

**GRAETTINGER MUNICIPAL LIGHT PLANT
A COMPONENT UNIT OF THE CITY OF GRAETTINGER
GRAETTINGER, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

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Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Officials

June 30, 2011

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------|----------------------|---------------------|
| Lloyd Petersen | Chairman | Sep 1, 2013 |
| James A. Haegele | Board Member | Sep 1, 2017 |
| Bill Brown, Jr. | Board Member | Sep 1, 2015 |
| Scott Tonderum | Superintendent | Indefinite |
| Pamela Peton | Secretary/Accountant | Indefinite |

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

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Independent Auditor's Report

To the Board of Directors of the
Graettinger Municipal Light Plant
Graettinger, Iowa 51342

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Graettinger Municipal Light Plant, a component unit of the City of Graettinger, Iowa as of and for the years ended June 30, 2011 and June 30, 2010. These financial statements are the responsibility of the Light Plant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graettinger Municipal Light Plant of Graettinger, Iowa as of June 30, 2011 and June 30, 2010 and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2011 on our consideration of Graettinger Municipal Light Plant'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 and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 9 and 29 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures,

which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Graettinger Municipal Light Plant's basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The nonaccounting information included in Schedules 3 and 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The nonaccounting information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Cornwell, Frideres, Maher & Associates, P.L.C.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

November 18, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Graettinger Municipal Light Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the Light Plant's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ~ The Light Plant's operating revenues increased by 7.9%, or \$81,027, from fiscal 2010 to 2011. The increase in revenues is due an increase in electric rates for all classes, the rate increase resulted in a decrease in energy adjustment revenues. Electricity for resale also seen an increase during the time period.
- ~ The Light Plant's operating expenses increased by 8.7%, or \$81,314, from fiscal 2010 to 2011. This increase is the result of a increase in power production cost; and plant expenses.
- ~ The Light Plant's non-operating revenues (expenses) increased by 37.6%, or \$6,765 from fiscal 2010 to 2011. This increase is attributed to an increase in other income; and the elimination of interest and amortization expenses, due to all debt being paid off last fiscal year. Non-operating revenues were offset somewhat due to a decrease in interest income in fiscal year 2011.
- ~ The Light Plant's net assets increased by 4.2%, or \$114,859 from fiscal 2010 to 2011.

USING THIS ANNUAL REPORT

The Graettinger Municipal Light Plant is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to the Graettinger Municipal Light Plant's basic financial statements. The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Light Plant's financial activities.

The statement of Net Assets presents information on the Light Plant's assets and liabilities, with difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Light Plant is improving or deteriorating.

The Statement of Revenues, Expenses and Change in Net Assets is the basic statement of activities for the proprietary funds. This statement presents information on the Light Plant's operating revenues and expenses, non-operating revenues and expenses and whether the Light Plant's financial position has improved or deteriorated as a result of the year's

The Statement of Cash Flows presents the change in the Light Plant's cash and cash equivalents during the year. This information can assist the user of this report in determining how the Light Plant financed its activities and how it met its cash requirements.

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

FINANCIAL ANALYSIS OF THE LIGHT PLANT

Statement of Net Assets

As noted earlier, net assets may serve, over time, as a useful indicator of the Light Plant's financial position. The Light Plant's net assets for fiscal 2011 totaled approximately \$2,867,000. This compares to approximately \$2,752,000 for fiscal 2010. A summary of the Light Plant's net assets is presented below.

| Net Assets | | |
|---|---------------------|---------------------|
| | Year Ended June 30, | |
| | 2011 | 2010 |
| Current Assets | \$ 492,200 | \$ 463,473 |
| Capital Assets | \$ 964,502 | \$ 1,026,474 |
| Non-Current Assets | \$ 1,116,458 | \$ 1,053,056 |
| Non-Current Restricted Assets | \$ 346,314 | \$ 252,897 |
| Total Assets | \$ 2,919,474 | \$ 2,795,900 |
| Current Liabilities | \$ 51,129 | \$ 43,450 |
| Non-Current Liabilities | \$ 1,036 | \$ - |
| Total Liabilities | \$ 52,165 | \$ 43,450 |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt | \$ 964,502 | \$ 1,026,474 |
| Restricted | \$ 341,314 | \$ 247,897 |
| Unrestricted | \$ 1,561,493 | \$ 1,478,079 |
| Total Net Assets | \$ 2,867,309 | \$ 2,752,450 |

The Invested in Capital Assets (33.6% of the total) is land, buildings, equipment and a 0.17% ownership in the Neal #4 coal fired power plant, less the related debt portion of the asset. The Unrestricted Assets (54.5% of total) is what can be used to meet the Light Plant's obligations as they come due. The remaining Restricted Assets (11.9% of total) is the funds that are earmarked for certain projects and capital improvements.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are derived from the retail sales of electricity to customers of the Light Plant and from a energy adjustment charge imposed upon the same customers. Additional operating revenues are from the sale of wholesale electricity to other electric utilities through NIMECA and some miscellaneous sales. Operating expenses are expenses paid in conjunction with the production and purchase of electricity for resale and to operate the Light Plant. Non-operating revenues and expenses are for interest income and interest expense, payments in lieu of taxes to the City of Graettinger and contributions to economic development. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the fiscal year ended June 30, 2011 is presented below:

| Changes in Net Assets | | |
|--|---------------------|---------------------|
| | Year Ended June 30, | |
| | 2011 | 2010 |
| Operating Revenues: | | |
| Electricity Sales, Retail to Light Plant Customers | \$ 681,325 | \$ 506,055 |
| Electricity Sales, Wholesale to Other Electric Utilities | \$ 313,599 | \$ 296,261 |
| Energy Adjustments Charged | \$ 41,431 | \$ 185,012 |
| Miscellaneous | \$ 70,049 | \$ 38,049 |
| Total Operating Revenues | \$ 1,106,404 | \$ 1,025,377 |
| Operating Expenses: | | |
| Fuel and Generation | \$ 113,274 | \$ 90,530 |
| Operation & Maintenance, Labor, Supplies & Expense | \$ 39,173 | \$ 51,915 |
| Other Power Cost | \$ 74,607 | \$ 61,883 |
| Purchase Power | \$ 304,714 | \$ 299,947 |
| Plant Supplies And Expense | \$ 72,216 | \$ 12,519 |
| Line and Station Labor | \$ 93,650 | \$ 91,307 |
| Distribution Supplies and Expense | \$ 17,980 | \$ 25,303 |
| Truck Expense | \$ 6,791 | \$ 7,159 |
| Accounting and Collecting Salaries | \$ 26,775 | \$ 24,916 |
| Advertising | \$ 3,673 | \$ 3,385 |

| | | |
|--|---------------------|-------------------|
| Donations | \$ 235 | \$ 75 |
| Employee's Benefits | \$ 61,379 | \$ 47,161 |
| Insurance | \$ 14,339 | \$ 14,811 |
| Memberships and Dues | \$ 18,191 | \$ 19,051 |
| Miscellaneous General Administrative | \$ 25,377 | \$ 20,030 |
| Office Supplies and Expense | \$ 13,895 | \$ 15,377 |
| Outside Services Employed | \$ 22,480 | \$ 34,939 |
| Property Taxes | \$ 6,767 | \$ 7,919 |
| Depreciation | \$ 100,789 | \$ 106,764 |
| Total Operating Expenses | \$ 1,016,305 | \$ 934,991 |
| Total Operating Income | \$ 90,099 | \$ 90,386 |
| Non-Operating Revenues (Expenses): | | |
| Interest Income | \$ 24,898 | \$ 37,536 |
| Other Income | \$ 28,134 | \$ 13,946 |
| Payments in Lieu of Property Taxes | \$ (14,136) | \$ (14,458) |
| Economic Developments Contributions | \$ (14,136) | \$ (15,958) |
| Interest Expense | \$ - | \$ (2,071) |
| Amortization Expense | \$ - | \$ (1,000) |
| Net Non-Operating Revenues (Expenses) | \$ 24,760 | \$ 17,995 |
| Change in Net Assets | \$ 114,859 | \$ 108,381 |
| Net Assets Beginning of Fiscal Year | \$ 2,752,450 | \$ 2,644,069 |
| Net Assets at End of Fiscal Year | \$ 2,867,309 | \$ 2,752,450 |

The Statement of Revenues, Expenses and Changes in Net Assets reflects gain for the year with an increase in the net assets of \$114,859 at the end of the fiscal 2011 year.

In fiscal 2011, operating revenues increased by \$81,027, or just over 7.9%. Sales to all customer classifications showed increases; Residential sales increased by \$111,479 or 42.15%, Commercial sales increased by \$27,568 or 37.50%, Industrial sales increased by \$31,890 or 20.70%, and Public Authorities sales increased by \$4,333 or 30.88%. Energy Adjustment showed a large decrease in revenues of \$143,581 or 87.61%. Sales for Resale revenues also increased slightly at 5.85% or \$17,338. The remainder of the increase in revenues was from Miscellaneous sales which increased by \$32,000 or 84.10%. Fiscal 2011 operating expenses increased by 8.7% or \$81,314. Plant expense had the largest increase at \$59,697 or 476.85%, followed by Power Production expense increases of \$27,493 or 5.45%. Commercial and Administration expenses also showed increases of \$1,859 or 7.46% and \$3,588 or 2.22% respectively. During the same time period Distribution and Depreciation expenses both showed a decrease of \$5,348 or 4.32% and \$5,975 or 5.60% respectively.

Total fiscal 2011 operating income decreased by 0.32% or \$287 to \$90,099 compared to \$90,386 in fiscal 2010. Note this doesn't include the non-operating revenues (expenses).

An increase in Other income of \$14,188 or 101.74% was offset by a decrease in Interest income of \$12,638 or 33.67%. Payments In Lieu of Property Taxes and Economic Development Payments expenses both decreased slightly by \$349 or 2.23% and \$1,822 or 11.42% respectively. Due to the Light Plant having zero debt the Interest and Amortization expenses were both eliminated.

With the inclusion of the non-operating revenues and expenses to the total operating income, the Graettinger Municipal Light Plant showed a gain for fiscal year 2011 of \$114,859, compared to a gain of \$108,381 in fiscal 2010.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes electricity sales to customers and miscellaneous income reduced by payments made to suppliers and payments made to employees for services. Cash used from capital and related financing activities includes the purchase of capital assets, a refinancing fee and repayment of long-term debt and interest. Cash flows from investing activities includes the purchase and redemption of investments, transfers to and from restricted funds, payments received on notes and interest on investments.

CAPITAL ASSETS

At June 30, 2011, the Light Plant had \$964,502 invested in capital assets, net of accumulated depreciation of approximately \$2,460,229. Depreciation charges totaled \$100,789 for fiscal 2011. More detailed information about the Light Plant's capital assets is presented in Note 3 to the financial statements.

LONG-TERM DEBT

At June 30, 2011 the Light Plant had no outstanding long term debts.

ECONOMIC FACTORS

During fiscal 2011 the Graettinger Municipal Light Plant increased its financial assets by 4.42% or \$123,574 to a total asset value of \$2,919,474 compared to \$2,795,900 in fiscal 2010.

