



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE October 8, 2004

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Auditor of State David A. Vaudt today released an audit report on the Villisca Municipal Power Plant, Villisca, Iowa.

The Power Plant's receipts totaled \$761,298 for the year ended December 31, 2003. The receipts included \$657,681 in charges for service and \$17,962 in interest on investments. The Power Plant also received note proceeds of \$1,470,000 that are reported as other financing sources.

Disbursements for the year totaled \$2,405,555, and included \$735,289 for electric operations, \$126,778 for debt payments and \$1,543,488 for various capital projects.

This report contains numerous recommendations to Power Plant officials. For example, operating procedures should be reviewed to obtain the maximum internal control possible. Monthly receipts and disbursement journals should be reconciled to financial reports. Also, procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. In addition, the budget should be reviewed and amendments made before disbursements exceed the budget. The Power Plant also should establish the required accounts and make the necessary transfers as required by the note resolution. Power Plant officials have responded favorably to the recommendations.

A copy of the audit report is available for review in the Office of Auditor of State and the Power Plant's office.

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VILLISCA MUNICIPAL POWER PLANT
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
DECEMBER 31, 2003

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Villisca Municipal Power Plant

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Currin	Board Chairman	December 31, 2004
Darwin Williams	Vice-Chairman	December 31, 2007
Wayne Spencer	Trustee	December 31, 2003
Danny Lindberg	Trustee	December 31, 2006
Kristine Cooper	Trustee	December 31, 2008
Michael Johnson	Superintendent	Resigned January 2004
Debbie Schneck	Office Manager	Indefinite

Villisca Municipal Power Plant



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Independent Auditor's Report

To the Board of Trustees of the
Villisca Municipal Power Plant:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Villisca Municipal Power Plant, Villisca, Iowa, as of and for the year ended December 31, 2003. These financial statements are the responsibility of Power Plant officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

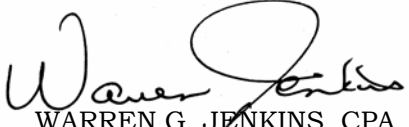
As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in note 1, the financial statements of the Villisca Municipal Power Plant are intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Villisca that is attributable to the transactions of the Power Plant.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of the cash transactions of the Villisca Municipal Power Plant as of and for the year ended December 31, 2003, and its indebtedness at December 31, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2004 on our consideration of the Villisca Municipal Power Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. 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.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedule 1 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, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 19, 2004

Villisca Municipal Power Plant

Financial Statements

Villisca Municipal Power Plant

Villisca Municipal Power Plant
Combined Statement of Cash Transactions
All Funds
Year ended December 31, 2003

	<u>Proprietary Fund Type Enterprise</u>
Receipts:	
Use of money and property	\$ 17,962
Charges for service	657,681
Miscellaneous	85,655
Total receipts	<u>761,298</u>
Disbursements:	
Business type activities	<u>2,405,555</u>
Deficiency of receipts under disbursements	(1,644,257)
Other financing sources:	
Note proceeds (less discount of \$30,000)	<u>1,470,000</u>
Deficiency of receipts and other financing sources under disbursements	(174,257)
Balance beginning of year	<u>788,334</u>
Balance end of year	<u><u>\$ 614,077</u></u>

See notes to financial statements.

Villisca Municipal Power Plant

Comparison of Receipts, Disbursements and Changes in Balances -
Actual to Budget

Year ended December 31, 2003

	<u>Actual</u>	<u>Amended Budgeted</u>
Receipts:		
Use of money and property	\$ 17,962	20,000
Charges for service	657,681	680,100
Miscellaneous	85,655	46,994
Total receipts	<u>761,298</u>	<u>747,094</u>
Disbursements:		
Business type activities	<u>2,405,555</u>	<u>2,189,282</u>
Deficiency of receipts under disbursements	(1,644,257)	(1,442,188)
Other financing sources	<u>1,470,000</u>	<u>1,470,002</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(174,257)	27,814
Balance beginning of year	<u>788,334</u>	<u>869,355</u>
Balance end of year	<u><u>\$ 614,077</u></u>	<u><u>897,169</u></u>

See notes to financial statements.

