,978,009
Unrestricted.....	<u>4,015,919</u>	<u>4,422,830</u>
Total Net Assets	<u>\$ 9,229,428</u>	<u>\$ 8,400,839</u>

Net assets invested in capital assets are a large portion of the Utility's net assets, 56% at June 30, 2011, 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, 2011 and 2010, 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:

	2011	2010
Operating revenue.....	\$ 4,711,061	\$ 3,953,257
Operating expenses	<u>4,100,322</u>	<u>3,872,748</u>
Operating Income (Loss).....	610,739	80,509
Net nonoperating revenue (expenses)	<u>217,850</u>	<u>(34,183)</u>
Change in Net Assets	828,589	46,326
Net Assets - Beginning of Year	<u>8,400,839</u>	<u>8,354,513</u>
Net Assets - End of Year.....	<u>\$ 9,229,428</u>	<u>\$ 8,400,839</u>

Operating revenue is the Utility's primary source of revenue and is generated from electricity sales and other services to customers. For 2011, operating revenue increased \$757,804 from 2010 due to increased rates and usage.

Operating expenses totaled \$4,100,322 for 2011, a \$227,574 increase from 2010. These expenses represent the Utility's costs to provide electricity and services to customers. Operating expenses included depreciation expense of \$192,432 and \$190,614 for the years ended June 30, 2011 and 2010, respectively.

Net nonoperating revenue (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 revenue for the year ended June 30, 2011 was \$217,850 compared to net nonoperating expense of \$34,183 for the year ended June 30, 2010. This is primarily due to grant revenue for material inventory purchases.

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, 2011 or 2010.

Actual cash receipts were \$1,183,625 greater than the budgeted amount of \$4,539,204 due to federal reimbursements for flood damage and higher utility rates.

Actual cash disbursements were approximately \$418,000 less than the budgeted amount of \$5,881,571.

Capital Assets and Long-Term Debt

The Utility's investment in capital assets amounted to approximately \$5.2 million and \$4 million at June 30, 2011 and 2010, respectively, (net of accumulated depreciation of approximately \$7.47 million and \$7.28 million at June 30, 2011 and 2010, 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 2012 are expected to increase modestly over the same expenditures in 2011 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, Secretary, P.O. Box 529, Vinton, IA 52349.

Financial Statements

Balance Sheets

At June 30, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash	\$ 1,709,359	\$ 1,688,206
Certificates of deposit	950,000	950,000
Receivables		
Trade accounts (net of allowance for doubtful accounts)	350,114	328,444
City of Vinton	13,863	12,277
Unbilled revenue	264,516	231,870
Federal grants	284,504	863,873
State grants	168,286	470,520
Interest	1,438	1,812
Current portion of notes - City of Vinton	39,049	5,814
Inventories	46,884	28,589
Prepaid expenses	60,680	59,933
Total Current Assets	<u>3,888,693</u>	<u>4,641,338</u>
Noncurrent Assets		
Capital Assets		
Not subject to depreciation	2,406,600	1,015,151
Depreciable (net of accumulated depreciation)	2,806,909	2,962,858
Notes receivable - City of Vinton	298,113	40,162
Investment in RPGI joint venture	171,925	192,403
Total Noncurrent Assets	<u>5,683,547</u>	<u>4,210,574</u>
Total Assets	<u>\$ 9,572,240</u>	<u>\$ 8,851,912</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 247,520	\$ 355,237
Accrued payroll	8,546	6,286
Accrued compensated absences	80,296	83,843
Sales and use tax	6,450	5,707
Total Current Liabilities	<u>342,812</u>	<u>451,073</u>
Net Assets		
Invested in capital assets	5,213,509	3,978,009
Unrestricted	4,015,919	4,422,830
Total Net Assets	<u>9,229,428</u>	<u>8,400,839</u>
Total Liabilities and Net Assets	<u>\$ 9,572,240</u>	<u>\$ 8,851,912</u>