CONTACTING THE LIGHT PLANT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens and taxpayers of Graettinger, Iowa, customers of the Graettinger Municipal Light Plant and creditors with a general overview of the Light Plant's finances and to show accountability for the money received and expended. If you have questions about this report or need additional information, contact Graettinger Municipal Light Plant, P.O. Box 178, Graettinger, Iowa 51342.

Basic Financial Statements

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Exhibit A

Statements of Net Assets

June 30, 2011 and 2010

| <u>Assets</u> | <u>Proprietary Fund Type</u> | |
|---------------------------------------|------------------------------|-------------|
| | <u>Enterprise Fund</u> | |
| | <u>2011</u> | <u>2010</u> |
| Current Assets: | | |
| Cash and cash equivalents | \$ 173,578 | 179,807 |
| Accounts receivable | 86,133 | 70,336 |
| Inventories | 203,173 | 191,355 |
| Prepaid insurance | 11,140 | 10,626 |
| Interest receivable | 5,722 | 10,101 |
| Current portion of notes receivable | 12,454 | 1,248 |
| Total current assets | 492,200 | 463,473 |
| Capital Assets: | | |
| Property and equipment | 3,424,731 | 3,387,185 |
| Less accumulated depreciation | (2,460,229) | (2,360,711) |
| Net capital assets | 964,502 | 1,026,474 |
| Non Current Assets: | | |
| Investments | 1,075,000 | 1,001,171 |
| Notes receivable | 12,454 | 12,454 |
| Less current portion | (12,454) | (1,248) |
| Patronage dividends receivable | 10,320 | 9,988 |
| Emission allowances | 31,138 | 30,691 |
| Total non current assets | 1,116,458 | 1,053,056 |
| Non Current Restricted Assets: | | |
| Capital improvement fund | 107,093 | 35,041 |
| Health insurance fund | 12,136 | 9,444 |
| Vehicle fund | 149,757 | 123,729 |
| NOX allowances fund | 693 | 525 |
| NIMECA transmission fund | 66,568 | 79,158 |
| Whelan #2 Reserve Fund | 5,067 | - |
| Investment in ISEP | 5,000 | 5,000 |
| Total non current restricted funds | 346,314 | 252,897 |
| Total assets | \$ 2,919,474 | 2,795,900 |

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Exhibit A

Statements of Net Assets

June 30, 2011 and 2010

Liabilities

| | <u>Proprietary Fund Type</u> | |
|-------------------------------|------------------------------|-------------|
| | <u>Enterprise Fund</u> | |
| | <u>2011</u> | <u>2010</u> |
| Current Liabilities: | | |
| Accounts payable | \$ 27,080 | 21,927 |
| Operating advance - Neal #4 | 2,439 | 2,414 |
| Accrued property taxes | 7,343 | 7,919 |
| Accrued vacation | 7,007 | 4,699 |
| Customer deposits | 7,260 | 6,491 |
| Total current liabilities | 51,129 | 43,450 |
| Non Current Liabilities: | | |
| Net OPEB Liability | 1,036 | - |
| Total non current liabilities | 1,036 | - |
| Total liabilities | 52,165 | 43,450 |

Net Assets

| | | |
|--|--------------|-----------|
| Invested in capital assets net of related debt | 964,502 | 1,026,474 |
| Restricted | 341,314 | 247,897 |
| Unrestricted | 1,561,493 | 1,478,079 |
| Total net assets | \$ 2,867,309 | 2,752,450 |

See notes to financial statements.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Exhibit B

Statements of Revenues, Expenses and Changes in Net Assets

For the Fiscal Years ended June 30, 2011 and 2010

| | <u>Proprietary Fund Type</u> | |
|---|------------------------------|------------------|
| | <u>Enterprise Fund</u> | |
| | <u>2011</u> | <u>2010</u> |
| Operating revenues | \$ 1,106,404 | <u>1,025,377</u> |
| Operating expenses: | | |
| Power production | 531,768 | 504,275 |
| Plant | 72,216 | 12,519 |
| Distribution | 118,421 | 123,769 |
| Commercial | 26,775 | 24,916 |
| Administration | 166,336 | 162,748 |
| Depreciation | <u>100,789</u> | <u>106,764</u> |
| Total operating expenses | <u>1,016,305</u> | <u>934,991</u> |
| Operating income | <u>90,099</u> | <u>90,386</u> |
| Non-operating revenues (expenses): | | |
| Interest income | 24,898 | 37,536 |
| Other income | 28,134 | 13,946 |
| Payments in lieu of property taxes | (14,136) | (14,458) |
| Economic development payments | (14,136) | (15,958) |
| Interest expense | - | (2,071) |
| Amortization expense | <u>-</u> | <u>(1,000)</u> |
| Total non-operating revenues (expenses) | <u>24,760</u> | <u>17,995</u> |
| Change in net assets | 114,859 | 108,381 |
| Net assets beginning of year | <u>2,752,450</u> | <u>2,644,069</u> |
| Net assets end of year | <u>\$ 2,867,309</u> | <u>2,752,450</u> |