<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>Actual as</u> <u>% of</u> <u>Budget</u>
(2,038)	90%
(22,419)	97%
38,661	182%
<u>14,204</u>	<u>102%</u>
<u>(216,273)</u>	<u>110%</u>
(202,069)	
<u>(2)</u>	
(202,071)	
<u>(81,021)</u>	
<u>(283,092)</u>	

Villisca Municipal Power Plant
Statement of Indebtedness
Year ended December 31, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes: Electric	Feb 1, 2003	2.00 - 5.10%	\$ 1,500,000

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
-	1,500,000	80,000	1,420,000	45,053

Villisca Municipal Power Plant

Villisca Municipal Power Plant

Notes to Financial Statements

December 31, 2003

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Villisca Municipal Power Plant is a component unit of the City of Villisca, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Power Plant is governed by a five-member board of trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

B. Fund Accounting

The accounts of the Power Plant are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds are classified as Enterprise Funds in the financial statements. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The Villisca Municipal Power Plant maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Power Plant are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

The Villisca Municipal Power Plant prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

(2) Deposits

The Power Plant's deposits in banks at December 31, 2003 were 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 Power Plant 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.

The Power Plant had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Revenue Notes

Annual debt service requirements to maturity for revenue note indebtedness are as follows:

Year Ending December 31,	Interest Rates	Principal	Interest	Total
2004	2.35%	\$ 80,000	58,470	138,470
2005	2.70	85,000	56,590	141,590
2006	3.10	85,000	54,295	139,295
2007	3.40	85,000	51,660	136,660
2008	3.65	90,000	48,770	138,770
2009	3.85	95,000	45,485	140,485
2010	4.05	95,000	41,828	136,828
2011	4.25	100,000	37,980	137,980
2012	4.40	105,000	33,730	138,730
2013	4.55	110,000	29,110	139,110
2014	4.70	115,000	24,105	139,105
2015	4.85	120,000	18,700	138,700
2016	5.00	125,000	12,880	137,880
2017	5.10	130,000	6,630	136,630
Total		<u>\$ 1,420,000</u>	<u>520,233</u>	<u>1,940,223</u>

The resolution providing for the issuance of the revenue notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sinking account for the purpose of making the note principal and interest payments when due.
- (c) At the time of delivery of the notes, \$141,590 shall be deposited into a principal and interest reserve account. These funds shall be used for the payment of principal and interest on the notes if, for any reason, funds on deposit in the sinking account are insufficient to pay such when due.

(d) At the time of delivery of the notes, \$140,000 shall be deposited into an improvement and extension account. These funds shall be used if there is a deficiency in the sinking account, reserve account or to pay for capital improvements and extensions to the Power Plant.

The Power Plant has not established the reserve or improvement and extension accounts as required by the electric revenue note resolution.

(4) Pension and Retirement Benefits

The Power Plant 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, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Power Plant is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Power Plant's contribution to IPERS for the year ended December 31, 2003 was \$7,970, equal to the required contribution for the year.

(5) Compensated Absences

Power Plant employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Power Plant until used or paid.

The Power Plant has not determined the approximate liability for earned vacation, sick leave and compensatory time termination payments payable to employees at December 31, 2003.

(6) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended December 31, 2003, disbursements in the business type activities function within the City of Villisca budget exceeded the amount budgeted.

(7) Risk Management

The Power Plant is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Power Plant assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the year ended December 31, 2003.

(8) Commitments

At December 31, 2003, the Power Plant had remaining commitments totaling \$33,750 for the installation of two new generators. The balance will be paid as work on the project progresses.

