

VINTON MUNICIPAL ELECTRIC UTILITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2013

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VINTON MUNICIPAL ELECTRIC UTILITY

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Barron	Chairperson	December 2016
Alan Woodhouse	Trustee	December 2015
Michael Elwick	Trustee	December 2013
Jon Kremer	Trustee	December 2017
John Anderson	Trustee	December 2014
Rick Ohrt	General Manager	Indefinite
Cindy Michael	Secretary	Indefinite



James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.
Jeremy P. Lockard, C.P.A.

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Independent Auditor's Report

To the Board of Trustees
Vinton Municipal Electric Utility
Vinton, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of Vinton Municipal Electric Utility (a municipal utility), a component unit of the City of Vinton, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of Vinton Municipal Electric Utility as of June 30, 2013, and the respective changes in financial position and, where

applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 6 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vinton Municipal Electric Utility's basic financial statements. The supplementary information included in the Schedule of Operating Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2014 on our consideration of Vinton Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 in considering Vinton Municipal Electric Utility's internal control over financial reporting and compliance.



RIDIHALGH, FUELLING, SNITKER, WEBER, & CO. P.C., C.P.A.'S

February 10, 2014

Vinton Municipal Electric Utility Management's Discussion and Analysis

The Vinton Municipal Electric 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, 2013. We encourage readers to consider this information in conjunction with the Electric Utility's financial statements, which follow.

2013 Financial Highlights

The Utility's operating revenue increased by less than 1%, or \$17,301, from fiscal 2012 to fiscal 2013.

The Utility's operating expenses decreased 8%, or \$298,736, from fiscal year 2012 to fiscal year 2013.

The Utility's net assets increased 10%, or \$1,010,999, from June 30, 2012 to June 30, 2013

Manager Ohrt retired on June 30, 2012 requiring a payout of unused vacation time and sick leave. The payout amount was \$18,132.18.

Four tankers of fuel oil were purchased during the fiscal year for generation, one for \$23,181.54 paid for in August 2012, one for \$25,577.76 paid for in October 2012, one for \$23,995.70 paid for in April 2013 and one for \$23,491.85 paid for in May of 2013.

In the August 14, 2012 VMEU Utility Board approved the purchase of \$36,500 in Cooper parts inventory for use on Unit 9 overhaul from Recip Engine Services and a check was issued for that amount on August 28, 2012. During that board meeting the Utility Board also approved the sale of a disabled aerial truck via sealed bid with a bid of not less than \$2,500. The sale was advertised in both local papers and ended on September 7, 2012. Three sealed bids were received and the successful bidder was Elwick Electric with a bid of \$3,550.

In the September 11, 2012 board meeting the VMEU Utility Board approved a NTE of \$15,000 for engineering services to Shermco for additional work on our SCADA system upgrade. Work will be billed as it is completed. In the same meeting ESCO Electric was authorized to install voltage regulator wiring for the amount of \$12,500. A check for the regulator work was issued December 6, 2012.

Michels Power was contracted to do a system line conversion. Their start date was to be October 1st 2012 but they brought in some equipment on October 19th and began actual conversion work on October 22. Their first invoice was for \$24,366.42. A retainer of \$1,218.32 was deducted from the invoice and the board approved payment of \$23,148.10 at the December 11th board meeting. The second invoice was for the amount of \$153,419.08. A retainer of \$7,670.95 was deducted from the invoice along with an additional \$21,100 due to a disagreement over them charging overtime for all hours worked after Super Storm Sandy hurricane for 3 weeks. The board approved payment of \$124,648.13 at the December 11th meeting. The 3rd and final invoice from Michels Power was for the amount of \$30,969.66. A retainer of \$1,548.48 was deducted from the invoice and the board approved payment of \$29,421.18 during the January 8th, 2013 board meeting. Michels was invited to attend our January 8th board meeting but had other commitments so requested to be on the agenda for February 12, 2013 meeting. Michels Midwest General Manager and the Project Manager spoke to the board at the February meeting. After Michels left the meeting the utility board approved paying the \$10,437.75 retainer and approved reimbursing them for \$11,000 of the \$21,100 that had been withheld from the December payment. The total project cost was \$198,655.16.