See accompanying notes to the financial statements

Statements of Revenue, Expenses and Changes in Net Assets

Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenue		
Electricity sales.....	\$ 4,470,653	\$ 3,742,341
Sales and services to City of Vinton.....	143,597	129,991
Other charges and miscellaneous.....	<u>96,811</u>	<u>80,925</u>
Total Operating Revenue	<u>4,711,061</u>	<u>3,953,257</u>
Operating Expenses		
Generation and purchased power.....	2,938,414	2,791,677
Distribution.....	337,463	300,347
Customer accounts.....	27,388	27,219
Administration and general.....	359,061	350,400
Administration by City of Vinton.....	245,564	212,491
Depreciation	<u>192,432</u>	<u>190,614</u>
Total Operating Expenses	<u>4,100,322</u>	<u>3,872,748</u>
Operating Income	<u>610,739</u>	<u>80,509</u>
Nonoperating Revenue (Expenses)		
Federal grants	167,460	585,503
State grants	18,607	53,487
Flood expense.....	—	(650,559)
Interest income.....	24,729	29,914
Equity in net loss of RPGI joint venture.....	(20,478)	(65,717)
Miscellaneous.....	27,532	12,950
Realized gain on transmission investment.....	<u>—</u>	<u>239</u>
Total Nonoperating Revenue (Expenses)	<u>217,850</u>	<u>(34,183)</u>
Change in Net Assets	828,589	46,326
Net Assets - Beginning of Year	<u>8,400,839</u>	<u>8,354,513</u>
Net Assets - End of Year	<u>\$ 9,229,428</u>	<u>\$ 8,400,839</u>

See accompanying notes to the financial statements.

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Cash received from customers.....	\$ 4,513,148	\$ 3,747,014
Cash received from primary government	142,011	128,689
Cash paid to or on behalf of employees	(483,028)	(509,043)
Cash paid to suppliers	(3,637,585)	(3,128,222)
Cash paid to primary government	<u>(245,564)</u>	<u>(212,491)</u>
Net Cash Provided by Operating Activities	<u>288,982</u>	<u>25,947</u>
Cash Flows From Noncapital Financing Activities		
Miscellaneous nonoperating revenue.....	27,532	12,950
Noncapital grants.....	1,067,670	1,138,943
Nonoperating expense - flood costs	<u>—</u>	<u>(728,149)</u>
Net Cash Provided by Noncapital Financing Activities ..	<u>1,095,202</u>	<u>423,744</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	<u>(1,096,948)</u>	<u>(665,738)</u>
Cash Flows From Investing Activities		
Proceeds from maturities of certificates of deposit.....	2,500,000	2,830,000
Purchase of certificates of deposit.....	(2,500,000)	(1,850,000)
Interest received on savings and certificates of deposits	25,103	32,488
Proceed from redemption of transmission investment	—	23,007
Collections on notes from City of Vinton.....	38,814	5,588
Loan made to the City of Vinton	<u>(330,000)</u>	<u>—</u>
Net Cash Provided by (Used in) Investing Activities	<u>(266,083)</u>	<u>1,041,083</u>
Net Increase in Cash	21,153	825,036
Cash - Beginning of Year	<u>1,688,206</u>	<u>863,170</u>
Cash - End of Year.....	<u>\$ 1,709,359</u>	<u>\$ 1,688,206</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 610,739	\$ 80,509
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	192,432	190,614
Capital assets not subject to depreciation used for maintenance	(330,984)	(199,632)
Change in Assets and Liabilities		
Increase in operating receivables	(55,902)	(77,554)
(Increase) decrease in inventories and prepaid expenses	(19,042)	27,711
Increase (decrease) in accounts payable	(107,717)	26,729
Decrease in accrued expenses.....	<u>(544)</u>	<u>(22,430)</u>
Net Cash Provided by Operating Activities	<u>\$ 288,982</u>	<u>\$ 25,947</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 2011 budget and comparison to cash basis activity is as follows:

	2011	2010
Actual disbursements	\$ 5,463,125	\$ 5,243,652
Budgeted disbursements.....	5,881,571	4,726,528
Actual Disbursements Over (Under) Budget	<u>\$ (418,446)</u>	<u>\$ 517,124</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, 2011 and 2010 was \$192,432 and \$190,614, 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

	2011	2010
Schedule of Noncash Investing and Financing Activities		
Cost of capital assets (excluding materials)	\$ 1,096,948	\$ 706,665
Amounts Payable		
Current year	<u> —</u>	<u> (40,927)</u>
Cash Paid for Capital Assets (Excluding Materials)	<u>\$ 1,096,948</u>	<u>\$ 665,738</u>
Equity in Net Loss of RPI Joint Venture	<u>\$ (20,478)</u>	<u>\$ (65,717)</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 0.6%.