Villisca Municipal Power Plant

Supplemental Information

Villisca Municipal Power Plant
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended December 31, 2003

	Electric Operating
Receipts:	
Use of money and property:	
Interest on investments	\$ 17,952
Charges for service:	
Sale of electricity	657,681
Miscellaneous:	
Sales tax collected	32,480
Refunds and reimbursements	488
Customer deposits	4,717
Accrued interest on notes sold	1,502
Miscellaneous	46,336
	85,523
Total receipts	761,156
Disbursements:	
Business type activities:	
Electric operations:	
Personal services	182,724
Purchased power	252,109
Insurance	22,836
Operations	170,582
Utilities	4,788
Contractual services	16,123
Sales tax remitted	34,251
Deposits refunded	805
Dues and memberships	8,970
Supplies and materials	26,908
Training and travel	5,237
Vehicle maintenance	2,978
Office supplies	1,598
Miscellaneous	5,284
	735,193

Electric Sinking	Project Share	Total
10	-	17,962
-	-	657,681
-	-	32,480
-	-	488
-	-	4,717
-	-	1,502
-	132	46,468
-	132	85,655
10	132	761,298
-	-	182,724
-	-	252,109
-	-	22,836
-	-	170,582
-	-	4,788
-	-	16,123
-	-	34,251
-	-	805
-	-	8,970
-	-	26,908
-	-	5,237
-	-	2,978
-	-	1,598
-	96	5,380
-	96	735,289

Villisca Municipal Power Plant
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended December 31, 2003

	Electric Operating
Disbursements (continued):	
Business type activities:	
Debt service:	
Principal redeemed	80,000
Interest paid	45,053
Miscellaneous	1,725
	126,778
Capital projects:	
Engineering fees	52,786
Capital projects	1,490,702
	1,543,488
Total disbursements	2,405,459
Excess (deficiency) of receipts over (under) disbursements	(1,644,303)
Other financing sources (uses):	
Note proceeds (less discount of \$30,000)	1,470,000
Transfers in (out)	(23,078)
Total other financing sources (uses)	1,446,922
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(197,381)
Balance beginning of year	788,309
Balance end of year	\$ 590,928

See accompanying independent auditor's report.

Electric Sinking	Project Share	Total
-	-	80,000
-	-	45,053
-	-	1,725
-	-	126,778
-	-	52,786
-	-	1,490,702
-	-	1,543,488
-	96	2,405,555
10	36	(1,644,257)
-	-	1,470,000
23,078	-	-
23,078	-	1,470,000
23,088	36	(174,257)
-	25	788,334
23,088	61	614,077

Villisca Municipal Power Plant



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STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Trustees of the
Villisca Municipal Power Plant:

We have audited the financial statements of the Villisca Municipal Power Plant, as of and for the year ended December 31, 2003, and have issued our report thereon dated August 19, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Villisca Municipal Power Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under Government Auditing Standards. However, we noted immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Power Plant's operations for the year ended December 31, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Power Plant. 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.

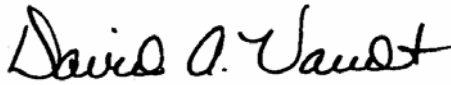
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Villisca Municipal Power Plant's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Villisca Municipal Power Plant's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings.

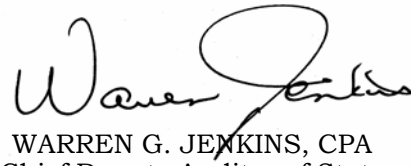
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A), (D), (G) and (I) are material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Villisca Municipal Power Plant and other parties to whom the Villisca Municipal Power Plant may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 19, 2004

Villisca Municipal Power Plant

Schedule of Findings

Year ended December 31, 2003

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the Power Plant.

- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Investments – detailed recording keeping, custody of investments and reconciling.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Utility receipts – billings, collecting, depositing, journalizing and posting.
- (5) Disbursements – purchasing, check writing, recording and reconciling.
- (6) Payroll – preparing and distributing.
- (7) Financial reporting – preparing, posting and reconciling.
- (8) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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

Response –

1. We will have the Treasurer review and reconcile all fund balances and provide a report to the Board at monthly meetings.
2. We will have all bills presented for review and initialed by a Board member.
3. We will have as a monthly agenda item at the Board of Trustees meeting, the review and approval of cash disbursements.
4. We will have the Superintendent review, initial and date all timesheets prior to payroll.
5. We will have the Secretary prepare and present an accurate monthly statement of revenue and expense also comparing the statement to the budget.
6. We will have an annual audit.