In addition to the approval for the Michels invoices in December 2012 the Board approved purchasing 2 used cooling towers from Recip for the amount of \$40,000 plus estimated freight charges of \$1,600 to transport the towers from River Falls, WI to Vinton. The actual cost was \$41,500.00 paid in May of 2013.

Vinton Municipal Electric Utility once again contracted the services of Chapman Metering to come and test about 10 percent of the utilities electric meters which is an Iowa Utility Board requirement. Chapman metering was here about 3 weeks in early and mid-December 2012 As of January 11, 2013 we have received 3 invoices (\$208.38, \$5,199.13, \$1,280.79) for a total cost to the utility of \$6,688.30.

In the February 12, 2013 meeting the board approved renewing our Machinery and Equipment Insurance provided by Cincinnati Insurance Company through Wilson and Hite Insurance. The approved amount was \$14,048 with a 3 year rate guarantee.

In the March 12, 2013 meeting the board approved disbursing \$6,500 to Vinton Unlimited for economic development.

In the April 9, 2013 meeting the board approved payment of \$20,000 to AmeriCorps/IBSSS for economic development.

In the April 9, 2013 meeting a quote of \$9,281.60 for Lenny Geiger Construction to install new energy efficient windows in the distribution building was approved. Acting Manager Ohrt was contacted by Lenny with a factory offer upgrade after he awarded the quote to Lenny. For \$25 per window they would be more energy efficient, changed to double sliders from single and have a lifetime warranty on the glass for any breakage including throwing a rock through them. Acting Manager Ohrt approved the extra cost of \$200 total and informed the VMEU board about it in the May meeting.

In the April 9, 2013 an estimate of \$5,464 was approved for payment to ITC Midwest for the cost of adding a second under build line to 5 transmission poles going east from the new 69 KV substation.

The Energy Adjustment Factor (EAF) was used again in FY 2012-2013. The average EAF for the fiscal year was \$0.0252. The maximum EAF was 3.81 cents in April 2013 and the lowest EAF occurred in August 2012 when no adjustment was necessary.

The CIPCO lawsuit is still ongoing.

Overview of the Financial Statements

Management's Discussion and Analysis is intended to serve as an introduction to the Utility's basic financial statements.

The Statement of Net Position presents the value of all of the Utility's assets and liabilities by liquidity, with the difference between the two presented as net position. The Utility's net position represents to what extent the Utility's assets exceed its liabilities, with further breakout showing the value of assets invested in capital assets used in providing services to the Utility's customers.

The Statement of Revenues, Expenses and Changes in Fund Net Position presents information detailing how the Utility's net position changed during the year. The statement is divided between operating activities—providing electricity to the Utility's customers—and non-operating activities which fall outside of the definition of operating activities. Changes in net position are reported as soon as the underlying event causing the change occurs, regardless of the timing of the related cash flows. Therefore, revenue and expenses are reported in this statement for some transactions that will result in cash flows in subsequent years.

The Statement of Cash Flows presents information detailing the major sources and uses of cash separated out by activity. This statement also includes a reconciliation of net operating income to net cash provided by operating activities.

The Notes to the Financial Statements provide additional information that is essential to the understanding of the data provided in the basic financial statements.

The Supplementary Information provides a more detailed listing of the Utility’s operating expenses for the year and should be viewed in conjunction with the Statement of Revenues, Expenses and Changes in Fund Net Position.