See notes to financial statements

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Exhibit C

Statements of Cash Flows

For the Fiscal Years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 1,090,607 | 1,027,506 |
| Cash received from miscellaneous income | 28,134 | 13,946 |
| Cash paid to suppliers for goods and services | (829,288) | (738,875) |
| Cash paid to employees for services | <u>(118,117)</u> | <u>(115,316)</u> |
| Net cash provided by operating activities | <u>171,336</u> | <u>187,261</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of property and equipment | (38,817) | (20,277) |
| Emission allowances purchased | (447) | (9,645) |
| Repayment of long-term debt | - | (75,000) |
| Interest paid on revenue bonds | <u>-</u> | <u>(2,332)</u> |
| Net cash used by capital and related financing activities | <u>(39,264)</u> | <u>(107,254)</u> |
| Cash flows from investing activities: | | |
| (Increase) decrease in patronage dividends | (332) | (616) |
| Investments purchased | (73,829) | - |
| Proceeds from investments | - | 25,000 |
| Transfers to restricted funds | (138,487) | (159,440) |
| Transfers from restricted funds | 45,070 | 102,762 |
| Interest on investments | <u>29,277</u> | <u>39,508</u> |
| Net cash provided by (used by) investing activities | <u>(138,301)</u> | <u>7,214</u> |
| Net increase (decrease) in cash and cash equivalents | (6,229) | 87,221 |
| Cash and cash equivalents - beginning of year | <u>179,807</u> | <u>92,586</u> |
| Cash and cash equivalents - end of year | <u>\$ 173,578</u> | <u>179,807</u> |

(continued)

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Exhibit C

Statements of Cash Flows

For the Fiscal Years ended June 30, 2011 and 2010

Reconciliation of operating income to net cash provided by operating activities:

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|----------------|
| Operating income | \$ 90,099 | 90,386 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Other revenue (expense) - net | (137) | (16,470) |
| Depreciation | 100,789 | 106,764 |
| Increase in net OPEB liability | 1,036 | - |
| (Increase) decrease in current assets: | | |
| Accounts receivable | (15,797) | 2,129 |
| Inventories | (11,819) | 6,551 |
| Prepaid insurance | (514) | 18 |
| Increase (decrease) in current liabilities: | | |
| Accounts payable | 5,153 | 2,227 |
| Operating advance - Neal #4 | 25 | 310 |
| Accrued taxes | (576) | (6,716) |
| Accrued vacation | 2,308 | 907 |
| Customer deposits | 769 | 1,155 |
| Total adjustments | <u>81,237</u> | <u>96,875</u> |
| Net cash provided by operating activities | <u>\$ 171,336</u> | <u>187,261</u> |

See notes to financial statements.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2011 and 2010

(1) Summary of Significant Accounting Policies

Graettinger Municipal Light Plant (Light Plant) provides electric utility services on a user charge basis to the general public within Graettinger, Iowa.

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

A. Reporting Entity

The Graettinger Municipal Light Plant is legally separate, but is financially accountable to the City of Graettinger and is managed by a three member board of directors. The Light Plant is considered to be a component unit of the City of Graettinger in accordance with U.S. governmental accounting standards.

For financial reporting purposes, the Light Plant has included all funds, organizations, agencies, boards, commissions and authorities. The Light Plant 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 Light Plant are such that exclusion would cause the Light Plant's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Light Plant to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Light Plant. Graettinger Municipal Light Plant has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of Graettinger Municipal Light Plant are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2011 and 2010

is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Light Plant applies all applicable GASB pronouncements, 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.

The Light Plant distinguishes 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 the Light Plant's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Accounts Receivable – The Light Plant charges uncollectible receivables against income and does not maintain an allowance for uncollectibles. At each year-end, those accounts deemed to be worthless are written off. The use of the direct write-off method is not materially different from the reserve method.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2011 and 2010

Inventories – Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis.

Investments – Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

Cash and Cash Equivalents – The Light Plant considers all short-term investments that are highly liquid 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.

Restricted Assets – The Light Plant sets aside funds for various purposes. See Note 5 for further explanation.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Light Plant as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of three years.

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| Buildings and improvements | \$ 2,500 |
| Neal #4 plant | 2,500 |
| Engines and other plant equipment | 500 |
| Distribution system | 2,500 |
| Vehicles | 1,000 |
| Office equipment | 500 |

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2011 and 2010

Capital assets of the Light Plant are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives (in years)</u> |
|-----------------------------------|--|
| Buildings and improvements | 15-40 |
| Neal #4 plant | 25 |
| Engines and other plant equipment | 7-25 |
| Distribution system | 10-20 |
| Vehicles | 5-10 |
| Office equipment | 3-10 |

Emission Allowances – The Light Plant is amortizing emission allowances when utilized.

Estimates – The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures 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.

Compensated Absences – Light Plant employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Light Plant’s liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2010.

(2) Cash and Investments

The Light Plant’s deposits in banks at June 30, 2011 and 2010 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 depositories to insure there will be no loss of public funds.

Graettinger Municipal Light Plant
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Notes to Financial Statements

June 30, 2011 and 2010

The Light 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 Light Plant; 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 Light Plant had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2011 and 2010

(3) Capital Assets

A summary of capital assets at June 30, 2011 is as follows:

| | Balance Beginning of Year | <u>Increases</u> | <u>Decreases</u> | Balance End of Year |
|---|---------------------------------|------------------|------------------|---------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ <u>22,664</u> | --- | --- | <u>22,664</u> |
| Capital Assets Being Depreciated: | | | | |
| Buildings and improvements | 193,196 | 3,546 | --- | 196,742 |
| Neal #4 plant | 727,857 | 4,344 | --- | 732,201 |
| Engines and other plant equipment | 1,208,825 | --- | --- | 1,208,825 |
| Distribution system | 1,152,836 | 30,927 | --- | 1,183,763 |
| Vehicles | 70,948 | --- | 200 | 70,748 |
| Office equipment | <u>10,859</u> | --- | <u>1,071</u> | <u>9,788</u> |
| Total capital assets being depreciated | <u>3,364,521</u> | <u>38,817</u> | <u>1,271</u> | <u>3,402,067</u> |
| Less Accumulated Depreciation For: | | | | |
| Buildings and improvements | 138,189 | 2,848 | --- | 141,037 |
| Neal #4 plant | 527,246 | 19,993 | --- | 547,239 |
| Engines and other plant equipment | 774,388 | 47,303 | --- | 821,691 |
| Distribution system | 847,202 | 26,387 | --- | 873,589 |
| Vehicles | 63,178 | 4,038 | 200 | 67,016 |
| Office equipment | <u>10,508</u> | <u>220</u> | <u>1,071</u> | <u>9,657</u> |
| Total accumulated depreciation | <u>2,360,711</u> | <u>100,789</u> | <u>1,271</u> | <u>2,460,229</u> |
| Total capital assets being depreciated, net | <u>1,003,810</u> | <u>(61,972)</u> | --- | <u>941,838</u> |
| Total capital assets, net | \$ <u>1,026,474</u> | <u>(61,972)</u> | --- | <u>964,502</u> |
| | ===== | ===== | ===== | ===== |

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2011 and 2010

(3) Capital Assets

A summary of capital assets at June 30, 2010 is as follows:

| | Balance Beginning of Year | <u>Increases</u> | <u>Decreases</u> | Balance End of Year |
|---|---------------------------------|------------------|------------------|---------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ <u>22,664</u> | --- | --- | <u>22,664</u> |
| Capital Assets Being Depreciated: | | | | |
| Buildings and improvements | 193,196 | --- | --- | 193,196 |
| Neal #4 plant | 724,576 | 3,281 | --- | 727,857 |
| Engines and other plant equipment | 1,208,825 | --- | --- | 1,208,825 |
| Distribution system | 1,135,840 | 16,996 | --- | 1,152,836 |
| Vehicles | 70,948 | --- | --- | 70,948 |
| Office equipment | <u>10,859</u> | --- | --- | <u>10,859</u> |
| Total capital assets being depreciated | <u>3,344,244</u> | <u>20,277</u> | --- | <u>3,364,521</u> |
| Less Accumulated Depreciation For: | | | | |
| Buildings and improvements | 134,934 | 3,255 | --- | 138,189 |
| Neal #4 plant | 507,054 | 20,192 | --- | 527,246 |
| Engines and other plant equipment | 724,114 | 50,274 | --- | 774,388 |
| Distribution system | 820,041 | 27,161 | --- | 847,202 |
| Vehicles | 57,516 | 5,662 | --- | 63,178 |
| Office equipment | <u>10,288</u> | <u>220</u> | --- | <u>10,508</u> |
| Total accumulated depreciation | <u>2,253,947</u> | <u>106,764</u> | --- | <u>2,360,711</u> |
| Total capital assets being depreciated, net | <u>1,090,297</u> | <u>(86,487)</u> | --- | <u>1,003,810</u> |
| Total capital assets, net | \$ 1,112,961 | (89,487) | --- | 1,026,474 |
| | ===== | ===== | ===== | ===== |

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2011 and 2010

(4) Notes Receivable

Notes receivable at June 30, 2011 and 2010 consist of the following:

| | <u>2011</u> | <u>2010</u> |
|--|--------------------|-----------------|
| Graettinger Housing Associates, Limited Partnership note receivable in annual payments of \$1,622, beginning December 1, 1997, including interest at 3.00%, and a balloon payment of \$11,204 on December 1, 2011, and secured by a real estate mortgage | <u>12,454</u> | <u>12,454</u> |
| Total notes receivable | \$ 12,454 ===== | 12,454 ===== |

(5) Restricted Funds

The Light Plant has set aside funds for the purchase of a new vehicle. Monthly transfers of \$500 are transferred to this fund.

The Light Plant has also set aside funds for payment of health insurance costs, including employee deductibles.

Additionally, fund balances are maintained with North Iowa Municipal Electric Cooperative Association (NIMECA) for power transmission and improvements in accordance with the Light Plant's agreement with NIMECA. The Light Plant has also set aside funds with NIMECA to purchase NOX allowances.

The Light Plant has invested funds in the Iowa Stored Energy Project (ISEP). The Light Plant's management is anticipating that this investment will result in their ability to access additional power sources.

Graettinger Municipal Light Plant
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Notes to Financial Statements

June 30, 2011 and 2010

(6) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year | Due Within One Year |
|--------------------|---------------------------------|-----------|-----------|---------------------------|---------------------------|
| Net OPEB Liability | \$ --- | 1,036 | --- | 1,036 | --- |
| | ===== | ===== | ===== | ===== | ===== |

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year | Due Within One Year |
|---------------|---------------------------------|-----------|-----------|---------------------------|---------------------------|
| Revenue Notes | \$ 75,000 | --- | 75,000 | --- | --- |
| | ===== | ===== | ===== | ===== | ===== |

The Light Plant's long-term indebtedness consisted of one revenue note. This note had an interest rate of 6.15% until it was renegotiated to 4.18% during fiscal year ended June 30, 2004. Annual principal amounts are due from \$55,000 - \$75,000 per year with the final maturity paid in the fiscal year ending June 30, 2010. This note was originally issued June 1, 2000 for \$650,000.

The resolutions providing for the issuance of the revenue note include the following provisions:

- (a) The entire income and revenues of the Light Plant shall be deposited as collected in the Revenue Fund and shall be disbursed only as follows:
 - (1) Money in the Revenue Fund shall be first disbursed to the Operation and Maintenance Fund to pay current expenses.
 - (2) Money in the Revenue Fund shall next be disbursed to the Sinking Fund for the purpose of making the note principal and interest payments when due.
 - (3) Any monies remaining in the Revenue Fund may be used to pay for extraordinary repairs or replacements to the system, to redeem the notes or for any lawful purpose.