Conclusion – Response accepted.

Villisca Municipal Power Plant

Schedule of Findings

Year ended December 31, 2003

- (B) Imprest Cash – Petty cash funds on hand at the Power Plant did not appear to be maintained on an imprest basis or included in the appropriate fund balance. Receipts were not retained for all purchases.

Recommendation – Petty cash funds should be maintained on an imprest basis and the cash on hand should be included in the appropriate fund balance. To provide additional control over the funds, receipts should be retained for all petty cash purchases. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

Response – We will have the Secretary maintain a journal with a starting balance, money out, by whom and purpose. When cash needs reimbursed the Secretary will write a check to the bank, then include the date, amount and new balance in the journal. We will maintain receipts for all cash purchases and have the Treasurer reconcile the petty cash amount with the journal monthly. This will then be reported to the Board in her report.

Conclusion – Response accepted.

- (C) Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued at the time of collection for all moneys to provide additional control over the proper collection and recording.

Response – Receipts will need to be pre-numbered. The Secretary will also maintain a pre-numbered receipt book for any miscellaneous hand written receipts and receipts will be issued at the time of collections of monies.

Conclusion – Response accepted.

- (D) Disbursements – Invoices were not marked paid or cancelled to help prevent possible duplicate payment. Invoices or other supporting documents were not always attached to the vouchers. In addition, evidence of review by the Board was not documented and certain invoices were not on the paid bill listing published. Also, travel claims did not include specific documentation regarding destination, purpose and dates of travel. The Board has not established meal or lodging reimbursement limits. The Power Plant maintains a signature stamp containing the signature of the Board Chairman at the Power Plant office which was not adequately secured during the year.

Recommendation – All invoices and supporting documentation should be cancelled to help prevent possible duplicate payment and should be attached to the vouchers. All invoices should be approved by the Board and a complete and accurate listing of bills should be included in the minutes. The Board should determine specific requirements for travel claims to provide reasonable reimbursement limits and documentation for the request of reimbursement.

To strengthen internal control, each check should be prepared and signed by one person and then the supporting vouchers and invoices should be made available along with the check to the second or independent person for review and countersignature. If a signature stamp will continue to be maintained, it should be properly safeguarded.

Villisca Municipal Power Plant

Schedule of Findings

Year ended December 31, 2003

Response – We will have all bills presented for review and initialed by a Board member. We will have as a monthly agenda item at the Board of Trustees meeting, the review and approval of cash disbursements. Following the signature of the second person, invoices will be stamped paid and initialed. Disbursements will not be allowed to be paid without supporting vouchers and invoices. We will also acquire a copy of a near by County's policy on travel and training, to use as a guideline.

Conclusion – Response accepted.

- (E) Credit Cards – The Power Plant approved the use of a credit card by certain employees while on Power Plant business. The Power Plant has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Total purchases of \$2,705 were made with the credit card for which supporting documentation was not always available. After obtaining supporting documentation for certain charges, \$103 of the charges were questionable. They are included as payments to Wal-Mart and Holiday Inn in finding 3.

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

Response – We will adopt a policy establishing credit card use including:

- Recommending one account with two cards.
- Credit cards are to be kept with the Secretary when not being used.
- Receipts must support each transaction or the employee will be asked to reimburse the Power Plant.

Conclusion – Response accepted.

- (F) Payroll – Time sheets were not approved/initialed by an independent individual to verify the actual hours worked. Also, hourly pay rates were not approved and documented in the minutes record. Additionally, adequate records were not maintained for compensatory time, vacation or sick leave hours for all employees. The Power Plant has not determined the approximate liability for earned vacation, sick leave and compensatory time termination payments payable to employees at December 31, 2003. We were also unable to determine the propriety of the calculation of a compensatory time payout for one employee.

Recommendation – Time sheets should be reviewed by an independent individual to verify actual hours worked. Once reviewed, the independent individual should initial the timesheet to document approval. Also, all wages should be approved by the Board and its approval should be documented in the minutes record.

In addition, the Power Plant should maintain adequate records documenting vacation, sick leave and compensatory time earned and used, so the termination payment payable or payout can be determined at anytime.