Financial Analysis

Net Position may serve over time as a useful indicator of financial position. The following is a summary of the composition of net assets at June 30:

	<u>2013</u>	<u>2012</u>
Current Assets	\$ 5,144,004	\$ 4,138,764
Noncurrent, noncapital assets	524,900	540,496
Capital Assets, net of depreciation	<u>5,806,319</u>	<u>5,932,617</u>
Total Assets	<u>11,475,223</u>	<u>10,611,877</u>
Current Liabilities	<u>355,779</u>	<u>503,432</u>
Net Position:		
Invested in capital assets	5,806,319	5,932,617
Unrestricted	5,313,125	4,175,828
Total Net Position	<u>\$11,119,444</u>	<u>\$10,108,445</u>

The Utility’s net position increased by \$1,010,999, or 10%, during fiscal year 2013. The largest portion of the Utility’s net position is invested in capital assets (e.g. land, buildings and improvements, equipment, and construction in progress), net of accumulated depreciation costs which made up 52% of the total net position. The remainder of net position consisted of unrestricted funds which may be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements.

The following is a summary of the changes in net assets for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Operating Revenue	\$ 4,357,366	\$ 4,340,335
Operating Expenses	<u>3,526,381</u>	<u>3,825,117</u>
Operating Income (Loss)	830,985	515,218
Net non-operating revenue (expense)	<u>180,014</u>	<u>336,566</u>
Change in Net Position	1,010,999	851,784
Net Position at Beginning of Year	<u>10,108,445</u>	<u>9,256,661</u>
Net Position at End of Year	<u>\$11,119,444</u>	<u>\$10,108,445</u>

Budgetary Highlights

The Utility prepared and adopted the annual budget in March 2012, which designated the amounts necessary for the improvement and maintenance of the Utility. This budget uses a modified cash basis of accounting which differs from the accrual basis of accounting used to prepare the accompanying financial statements. The budget information is provided to the City of Vinton and is included along with the City’s budget for certification and publication. The Utility’s original budget was not amended during either of the years ended June 30, 2013 or 2012. The Utility did not exceed its budgeted expenditures for the year ended June 30, 2013.

The Utility’s actual cash receipts were \$514,354 or 10%, less than budgeted due to lower sales in the residential and commercial accounts and the lack of reimbursements for windstorm expenditures.

The Utility's actual cash disbursements were \$2,060,929, or 33%, less than budgeted due to lower than expected costs for purchased power, windstorm expenses and repairs to generation equipment.

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 2014 are expected to increase modestly over the same expenditures in 2013 due to increases in pay rates and energy purchases.

Contacting the Utility's Financial Management

This financial report is designed to provide our 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 any questions about this report or need additional financial information, contact Cindy Michael, Secretary, P.O. Box 529, Vinton, IA 52349.

Basic Financial Statements

Vinton Municipal Electric Utility
Statement of Net Position
June 30, 2013

ASSETS:	<u>2013</u>
Current Assets:	
Cash and cash equivalents	\$ 3,679,393
Receivables:	
Trade accounts, net allowance for uncollectibles	305,414
Federal grants	101,120
State grants	96,271
Unbilled revenues	225,018
City of Vinton	13,818
Current portion of notes	39,547
Prepaid expenses	57,148
Inventory	626,276
Total Current Assets	<u>5,144,005</u>
Noncurrent Assets	
Notes receivable	219,273
Investment in joint venture	305,627
Capital Assets, net accumulated depreciation	5,806,318
Total Noncurrent Assets	<u>6,331,218</u>
Total Assets	<u><u>\$ 11,475,223</u></u>
LIABILITIES:	
Accrued Payroll	8,621
Accounts Payable	243,906
Accrued sales and use tax	5,582
Accrued compensated absences	97,670
Total Liabilities	<u>355,779</u>
NET POSITION:	
Invested in capital assets	5,806,319
Unrestricted	5,313,125
Total Net Position	<u>11,119,444</u>
Total Liabilities and Net Position	<u><u>\$ 11,475,223</u></u>

See notes to the financial statements

Vinton Municipal Electric Utility
Statement of Revenues, Expenses
and Changes in Fund Net Position
Year Ended June 30, 2013