(4) Notes Receivable

On June 1, 2007, the Utility loaned \$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, 2011 was \$40,162.

On July 8, 2010, the Utility loaned \$330,000 to the City. The note bears interest at 2.5% and is payable in annual payments of \$33,000 plus interest each year beginning in June, 2011. Final payment is due in June, 2020. The balance outstanding on the note at June 30, 2011 was \$297,000.

Notes to the Financial Statements

(5) Capital Assets

Capital asset activity for the years ended June 30, 2011 and 2010 was as follows:

	Balance 7-1-09	Increase	Decrease	Balance 6-30-10	Increase	Decrease	Balance 6-30-11
Capital Assets Not Being Depreciated							
Land.....	\$ 72,815	\$ 22,500	\$ —	\$ 95,315	\$ 359,502	\$ —	\$ 454,817
Materials	108,036	199,632	—	307,668	330,983	—	638,651
Construction in progress	—	612,168	—	612,168	700,964	—	1,313,132
Total Capital Assets Not Being Depreciated.....	<u>180,851</u>	<u>834,300</u>	<u>—</u>	<u>1,015,151</u>	<u>1,391,449</u>	<u>—</u>	<u>2,406,600</u>
Capital Assets Being Depreciated							
Buildings and improvements..	815,302	58,722	—	874,024	28,724	—	902,748
Generation equipment	5,078,486	—	—	5,078,486	—	—	5,078,486
Distribution system	3,232,222	7,925	—	3,240,147	7,759	—	3,247,906
Plant tools and equipment	514,434	—	—	514,434	—	—	514,434
Office equipment.....	17,854	—	—	17,854	—	—	17,854
Jacket radiator equipment.....	114,284	—	—	114,284	—	—	114,284
Transportation equipment.....	396,239	5,350	—	401,589	—	—	401,589
Total Capital Assets Being Depreciated.....	<u>10,168,821</u>	<u>71,997</u>	<u>—</u>	<u>10,240,818</u>	<u>36,483</u>	<u>—</u>	<u>10,277,301</u>
Less Accumulated Depreciation for							
Buildings and improvements..	456,234	18,439	—	474,673	19,566	—	494,239
Generation equipment	3,433,642	79,631	—	3,513,273	79,631	—	3,592,904
Distribution system	2,640,241	54,626	—	2,694,867	54,972	—	2,749,839
Plant tools and equipment	128,662	22,283	—	150,945	22,137	—	173,082
Office equipment.....	13,502	1,180	—	14,682	1,180	—	15,862
Jacket radiator equipment.....	94,432	4,380	—	98,812	4,380	—	103,192
Transportation equipment.....	320,633	10,075	—	330,708	10,566	—	341,274
Total Accumulated Depreciation.....	<u>7,087,346</u>	<u>190,614</u>	<u>—</u>	<u>7,277,960</u>	<u>192,432</u>	<u>—</u>	<u>7,470,392</u>
Net Capital Assets Being Depreciated.....	<u>3,081,475</u>	<u>(118,617)</u>	<u>—</u>	<u>2,962,858</u>	<u>(155,949)</u>	<u>—</u>	<u>2,806,909</u>
Net Capital Assets	<u>\$ 3,262,326</u>	<u>\$ 715,683</u>	<u>\$ —</u>	<u>\$ 3,978,009</u>	<u>\$ 1,235,500</u>	<u>\$ —</u>	<u>\$ 5,213,509</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 6.61% and 6.52% at June 30, 2011 and 2010, 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, 2011 and 2010, \$28,657 and \$34,926, 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, 2011 and 2010, \$51,639 and \$48,917, 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 Note 4, the Utility also loans money to the City from time to time.