Graettinger Municipal Light Plant
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Notes to Financial Statements

June 30, 2011 and 2010

- (b) User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2010, the Light Plant was in compliance with its revenue note provisions.

(7) Pension and Retirement Benefits

The Light 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 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 4.5% of their annual salary and the Light Plant is required to contribute 6.95% of annual covered payroll for the years ended June 30, 2011. The contribution rates were 4.30% and 6.65% respectively for the year ended June 30, 2010. Contribution requirements are established by state statute. The Light Plant's contribution to IPERS for the years ended June 30, 2011 and June 30, 2010 were \$7,830 and \$7,669 respectively, equal to the required contributions for each year.

Graettinger Municipal Light Plant
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Notes to Financial Statements

June 30, 2011 and 2010

(8) Other Postemployment Benefits (OPEB)

Plan Description – The Light Plant operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Light Plant. The Light Plant currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The Light Plant’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the Light Plant, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Light Plant’s annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the Light Plant’s net OPEB obligation:

| | |
|--|-----------------|
| Annual required contribution | \$ 1,036 |
| Interest on net OPEB obligation | --- |
| Adjustment to annual required contribution | <u>---</u> |
| Annual OPEB cost | 1,036 |
| Contributions made | <u>---</u> |
| Increase in net OPEB obligation | 1,036 |
| Net OPEB obligation beginning of year | <u>---</u> |
| Net OPEB obligation end of year | \$ <u>1,036</u> |

Graettinger Municipal Light Plant
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Notes to Financial Statements

June 30, 2011 and 2010

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. The end of year net OPEB obligation was calculated using the frozen entry age actuarial cost method by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the Light Plant contributed \$0 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

The Light Plant's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

| <u>Year Ended June 30,</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|----------------------------|-------------------------|---|----------------------------|
| 2011 | \$ 1,036 | 0 % | \$ 1,036 |

Funded Status and Funding Progress – As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$10,152, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$10,152. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$117,000 and the ratio of the UAAL to covered payroll was 8.7%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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Notes to Financial Statements

June 30, 2011 and 2010

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the Light Plant's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement was assumed to be 80% by all groups. There was no assumed turnover rate.

Spousal coverage was based on actual data and husbands are assumed to be three years older than wives. Retirees pay for 100% of the premium and contributions are assumed to increase according to health care trend rates. All employees are assumed to elect the plan they are currently enrolled in at retirement.

Projected claim costs of the medical plan are \$443 or \$1,107 per month for retirees less than age 65 and the same for retirees who have attained age 65. The UAAL is being amortized to fund the value over 30 years, and is not related to salary levels.

(9) Payments in Lieu of Property Taxes

Pursuant to a policy statement adopted on April 9, 1986, the Light Plant is obligated to make voluntary payments in lieu of property taxes to the City of Graettinger. Annual payments are the greater of 7% of net income or \$5,000. This policy was amended June 9, 1999 where the Light Plant is obligated to pay a franchise fee of 1.5 mills per KWH of sales per year.

Payments made in the fiscal years ended June 30, 2011 and 2010 totaled \$14,136 and \$14,458 respectively.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2011 and 2010

(10) Economic Development Payments

Pursuant to a policy statement adopted on May 8, 1991, the Light Plant is obligated to pay annually 5% of net income to the Graettinger Development Council (an economic development association). This policy was amended December 13, 2002, where the Light Plant is obligated to pay a franchise fee of 1.5 mills per KWH of sales per year. Payments to satisfy this policy in the fiscal years ended June 30, 2011 and 2010 totaled \$14,136 and \$14,458 respectively.

The Light Plant, pursuant to a board resolution, paid housing incentives to the Graettinger Development Council in the amounts of \$0 and \$1,500 for the fiscal years ended June 30, 2011 and 2010 respectively.

(11) Risk Management

The Light Plant 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. These risks are covered by the purchase of commercial insurance. The Light 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 any of the past three fiscal years.

(12) Subsequent Events

The Light Plant has evaluated subsequent events through November 18, 2011, the date the financial statements were available to be delivered. As of the date of the audit report, the Light Plant has been awarded a \$300,000 grant which will be given to the local school district. It was also noted that the ISEP Program has been discontinued.

Required Supplementary Information

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Budgetary Comparison Schedule of Revenues and Expenses

Required Supplementary Information

| | Proprietary <u>Fund Type</u> <u>Enterprise Fund</u> | | | Final to Actual <u>Variance</u> |
|---|---|---------------------|---------------------|---------------------------------------|
| | <u>Budgeted Amounts</u> | | | |
| | <u>Actual</u> | <u>Original</u> | <u>Final</u> | |
| <u>For the Fiscal Year ended June 30, 2011</u> | | | | |
| Revenues: | | | | |
| Use of money and property | \$ 24,898 | 38,000 | 38,000 | (13,102) |
| Charges for service | 1,106,404 | 1,328,200 | 1,328,200 | (221,796) |
| Miscellaneous | 28,134 | 20,000 | 20,000 | 8,134 |
| Total revenues | <u>1,159,436</u> | <u>1,386,200</u> | <u>1,386,200</u> | <u>(226,764)</u> |
| Expenses: | | | | |
| Business type activities | <u>1,044,577</u> | <u>1,182,800</u> | <u>1,182,800</u> | <u>138,223</u> |
| Total expenses | <u>1,044,577</u> | <u>1,182,800</u> | <u>1,182,800</u> | <u>138,223</u> |
| Change in net assets | 114,859 | 203,400 | 203,400 | (88,541) |
| Balances beginning of year | <u>2,752,450</u> | <u>2,773,526</u> | <u>2,773,526</u> | <u>(21,076)</u> |
| Balances end of year | <u>\$ 2,867,309</u> | <u>\$ 2,976,926</u> | <u>\$ 2,976,926</u> | <u>\$ (109,617)</u> |