	2013
Operating Revenues:	
Charges for services	\$ 4,130,181
Sales and services to City of Vinton	134,376
Miscellaneous operating revenue	92,809
Total Operating Revenue	4,357,366
Operating expenses:	
Generation	2,467,225
Distribution	391,615
Customer account	24,251
Administration and general	330,720
Benefits to community and city	87,006
Depreciation and amortization	225,564
Total Operating Expenses	3,526,381
Operating Income	830,985
Non-Operating Revenues (Expenses):	
Federal grants	59,892
State grants	7,986
Windstorm expense	(17,187)
Interest income	12,681
Equity in net income (loss) of joint venture	23,951
Gain (loss) on disposal of assets	38,793
Other revenue	53,898
Total Non-Operating Revenues (Expenses)	180,014
Changes in Net Position	1,010,999
Net Position, beginning of year	10,108,445
Net Position, end of year	\$ 11,119,444

See notes to the financial statements

Vinton Municipal Electric Utility
Statement of Cash Flows
Year Ended June 30, 2013

	2013
Cash flows from operating activities:	
Cash received from customers and users	\$ 4,235,840
Cash received from primary government	132,688
Cash paid for services	(687,750)
Cash paid to suppliers	(2,639,950)
Cash paid to primary government	(194,480)
Net cash provided by operating activities	846,348
Cash flows from noncapital financing activities:	
Miscellaneous nonoperating revenue	53,898
Noncapital grants	-
Nonoperating expense - windstorm	(17,187)
Net cash provided by noncapital financing activities	36,711
Cash flows from capital and related financing activities:	
Acquisitions of capital assets	(608,757)
Disposal of capital assets	38,793
Net cash used by capital and related financing activities	(569,964)
Cash flows from investing activities:	
Proceeds from maturity of certificates of deposit	500,000
Collections on notes from City of Vinton	59,293
Interest on investments	13,092
Net cash provided by investing activities:	572,385
Net increase in cash and cash equivalents	885,480
Cash and cash equivalents beginning of year	2,793,913
Cash and cash equivalents end of year	\$ 3,679,393

See notes to the financial statements

Vinton Municipal Electric Utility
Statement of Cash Flows
Year Ended June 30, 2013

	2013
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 830,985
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	225,564
(Increase) decrease in:	
Accounts receivable	(33,081)
Unbilled revenues receivable	42,055
Interest receivable	
Inventory	(77,245)
Prepaid expenses	5,719
Increase (decrease) in:	
Accounts payable	(155,410)
Accrued wages payable	(1,933)
Accrued vacation and sick pay	9,730
Other accrued expenses	(36)
	\$ 846,348
Net cash provided by operating activities	\$ 846,348

See notes to the financial statements

Vinton Municipal Electric Utility
Notes to the Financial Statements
June 30, 2013

(1) Summary of Significant Accounting Policies

The Vinton Municipal Electric Utility (Utility) is a subdivision of the City of Vinton (City), which is a political subdivision of the State of Iowa. The Utility is considered a component unit of the City under Governmental Accounting Standards Board Statement No. 61. The Utility is a public utility responsible for most of the electrical services to the citizens of the City of Vinton, Iowa.

The Utility's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For reporting purposes, the Utility has included all funds. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board sets forth criteria to be considered in determining if the Utility is a component unit of the City of Vinton. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis and the Utility is governed by a separate Board of Trustees which is appointed by the Mayor subject to the approval of the City Council. The financial statements are the Enterprise Fund of Vinton Municipal Electric Utility which is a component unit of the City of Vinton.

B. Basis of Presentation:

The Statement of Net Position (previously referred to as net assets) and the Statement of Revenues, Expenses and Changes in Fund Net Position report information on all of the nonfiduciary activities of the Utility.

The Statement of Net Position displays the Utility's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Utility's policy to use unrestricted resources first.

C. Measurement Focus and Basis of Accounting:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

In reporting its financial activity, the Utility applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Utility maintains its financial records on the cash basis. The financial statements of the Utility are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets:

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of deposits into money market accounts.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash

equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Accounts Receivable and Unbilled Revenue – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual customer balances. Unbilled revenue is for the service consumed between periodic scheduled billing dates and is estimated and recognized as revenue in the period in which the service is provided.

