

**LAURENS MUNICIPAL
LIGHT AND POWER PLANT**

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

December 31, 2010

**T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants**

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**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

OFFICIALS

December 31, 2010

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|---------------------|----------------------------|
| Robert O. Braesch | Trustee | June, 2010 |
| Jerry Runneberg | Trustee | April, 2011 |
| Richard Main | Trustee | April, 2013 |
| Ben Storms | Trustee | April, 2015 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Laurens Municipal Light and Power Plant
Laurens, Iowa

We have audited the accompanying balance sheet of the Laurens Municipal Light and Power Plant (the Utility), a component unit of the City of Laurens, Iowa, as of December 31, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 financial statement presentation. We believe our audit provides 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 Laurens Municipal Light and Power Plant, a component unit of the City of Laurens, Iowa, as of December 31, 2010 and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2011 on our consideration of the Laurens Municipal Light and Power Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 6 and 20 through 22 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 supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Laurens Municipal Light and Power Plant's basic financial statements. The supplementary information on pages 23 to 25 is presented for purposes of additional analysis and is not a required part of the

basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 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.

T.P. Anderson & Company, P.C.

July 22, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Laurens Municipal Light and Power Plant (the Utility) provides this Management's Discussion and Analysis of the Utility's financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2010. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues increased from approximately \$2,303,000 in 2009 to approximately \$2,421,000 in 2010, an increase of 5%.
- ◆ The Utility's operating expenses increased 9% in 2010 to a total of \$2,573,000 from a total of \$2,356,000 in 2009.
- ◆ The Utility's net assets decreased by approximately \$175,000 in 2010.

USING THIS ANNUAL REPORT

Laurens Municipal Light and Power 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 Laurens Municipal Light and Power Plant's 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 Utility's financial activities.
- ◆ The Balance Sheet presents information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.
- ◆ The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses, and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.
- ◆ Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- ◆ Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year and the funding progress for the retiree health care plan.
- ◆ The two schedules in Other Supplementary Information provide detailed information about operating revenues and expenses.

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

Statements of Net Assets

Net assets may serve over time as an indicator of the Utility's financial position. The Utility's net assets decreased in 2010 from approximately \$5,006,000 to \$4,831,000. The condensed statement of net assets (in thousands), shown below, shows how assets, liabilities, and net assets have changed over the past two years.

| | <u>2010</u> | <u>2009</u> |
|---|-----------------|--------------|
| Current assets | \$ 1,706 | 1,438 |
| Other assets | 753 | 1,148 |
| Capital assets at cost, less accumulated depreciation | <u>3,180</u> | <u>3,506</u> |
| Total assets | <u>5,639</u> | <u>6,092</u> |
| Current liabilities | 500 | 487 |
| Non-current liabilities | <u>308</u> | <u>599</u> |
| Total liabilities | <u>808</u> | <u>1,086</u> |
| Net assets: | | |
| Invested in capital assets, net of related debts | 2,571 | 2,607 |
| Restricted | 271 | 270 |
| Unrestricted – designated | 280 | 262 |
| Unrestricted | <u>1,709</u> | <u>1,867</u> |
| Total net assets | <u>4,831</u> | <u>5,006</u> |
| Total liabilities and net assets | <u>\$ 5,639</u> | <u>6,092</u> |

Statements of Revenues, Expenses, and Change in Net Assets

Operating revenues are received for the sale of electricity. Operating expenses are expenses paid to operate the Utility. A summary of revenues, expenses, and changes in net assets for the years ended December 31, 2010 and 2009 is presented below (in thousands):

| | <u>Changes in Net Assets</u> | |
|-------------------------------------|------------------------------|--------------|
| | <u>2010</u> | <u>2009</u> |
| Operating revenues: | | |
| Sales of electrical energy | <u>\$ 2,421</u> | <u>2,303</u> |
| Total operating revenue | <u>2,421</u> | <u>2,303</u> |
| Operating expenses: | | |
| Purchased power | 1,148 | 1,009 |
| Generating plant | 623 | 523 |
| Distribution system | 390 | 430 |
| Transmission system | 129 | 126 |
| Administrative and general | <u>283</u> | <u>267</u> |
| Total operating expenses | <u>2,573</u> | <u>2,355</u> |
| Operating (loss) | <u>(152)</u> | <u>(52)</u> |
| Non-operating revenue and expenses: | | |
| Other | <u>4</u> | <u>(63)</u> |
| Non-operating income (loss) | <u>4</u> | <u>(63)</u> |

| | | |
|--|-----------------|--------------|
| Decrease in net assets | (148) | (115) |
| Net assets, beginning of year | 5,006 | 5,211 |
| Less: Residual equity transfer to City – funding | <u>(27)</u> | <u>(90)</u> |
| Net assets, end of year | <u>\$ 4,831</u> | <u>5,006</u> |

CAPITAL ASSETS

At December 31, 2010, the Utility had approximately \$3.2 million invested in capital assets, net of accumulated depreciation of \$6.6 million. Laurens Municipal Light and Power Plant had depreciation expense of approximately \$393,000 in 2010.