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

	2011	2010
Amounts billed to the City for electric services	\$ 173,855	\$ 133,073
Amounts received from the City for services	172,856	131,771
Receivable from the City at year end for electric services.....	13,863	12,277
Amounts received from the City for loan repayments.....	38,814	5,588
Amounts received from the City for interest on loans.....	11,271	2,007
Note balance at year end	337,162	45,976
Payments made to the City for services received	245,564	212,491

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, 2011 and 2010 are as follows:

	2011	2010
Electricity purchased	\$ 2,570,000	\$ 2,338,012
Cash payments to RPGI.....	2,574,483	2,328,965
Payable to RPGI at June 30, 2011	236,920	241,403

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, 2011, most plan members are required to contribute 4.5% of their annual salary and the Utility is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$34,541, \$32,365, and \$31,229, 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 \$109,240. At June 30, 2011, costs of \$75,000 had been incurred on the project and \$34,240 is required to complete the work.

The Utility committed to the construction of a substation and other electrical plant improvements. The total cost was \$939,775 with \$229,815 paid by June 30, 2011. The remaining commitment at June 30, 2011 was \$709,960.

(12) Subsequent Events

Management has evaluated subsequent events through December 22, 2011, the date which the financial statements were available to be issued.

Subsequent to June 30, 2011, a destructive wind storm caused significant damage within the City of Vinton. The Utility has spent approximately \$570,000 for cleanup, repairs and replacement of damaged assets.

Supplemental Data

Schedules of Operating Expenses

Years Ended June 30, 2011 and 2010

	2011	2010
Generation and Purchased Power		
Purchased power.....	\$ 2,574,628	\$ 2,338,012
Natural gas	87,560	83,617
Fuel oil	47,225	60,204
Payroll taxes and employee benefits.....	53,428	60,958
Production labor	158,210	184,482
Lubricants and chemicals.....	9,479	12,927
Maintenance	697	42,633
Other.....	<u>7,187</u>	<u>8,844</u>
Total Generation and Purchased Power	<u>\$ 2,938,414</u>	<u>\$ 2,791,677</u>
Distribution		
Salaries.....	\$ 209,238	\$ 179,578
Payroll taxes and employee benefits.....	70,568	59,337
Line and station supplies and expense	2,294	2,838
Maintenance		
Structure and equipment.....	7,932	14,200
Overhead lines.....	30,587	26,245
Line transformers	9,117	—
Street lighting	5,019	4,809
Meters	2,705	13,188
Other	<u>3</u>	<u>152</u>
Total Distribution.....	<u>\$ 337,463</u>	<u>\$ 300,347</u>
Customer Accounts		
Salaries and outside services.....	\$ 26,414	\$ 27,219
NSF checks expense.....	<u>974</u>	<u>—</u>
Total Customer Accounts.....	<u>\$ 27,388</u>	<u>\$ 27,219</u>
Administration and General		
Salaries.....	\$ 87,879	\$ 93,968
Payroll taxes and employee benefits.....	29,676	31,049
Outside services	27,137	22,909
Office supplies	12,356	15,513
Insurance.....	77,024	71,694
Transportation	26,011	17,910
Regulatory assessment.....	500	7,747
Membership dues and subscriptions	15,284	12,920
Promotion and economic development	36,500	14,630
Energy efficiency	26,537	29,428
Other.....	<u>20,157</u>	<u>32,632</u>
Total Administration and General.....	<u>\$ 359,061</u>	<u>\$ 350,400</u>

See accompanying notes to the financial statements

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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 Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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, 2011, and have issued our report thereon dated December 22, 2011. 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, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 weakness is a deficiency, or a combination of deficiencies, in internal control such 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 deficiency in internal control described in Part I of the accompanying schedule of findings as item 11-I-IC-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vinton Municipal Electric Utility's financial statements are free of material misstatements, 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*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2011 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.



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Waterloo, Iowa
December 22, 2011

Schedule of Findings and Questioned Costs

Part I: Findings Related to the Financial Statements

Internal Control Deficiencies

11-I-IC-1 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.

Part II: Compliance and Other Matters

- 11-C-1 **Budget** - Operating cash disbursements during the year ended June 30, 2011 did not exceed the amount budgeted.
- 11-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.
- 11-C-3 **Travel Expense** - No disbursements of the Utility's money for travel expenses of spouses of the Utility officials or employees were noted.
- 11-C-4 **Business Transactions** - No business transactions between the Utility and Utility officials or employees were noted.
- 11-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.

Schedule of Findings and Questioned Costs

- 11-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.
- 11-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.