Inventories – Inventories are valued at cost using the average cost method. Inventories consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets, are reported on the Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. If items of property are sold, retired, or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts, and any gain or losses thereon are reflected in the Statements of Revenues, Expenses and Changes in Fund Net Position.

The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the Utility as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years:

Asset Class	Amount
Land, buildings and improvements	\$ 25,000
Equipment and vehicles	5,000
Infrastructure	30,000
Intangibles	50,000

Capital assets of the Utility are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings and improvements	20-50
Jacket radiator equipment	25
Transportation equipment	5-10
Plant tools and equipment	10-25
Generation equipment	10-50
Distribution system	25-40
Office equipment	3-10

(2) Cash and Investments

The Utility's deposits in banks at June 30, 2013 were 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; 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.

(3) 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, 2013 was \$27,820.

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, 2013 was \$231,000.

On January 17, 2012, the Utility loaned \$20,000 to the City. The note was not subject to interest. The note was paid in full during fiscal year 2013.

(4) Unbilled Revenues Receivable

Unbilled revenues receivable consist of electric meter usage that has not been read or billed by the Utility, but represents customer usage prior to year end. The balance in this account at June 30, 2013 was \$225,018.

(5) Inventories

Inventory is stated at the lower of cost or market. At June 30, inventories consisted of the following:

	<u>2013</u>
Fuel oil	\$ 58,330
Lube oil	2,305
Distribution	194,467
Generation	<u>371,173</u>
	<u>\$ 626,275</u>

(6) Capital Assets

Capital Assets Not Being Depreciated:	<u>2012</u>	Increase	Decrease	<u>2013</u>
Land	\$ 454,817	\$ —	\$ —	\$ 454,817
Construction in Progress	<u>1,584,586</u>	<u>382,274</u>	<u>176,931</u>	<u>1,789,929</u>
Total Capital Assets Not Being Depreciated	<u>2,039,403</u>	<u>382,274</u>	<u>176,931</u>	<u>2,244,746</u>
Capital Assets Being Depreciated:				
Buildings and improvements	925,506	—	—	925,506
Jacket radiator equipment	114,284	—	—	114,284
Transportation equipment	425,404	101,264	72,199	454,469
Plant tools and equipment	517,739	—	1,205	516,534
Generation equipment	5,799,559	302,149	—	6,101,708
Distribution system	3,247,904	—	—	3,247,904
Office equipment	30,778	—	—	30,778
Total Capital Assets Being Depreciated	<u>11,061,174</u>	<u>403,413</u>	<u>73,404</u>	<u>11,391,183</u>
Less Accumulated Depreciation	<u>7,677,451</u>	<u>225,564</u>	<u>73,404</u>	<u>7,829,611</u>
Net Capital Assets Being Depreciated	<u>3,383,723</u>	<u>177,849</u>	<u>—</u>	<u>3,561,572</u>
Net Capital Assets	<u>\$ 5,423,126</u>	<u>\$ 560,123</u>	<u>\$ 176,931</u>	<u>\$ 5,806,318</u>

(7) Compensated Absences

The Utility's employees accumulate vacation days during the year based on the anniversary of their employment. At June 30, 2013 \$35,164 was accrued for unused vacation days. Vacation time may only be carried forward from year to year with prior approval of management.

The Utility's full-time employees accrue sick leave at a rate of 8 hours per month. Upon retirement, permanent disability or death, an employee will be paid fifty percent of his or her accumulated sick leave, up to a maximum of 480 hours. At June 30, 2013 \$56,660 was accrued for unused sick pay.

The Utility has a compensatory time policy allowing for the banking of overtime worked up to 120 hours. Compensatory time may be used up to one year from the time earned; any time not used within one year is converted to paid overtime. Upon retirement, permanent disability, or death, an employee will be paid for any unused compensatory time up to 40 hours. At June 30, 2013 \$5,846 was accrued for unused compensatory time.

(8) 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 the construction of power lines. This joint venture is accounted for under the equity method. The Utility's approximate pro rata interest in RPGI was 7.9%. 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. RPGI issues separate, audited, financial statements which are available upon request.