Villisca Municipal Power Plant

Schedule of Findings

Year ended December 31, 2003

Response – The Superintendent will review, date and initial timesheets prior to the Secretary preparing payroll. In the absence of the Superintendent, the Board Chairman will do the aforementioned. We will have a contract with each employee including starting wage/salary. The Secretary and Superintendent will maintain a journal that will log compensatory time, vacation and sick leave. When compensatory time, vacation or sick leave is taken it will be approved by the Board Chairman or Vice-Chairman, noted in the journal and initialed by the Chairman or Vice-Chairman.

Conclusion – Response accepted.

- (G) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies. The Board should review the reconciliation and monitor delinquencies.

Response – The Superintendent or Board Chairman will review monthly billing and subsequent collections. All accounts receivables 60 days or older will be brought before the Board during the financial review portion of the Board meeting. The Board will determine and approve follow-up procedures and any subsequent write-offs.

Conclusion – Response accepted.

- (H) Use of Power Plant Property – The Power Plant maintains a laptop computer which is to be used for business purposes. However, based on our review of evidence left on the computer, this computer was used for non-business purposes and may have been used to visit inappropriate internet sites.

Recommendation – The Power Plant should establish written procedures for use of all business property.

Response – We will establish a policy stating that any personal use of utility property will result in a written reprimand and possible termination depending on the reason and severity. The policy should state that the Superintendent or any Board member may invoke the policy but formal reprimand has to receive majority Board consent.

Conclusion – Response accepted.

- (I) Reconciliation of Records and Financial Reports – The Clerk's and Treasurer's financial reports do not reconcile to the computer printouts or to the receipt and disbursement journals. Also, the annual financial report was revised and we were unable to reconcile this report to the Clerk/Treasurer's report and to the year-to-date computer printout. Additionally, financial reports given to the Board did not include comparison to the certified budget.

Recommendation – The Power Plant should ensure all reports reconcile to provide reliable financial information. Also, any revisions should be explained and documented and the documentation should be retained.

Villisca Municipal Power Plant

Schedule of Findings

Year ended December 31, 2003

To provide better control over budgeted disbursements and the opportunity for timely amendments to the budget, the financial reports given to the Board should include comparisons to the certified budget.

Response – The Secretary will present a statement of revenues and expenses report for the previous month. The Secretary will verify the report has been reconciled with the receipts and disbursement journals. We will have an official year-end report with the Secretary assuring it has been reconciled. We will have an annual audit.

Conclusion – Response accepted.

- (J) Information Systems – The following weaknesses in the Power Plant's computer based systems were noted:

The Power Plant does not have written policies for:

- Password privacy and confidentiality.
- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Ownership of in-house developed software and data.
- Logging off when a terminal is unattended and no automatic log off exists.
- Requiring backups be performed weekly, monthly and yearly.
- Storing system backup tapes at an offsite facility.
- Ensuring only software licensed to the Power Plant is installed on computers and monitoring software licensing requirements to ensure the Power Plant is in compliance.
- Usage of the internet.

Also, the Power Plant does not have a written disaster recovery plan to help ensure the continuity of Power Plant operations in the event of a disaster.

Recommendation – The Power Plant should develop written policies addressing the above items in order to improve the Power Plant's control over computer based systems.

Response –

1. We will have the software provider set up passwords and require they be changed monthly.
2. We will ask the software provider to set up an automatic log off system when computer is unattended.

Villisca Municipal Power Plant

Schedule of Findings

Year ended December 31, 2003

3. We will develop a policy clarifying the ownership of in-house developed software including:
 - a. If it is developed on company time, it belongs to the Power Plant. Personally developed software must be approved by the Board.
 - b. Only licensed software licensed to the Power Plant can be installed.
 - c. The policy will state that Internet use is for business purposes only.
4. We will develop a written disaster plan including backup procedures and offsite storage.

Conclusion – Response accepted.