For the Fiscal Year ended June 30, 2010

| | | | | |
|----------------------------|---------------------|------------------|------------------|------------------|
| Revenues: | | | | |
| Use of money and property | \$ 37,536 | 48,000 | 48,000 | (10,464) |
| Charges for service | 1,025,377 | 1,142,200 | 1,142,200 | (116,823) |
| Miscellaneous | 13,946 | 20,000 | 20,000 | (6,054) |
| Total revenues | <u>1,076,859</u> | <u>1,210,200</u> | <u>1,210,200</u> | <u>(133,341)</u> |
| Expenses: | | | | |
| Business type activities | <u>968,478</u> | <u>1,046,300</u> | <u>1,046,300</u> | <u>77,822</u> |
| Total expenses | <u>968,478</u> | <u>1,046,300</u> | <u>1,046,300</u> | <u>77,822</u> |
| Change in net assets | 108,381 | 163,900 | 163,900 | (55,519) |
| Balances beginning of year | <u>2,644,069</u> | <u>2,609,626</u> | <u>2,609,626</u> | <u>34,443</u> |
| Balances end of year | <u>\$ 2,752,450</u> | <u>2,773,526</u> | <u>2,773,526</u> | <u>(21,076)</u> |

See accompanying independent auditor's report.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Required Supplementary Information –
Budgetary Reporting

June 30, 2011 and 2010

In accordance with Code of Iowa, the Light Plant annually adopts a budget following required public notice and hearing. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The Light Plant budgets on a GAAP basis and is included in the City of Graettinger's published budget.

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. All Light Plant disbursements are included in business type activities.

Graettinger Municipal Light Plant
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Schedule of Funding Progress for the
Retiree Health Plan

Required Supplementary Information

| Year Ended 30-Jun | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a) / c) |
|-------------------|--------------------------|-------------------------------|---------------------------------------|-----------------------------|--------------------|---------------------|---|
| 2011 | July 1, 2010 | - | \$ 10,152 | \$ 10,152 | 0% | \$ 117,081 | 8.70% |

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Other Supplementary Information

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule 1

Schedules of Operating Revenues

For the Fiscal Years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--------------------------|---------------------|------------------|
| Operating revenues: | | |
| Utility sales: | | |
| Residential | \$ 375,973 | 264,494 |
| Commercial | 101,075 | 73,507 |
| Industrial | 185,912 | 154,022 |
| Public authorities | 18,365 | 14,032 |
| For resale | 313,599 | 296,261 |
| Energy adjustment | <u>41,431</u> | <u>185,012</u> |
| | <u>1,036,355</u> | <u>987,328</u> |
| | | |
| Other: | | |
| Miscellaneous | <u>70,049</u> | <u>38,049</u> |
| | | |
| Total operating revenues | <u>\$ 1,106,404</u> | <u>1,025,377</u> |

See accompanying independent auditor's report.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule 2

Schedules of Power Production, Plant, Distribution,
Commercial and Administrative Expenses

For the Fiscal Years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|----------------|----------------|
| Power production expense: | | |
| Fuel and generation | \$ 113,274 | 90,530 |
| Operation and maintenance, labor, supplies, and expense | 39,173 | 51,915 |
| Other power costs | 74,607 | 61,883 |
| Purchased power | <u>304,714</u> | <u>299,947</u> |
| Total power production expense | <u>531,768</u> | <u>504,275</u> |
| Plant expense: | | |
| Supplies and expense | <u>72,216</u> | <u>12,519</u> |
| Total plant expense | <u>72,216</u> | <u>12,519</u> |
| Distribution expense: | | |
| Line and station labor | 93,650 | 91,307 |
| Supplies and expense | 17,980 | 25,303 |
| Truck expense | <u>6,791</u> | <u>7,159</u> |
| Total distribution expense | <u>118,421</u> | <u>123,769</u> |
| Commercial expense: | | |
| Accounting and collecting salaries | <u>26,775</u> | <u>24,916</u> |
| Total commercial expense | <u>26,775</u> | <u>24,916</u> |
| Administrative expense: | | |
| Advertising | 3,673 | 3,385 |
| Donations | 235 | 75 |
| Employees' benefits | 61,379 | 47,161 |
| Insurance | 14,339 | 14,811 |

(continued)

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule 2

Schedules of Power Production, Plant, Distribution,
Commercial and Administrative Expenses

For the Fiscal Years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|-------------------|----------------|
| Administrative expense (continued): | | |
| Membership and dues | 18,191 | 19,051 |
| Miscellaneous general | 25,377 | 20,030 |
| Office supplies and expense | 13,895 | 15,377 |
| Outside services employed | 22,480 | 34,939 |
| Property taxes | <u>6,767</u> | <u>7,919</u> |
| Total administrative expense | <u>\$ 166,336</u> | <u>162,748</u> |

See accompanying independent auditor's report.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule 3