(9) Pension and Retirement Benefits

The Utility contributes 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, IA 50306-9117.

As of July 1, 2012, plan members are required to contribute 5.78% of their annual covered payroll and the Utility is required to contribute 8.67% of covered payroll. Contribution requirements are established by state statute. The contributions paid to IPERS by the Utility for the years ended June 30, 2013, 2012, and 2011 were \$37,975, \$40,987, and \$34,541 respectively, equal to the required contributions for each year.

(10) Related Party Transactions

The Utility provides electrical service to the City of Vinton and bills the City for that usage. The City provides meter reading, administration and accounting services to the Utility. The Utility pays one-half the salary of the Meter Reader and City Clerk, and contributes funds to cover the costs of employing one full time office employee at the City. As disclosed in Note 3, the Utility also had loans outstanding to the City during the year ended June 30, 2013.

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

	<u>2013</u>
Amounts billed to the City for electrical services	\$ 134,376
Amounts received from the City for services	132,688
Receivable from the City at year end for electric services	13,818
Amounts received from the City for loan repayments	59,293
Amounts received from the City for Interest on loans	7,696
Note balance at year end	258,820
Payments made to the City for services received	194,480

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

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

The Utility purchases electricity for resale from RPGI. Transactions with RPGI and balances at year end are as follows:

	<u>2013</u>
Electricity purchased	2,042,089
Cash payments to RPGI	2,082,573
Amounts due to RPGI	201,284

(11) Budgeting

The Utility is required to prepare a budget each year and submit it to the City of Vinton for approval by the council. 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 budget to actual (cash basis) comparison for the year ended June 30, 2013 is as follows:

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenues	4,533,604	5,154,474	(620,870)
Expenditures	(4,148,124)	(6,289,624)	2,141,500

(12) Commitments

The Utility has contracted to purchase its electric power and energy requirements from RPGI through December 31, 2013.

During the year ended June 30, 2012, the Utility entered into a contract for line conversion totaling \$325,000. At June 30, 2013, costs of \$312,910 have been incurred on the project and \$12,090 is required to complete the work.

(13) 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.

(14) Subsequent Events

In October 2013, the Utility agreed to a settlement in a lawsuit concerning the use of transmission systems. The Utility agreed to pay a total of \$92,433 over a five year period expected to begin in April 2014.

Other Supplementary Information

Vinton Municipal Electric Utility
Schedule of Operating Expenses
Year Ended June 30, 2013

	2013
Generation:	
Purchased power	\$ 2,042,089
Fuel oil	79,006
Natural gas	80,375
Payroll taxes and employee benefits	51,248
Production labor	163,407
Lubricants and chemicals	14,845
Maintenance	26,148
Miscellaneous	10,107
Total Generation	2,467,225
Distribution:	
Distribution labor	230,967
Payroll taxes and employee benefits	72,437
Maintenance:	
Structure and equipment	4,075
Overhead lines	55,894
Line transformers	8,047
Street Lighting	10,700
Meters	6,609
Supplies	2,886
Total Distribution	391,615
Customer Accounts:	
NSF check expense	5,392
Meter reading	18,859
Total Customer Accounts	24,251
Administration and General:	
Office salaries	109,894
Payroll taxes and employee benefits	31,101
Property insurance	76,570
Outside services	18,259
Office supplies	15,895
Regulatory assessment	6,130
Membership dues	11,957
Transportation	10,533
Energy efficiency programs	17,295
Miscellaneous	33,086
Total Administration and General	330,720
Benefits to Community and City:	
Labor benefits to city	60,456
Community benefits	26,550
Total Benefits to Community and City	87,006
Depreciation and amortization	225,564
Total Operating Expenses	\$ 3,526,381

See accompanying independent auditor's report.