Villisca Municipal Power Plant

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Year ended December 31, 2003

Other Findings Related to Required Statutory Reporting:

- (1) Official Depository – A resolution naming the official depository has been approved by the Board. The maximum deposit amount stated in the resolution was exceeded during the year ended December 31, 2003. Also, the bank name has changed and the Power Plant has not amended the resolution to update the bank name change.

Recommendation – A new resolution in an amount sufficient to cover anticipated balances at the approved depository should be adopted by the Board. Also, the bank's name should be updated to ensure continued coverage.

Response – We will approve a resolution in an amount sufficient to cover anticipated balance and name Bank Iowa as official depository.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended December 31, 2003 exceeded the amount budgeted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The Board will have on its monthly agenda “A review of Financial Indicators”. It will be a review of the statement of revenue and expenses with the following categories: current month, same month one-year ago, year to date, and year to date one year ago and budget. The Board will amend the budget in sufficient amount in accordance with Chapter 384.18 before disbursements are allowed to exceed budget.

Conclusion – Response accepted.

- (3) Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Transaction Description	Amount
James Sayre	Attorney fees for Michael Johnson, employee	\$ 148
Casey's	Meals	130
D & D	Meals	126
Wal-Mart	Employee Christmas party food	57
Holiday Inn	Movies and phone calls for employee attending training	46
Flower Basket	Flowers	44

Villisca Municipal Power Plant

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Year ended December 31, 2003

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Board should determine and document the public purpose and propriety of these disbursements or, if appropriate, request reimbursement. If this practice is continued, the Board should establish written policies and procedures, including the requirement for proper documentation.

Response – We will review the policy and clarify that there will not be any expenditures made that would not meet the requirements of public purpose. We will also acquire a copy of a nearby County's policy on travel and training, to use as a guideline.

Conclusion – Response accepted.

- (4) Travel Expense – No disbursements of Power Plant money for travel expenses of spouses of Power Plant officials or employees were noted.
- (5) Business Transactions – No business transactions between the Power Plant and Power Plant officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of Power Plant officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure coverage is adequate for current operations.
- (7) Board Minutes – Except as noted, no transactions were noted that we believe should have been approved in the Board minutes but were not.

The Board went into closed session on August 12, 2003. The vote of the Board members present at the meeting was not documented as required by Chapter 21 of the Code of Iowa and the meeting was not closed in accordance with Chapter 21 of the Code of Iowa.

The publication of the Board minutes for the meeting held July 10, 2003 did not contain a listing of the approved bills and the minutes for the joint meeting held October 21, 2003 with the City were not in the minutes book.

The Board minutes for the December 19, 2002 meeting did not document a public meeting was held, bids were received, the vote of the members approving the project and accepting the bid for the construction project. The minutes also did not document whether the lowest bid was accepted.

Recommendation – The Power Plant should comply with Chapter 21 of the Code of Iowa and the minutes should reflect the actions of the Board.

Response – All minutes will be published and any closed sessions will be done in accordance with Chapter 21 of the Code of Iowa.

Conclusion – Response acknowledged. The minutes should also reflect the actions of the Board.

Villisca Municipal Power Plant

Schedule of Findings

Year ended December 31, 2003

- (8) Deposits and Investments – Except as noted in item (1), no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Power Plant’s investment policy were noted. However, the current investment policy adopted by the Board does not contain the correct references to the Code of Iowa.

Recommendation – An updated investment policy should be adopted by the Board with correct code references to Chapters 12B and 12C of the Code of Iowa.

Response – Along with updating our official depository, the Board will properly refer to Chapters 12B and 12C of the Code of Iowa.

Conclusion – Response accepted.

- (9) Electric Revenue Notes – The Power Plant has not established the Enterprise Fund, Electric Revenue Reserve or Improvement and Extension Accounts required by the note resolution.

Also, the Power Plant has not paid electric note principal and interest from the Electric Revenue Sinking Account and has not made the required transfers to the Electric Revenue Sinking Account, as required by the note resolution.

The note indenture authorizing and providing for the issuance of the electric revenue notes issued February 1, 2003 required any accrued interest on the sale of notes shall be credited to the Electric Revenue Sinking Account. Accrued interest on the sale of notes of \$1,502 was deposited into the Enterprise Fund, Electric Operating Account.