Schedule of Insurance Coverage

June 30, 2011

| <u>Company</u> | <u>Coverage</u> | <u>Limit</u> | <u>Effective</u> |
|------------------|-------------------------|--------------|------------------|
| Employers Mutual | Worker's Comp | \$ 500,000 | 4/1/11-3/31/12 |
| | General Liability | | |
| | Aggregate | 2,000,000 | 4/1/11-3/31/12 |
| | Products Liability | 2,000,000 | |
| | Personal Liability | 1,000,000 | |
| | Automobile | | |
| | Liability | 1,000,000 | 4/1/11-3/31/12 |
| | Uninsured Motorist | 50,000 | |
| | Underinsured Motorist | 50,000 | |
| | Umbrella Liability | 2,000,000 | 4/1/11-3/31/12 |
| | Crime | | |
| | Inside Premises | 5,000 | 4/1/11-3/31/12 |
| | Outside Premises | 5,000 | |
| | Employee Theft | 50,000 | |
| | Forgery | 10,000 | |
| | Property | | |
| | Facilities and Contents | 5,347,855 | 4/1/11-3/31/12 |
| | Inland Marine | | |
| | Equipment-Catastrophe | Scheduled | 4/1/11-3/31/12 |
| | Linebacker | 1,000,000 | 4/1/11-3/31/12 |

See accompanying independent auditor's report.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule 4

Schedules of Kilowatt Hours

For the Fiscal Years ended June 30, 2011 and 2010

| | 2011 | | 2010 | |
|--------------------------|------------------------------|--------------------------|------------------------------|--------------------------|
| | <u>Kilowatt Hours</u> | <u>Percent</u> | <u>Kilowatt Hours</u> | <u>Percent</u> |
| KWH Metered: | | | | |
| Residential | 5,355,093 | 51.71 | 5,115,603 | 48.82 |
| Commercial | 1,325,450 | 12.80 | 1,286,059 | 12.28 |
| Industrial | 2,461,496 | 23.77 | 2,766,280 | 26.40 |
| Public authorities | <u>255,077</u> | <u>2.46</u> | <u>255,892</u> | <u>2.44</u> |
| | 9,397,116 | 90.74 | 9,423,834 | 89.94 |
| KWH Consumed: | | | | |
| Used in operations | 352,468 | 3.40 | 338,345 | 3.23 |
| Distribution system loss | 409,618 | 3.96 | 505,123 | 4.82 |
| Transmission losses | <u>196,342</u> | <u>1.90</u> | <u>210,584</u> | <u>2.01</u> |
| Total System | <u><u>10,355,544</u></u> | <u><u>100.00</u></u> | <u><u>10,477,886</u></u> | <u><u>100.00</u></u> |

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**

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

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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 Directors of the Graettinger
Municipal Light Plant:

We have audited the accompanying financial statements of Graettinger Municipal Light Plant, a component unit of the City of Graettinger, Iowa, as of and for the year ended June 30, 2011 and have issued our report thereon dated November 18, 2011. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weakness have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness and a deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a

material misstatement of Graettinger Municipal's Light Plant's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the Light Plant's internal control described in the accompanying Schedule of Findings as item I-A-11 to be a material weakness.

A significant deficiency is a deficiency or 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 deficiency described in the accompanying Schedule of Findings as item I-B-11 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graettinger Municipal Light Plant'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 noncompliance or other matters required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Light Plant's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Light 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.

Graettinger Municipal Light Plant's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Light Plant's responses, we did not audit Graettinger Municipal Light Plant's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of Graettinger Municipal Light Plant and other parties to whom the Light Plant may report and 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 Graettinger Municipal Light 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.

Cornwell, Frideres, Maher & Associates, P.L.C.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

November 18, 2011

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule of Findings

For the Fiscal Year ended June 30, 2011

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-11 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent loss from employee error or dishonesty and therefore maximizes the accuracy of the Light Plant’s financial statements. We noted that one employee handles almost all of the financial duties, including reconciling accounts and recording financial data.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. Therefore, we recommend the board maintain its diligence in the review of the financial records.

Response – We will continue our review.

Conclusion – Response accepted.

I-B-11 Preparation of Financial Statements, Including Disclosures to 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 the cash basis of accounting. The City of Graettinger does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, Communicating Internal Control Related Matters Identified in an Audit, requires us to communicate this matter with those charged with governance.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule of Findings

For the Fiscal Year ended June 30, 2011

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. Outsourcing of these services is not unusual in an organization of your size.

Recommendation – We realize that obtaining the expertise to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principals can be considered costly and ineffective. However, it is the responsibility of the City’s management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a gong forward basis.

Conclusion – Response accepted.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule of Findings

For the Fiscal Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements for the year ended June 30, 2011 did not exceed amounts budgeted.
- (2) Questionable Expenses – No expenses were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of money for travel expenses of spouses of Light Plant officials or employees were noted.
- (4) Business Transactions – The City of Graettinger has included the Light Plant in the commercial insurance package purchased from the agency of Lloyd Peterson, Chairman of the Light Plant Board. The City bills the Light Plant for their portion of the premiums paid. The Light Plant’s premium paid for this coverage was \$14,853 and \$14,168 for the years ended June 30, 2011 and 2010, respectively.

This does not appear to be a conflict of interest as insurance is a service and falls outside the items that are normally bid on.

The Light Plant designated Graettinger Times as their designated newspaper. The Graettinger Times is owned by Scott Tonderum, manager of the Light Plant and his wife. This does not appear to represent a conflict of interest as a resolution was passed naming the Graettinger Times as it’s official newspaper.

The Light Plant paid \$3,774 and \$3,412 to the Graettinger Times for the years ended June 30, 2011 and 2010 respectively.

- (5) Bond Coverage – Surety bond coverage of Light Plant officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule of Findings

For the Fiscal Year ended June 30, 2011

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Light Plant’s investment policy were noted.
- (8) Revenue Notes – The Light Plant is in compliance with all aspects of the note resolutions.