**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**

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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

To the Board of Trustees
Vinton Municipal Electric utility
Vinton, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business type activities of Vinton Municipal Electric Utility, Vinton, Iowa, as of and for the years ended June 30, 2013, and the related notes to financial statements, which collectively comprise the Utility's basic financial statements listed in the table of contents, and have issued our reports thereon dated February 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Vinton Municipal Electric Utility's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Vinton Municipal Electric Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Vinton Municipal Electric Utility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be a material weakness and deficiencies in internal control we consider to be significant deficiencies.

A deficiency in internal control exists when the design and 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 Vinton Municipal Electric Utility's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-13 and II-B-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in

Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-13, II-D-13 and II-E-13 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, non-compliance 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 non-compliance or other matters that are required to be reported under Governmental Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2013 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.

Vinton Municipal Electric Utility's Responses to Findings

Vinton Municipal Electric Utility's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Vinton Municipal Electric Utility's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Vinton Municipal Electric Utility during the course of our audit. Should you have any questions concerning the above matters, we shall be pleased to discuss them with you at your convenience.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

RIDIHALGH, FUELLING, SNITKER, WEBER & CO., P.C., C.P.A.'S

February 10, 2014

Vinton Municipal Electric Utility
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Vinton Municipal Electric Utility
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- II-A-13 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The Board of Trustees is aware of the condition. We will review procedures and make changes where reasonable.

Conclusion – Response acknowledged.

- II-B-13 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The Utility does not have an internal control system designed to provide for the preparation of the financial statements, including accompanying footnotes, as required by generally accepted accounting principles.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements as well as prepare certain material adjusting entries to bring the Utility's cash basis records to accrual amounts.

Recommendation – Management should carefully review the financial statements including note disclosures and understand their relationship to the underlying data. All proposed adjustments and the reasoning behind them should be understood and approved.

Response – The Utility relies on the auditor to propose the adjustments necessary to prepare the financial statements and the related note disclosures in accordance with the applicable financial frameworks. The Utility reviews such financial statements.

Conclusion – Response acknowledged.

Vinton Municipal Electric Utility
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

II-C-13 Credit Cards – The Utility has a credit card for use by management while on Utility business. The Utility has not adopted a formal policy to regulate the use of this credit card and to establish for the proper accounting of credit card charges.

Recommendation – The Utility should adopt a formal written policy regulating the use of any Utility credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We presently have unwritten guidelines. However, we have not established a written policy detailing the specifics on the use of Utility credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion – Response acknowledged.

II-D-13 Management Override of Controls – During the audit, various adjusting entries to the underlying financial data were noted for which there was no system of review, or any involvement from officials other than the individual making the entries. Additionally, the Utility maintains a separate set of checks which it uses to move funds from the Utility’s account to the City without having an effect on the Utility’s financial statements.

Recommendation – When a change is made to the accounting records, or assets are removed from the Utility’s accounts, the Board of Trustees or a party separate from the one making the entry should review all entries for propriety. Documentation of these reviews should be kept along with the details of why the entry was made.

Response – We will review the current procedures in place and look into developing a system of reviews and controls over journal entries and the transfer of City funds from the Utility’s account.

Conclusion – Response acknowledged.

II-E-13 Reconciliations – The Utility’s cash reconciliation did not reconcile to the amount reported on the Utility’s financial statements. Additionally, the reconciliation contained items for which the Utility was not able to offer a complete explanation.

Recommendation – The Utility should review all reconciliations to ensure they match the underlying data and that all reconciling items are explainable and understood.

Response – This issue arose for the first time during the fiscal year under audit, and is caused by an interaction between accounts in the software. We will look into the cause and ensure that it is resolved.

Conclusion – Response acknowledged.

Vinton Municipal Electric Utility
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

Vinton Municipal Electric Utility
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted in the business type activities functions.
- IV-B-12 Questionable Disbursements – We noted no specific individual questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- IV-C-12 Travel Expense – No disbursements of Utility’s money for travel expenses of spouses of Utility officials or employees were noted.
- IV-D-12 Business Transactions – There were no material business transactions between the Utility and Utility officials or employees.
- IV-E-12 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- IV-F-12 Board of Trustees Minutes – We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-12 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12 C of the Code of Iowa or the Utility’s investment policy were noted.