Recommendation – The Power Plant should establish the required accounts and make the necessary transfers required by the note resolutions.

Power Plant officials should review the revenue note resolution and comply with the provisions of the resolution. The Power Plant should also periodically review the accounts to insure the required transfers have been made and established rates will result in sufficient funds to meet future obligations.

The Power Plant should make a corrective transfer from the Enterprise Fund, Electric Operating Account to the Enterprise Fund, Electric Revenue Sinking Account for \$1,502 to correctly record the accrued interest on notes sold.

Response – The Board will establish separate Enterprise Funds as Operating, Electric Revenue Reserve Fund of \$141,590, Improvement and Extension Fund of \$140,000 and Sinking Fund. Monthly balances will be presented with the Treasurer’s report. Transfers from the Operating Fund to the Sinking Fund will be shown by the Secretary. Semi annual loan payments according to the predetermined schedule will be made out of the Sinking Fund. The May 2003 and November 2003 loan payments were made out of the Operating Fund, since the Sinking Fund had not been established. The May 2004 payment was made out of the Operating Fund, but a transfer from the Sinking Fund to the Super Now bank account had been made. From this point forward the Secretary will continue to make the proper monthly transfers from the Operating Fund to the Sinking Fund and all loan payments will be made out of the Sinking Fund. A corrective transfer of \$1,502 from the Operating Fund will be made to correct the accrued interest received by the Power Plant at the initial issuance of bonds.

Conclusion – Response accepted.

Villisca Municipal Power Plant

Schedule of Findings

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- (10) Electric Rates – Electric rates were not approved by resolution as required by Chapter 384.84 of the Code of Iowa.

Recommendation – The Power Plant should establish all utility rates by resolution as required by Chapter 384.84 of the Code of Iowa.

Response – Legal Counsel was hired to address this question. The opinion given to the Board was that The Iowa Supreme Court long ago indicated that formalities were not required in a resolution: the only requirement is an expression of will of the Council. A resolution is less formal than an ordinance and is an expression of the opinion or mind of the Council and no set form of words is essential if the requirements which call for such expression is met. The April 9, 2002 minutes clearly indicate that the rate increase was an expression of the opinion of the Board. From that point forward all increases have been established by resolution, thus the current rate has been established by Chapter 384.84 of the Code.

Conclusion – Response accepted.

- (11) Employee Personnel File Record – A document meeting the definition of a confidential record according to Chapter 22.7 of the Code of Iowa and the Power Plant's policies and procedures was copied and given to a citizen.

Recommendation – The Power Plant should ensure confidential records are not allowed to be made public.

Response – We will establish a specific locked location for personnel files and require a Board member be present when it is opened. We will also set up a safety deposit box at the bank for tapes of closed meetings. Only Board members will have access to that box and two members at a time will be required to access the safety deposit box.

Conclusion – Response accepted.

- (12) Record Retention – Chapter 372.13.(5) of the Code of Iowa requires City records and documents be kept for at least five years with certain exceptions. The Iowa League of Cities has also produced a Record Retention Manual that specifies the type of electric utility record that must be retained, the retention period and reason for the record type. During the year, the Superintendent of the Power Plant destroyed several inspection records required to be retained.

Recommendation – The Power Plant should ensure all records are retained for the required length of time in compliance with the Code of Iowa and Record Retention Manual.

Response – The Secretary will be required to obtain a copy of Chapter 372.13.(5) of the Code of Iowa and become knowledgeable. From this point forward all records will be kept in accordance with this policy.

Conclusion – Response accepted.

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- (13) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the Power Plant to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Power Plant retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The Power Plant should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will request that the official depository provide us with images of both the front and back of cancelled checks.

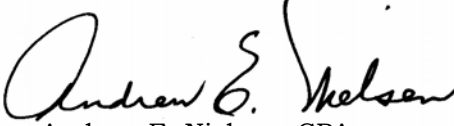
Conclusion – Response accepted.

Villisca Municipal Power Plant

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II
Paul F. Kearney, CGFM, Senior Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State