LONG-TERM DEBT

At December 31, 2010, the Utility had \$620,000 in debt outstanding, a decrease of \$300,000 from 2009. The table below summarizes outstanding debt by type.

| | | |
|-------------------------------|-------------------|----------------|
| | <u>2010</u> | <u>2009</u> |
| 2008 Electric refunding notes | <u>\$ 620,000</u> | <u>920,000</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Utility continued to improve its financial position during the current year. However the current condition of the economy in the state continues to be a concern. Management continues to monitor all relevant factors that affect the utility including but not limited to the following:

- ◆ Facilities at the Utility require constant maintenance and upkeep.
- ◆ With our customers' increasing load requirements and the age of Neal 4 Generation Plant, securing additional base load power is an ongoing challenge.
- ◆ Federal and/or state legislation presents us with an ongoing challenge in securing additional power resources.
- ◆ Federal and/or state legislation have added financial burdens to electric utilities with stricter emission control laws.
- ◆ We expect that rate increases will be needed for all services in 2011 due to these concerns.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Laurens Municipal Light and Power Plant's finances and to provide accountability for the money the Utility receives. If you have questions about this report or need additional financial information, contact the Utility's administration office at 272 North Third Street, Laurens Iowa.

BASIC FINANCIAL STATEMENTS

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS**

Exhibit A

**BALANCE SHEET
AS OF DECEMBER 31, 2010**

Assets

Capital Assets

| | |
|-------------------------------|------------------|
| Land | \$ 80,546 |
| Plant in service | 9,774,375 |
| | 9,854,921 |
| Less accumulated depreciation | 6,675,081 |
| Total capital assets | 3,179,840 |

Other Assets

| | |
|---|----------------|
| Notes receivable - net of current portion | 139,881 |
| Common transmission system - capital improvement fund | 262,499 |
| NIMECA - emissions funds | 17,684 |
| Bond improvement fund | 100,000 |
| Bond reserve fund | 143,500 |
| Bond retirement sinking fund | 27,161 |
| Deferred patronage refund receivable | 52,009 |
| Other | 10,015 |
| Total other assets | 752,749 |

Current Assets

| | |
|--|------------------|
| Certificates of deposit | 1,106,500 |
| Accounts receivable - net of allowance for doubtful accounts | 329,499 |
| Notes receivable - current portion | 8,199 |
| Joint use contract receivable | 175,000 |
| Inventories | 216,884 |
| Accrued interest receivable | 11,891 |
| Prepaid expenses | 62,926 |
| Total current assets | 1,910,899 |

| | |
|---------------------|---------------------|
| Total assets | \$ 5,843,488 |
|---------------------|---------------------|

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS**

Exhibit A - continued

**BALANCE SHEET
AS OF DECEMBER 31, 2010**

Liabilities and Net Assets

Long-Term Debt (less current maturities)

| | |
|------------------------------|----------------|
| Electric revenue bonds - net | \$ 303,755 |
| OPEB obligation | 4,447 |
| | <u>308,202</u> |

Current and Accrued Liabilities

| | |
|--|----------------|
| Current maturities of revenue bonds | 305,000 |
| Checks in excess of bank balance | 204,950 |
| Accounts payable | 114,671 |
| Customer deposits | 32,681 |
| Other current and accrued liabilities | 47,447 |
| Total current and accrued liabilities | <u>704,749</u> |

Net Assets

| | |
|--|------------------|
| Invested capital assets, net of related debt | 2,571,085 |
| Restricted | 270,661 |
| Unrestricted - designated | 280,183 |
| Unrestricted | 1,708,608 |
| Total net assets | <u>4,830,537</u> |

| | |
|---|----------------------------|
| Total liabilities and net assets | <u><u>\$ 5,843,488</u></u> |
|---|----------------------------|

See Notes to Financial Statements

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS**

Exhibit B

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | | |
|--|-----------|------------------|
| Operating revenues: | \$ | 2,420,805 |
| <hr/> | | |
| Operating expenses: | | |
| Purchased Power | | 1,147,870 |
| Generating plant - local | | 42,965 |
| Generating plant - Neal 4 | | 579,498 |
| Distribution system - electric | | 131,341 |
| Distribution system - communications | | 259,081 |
| Transmission system | | 128,666 |
| Customers' accounts expense | | 8,280 |
| Administrative and general | | 274,999 |
| Total operating expenses | | 2,572,700 |
| <hr/> | | |
| Operating income (loss) | | (151,895) |
| | | |
| Non-operating expenses: | | |
| Revenues from merchandising, net | | 1,659 |
| Interest earned on investments | | 46,976 |
| Amortization of bond issue costs | | (1,941) |
| Interest expense | | (39,269) |
| Loss on disposition of assets | | (3,714) |
| Non-operating income (loss) | | 3,711 |
| <hr/> | | |
| Change in net assets | | (148,184) |
| | | |
| Total net assets, beginning of year | | 5,006,486 |
| | | |
| Less: Residual equity transfer to City - donation | | (27,765) |
| <hr/> | | |
| Total net assets, end of year | \$ | 4,830,537 |
| <hr/> | | |

See Notes to Financial Statements

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

Exhibit C

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | |
|---|-------------------|
| Cash flows from operating activities: | |
| Cash receipts from customers | \$ 2,301,483 |
| Other operating cash receipts | 175,000 |
| Cash payments to suppliers | (1,941,351) |
| Cash payments to employees | (240,335) |
| | 294,797 |
| Cash flows from noncapital financing activities: | |
| Payments to the city | (27,765) |
| | (27,765) |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (66,637) |
| Repayment of revenue bonds | (300,000) |
| Cash payments for interest | (29,188) |
| | (395,825) |
| Cash flows from investing activities: | |
| Interest received | 55,973 |
| Checks issue in excess of bank balance | 204,950 |
| Collected notes receivable | 408,517 |
| Sale of resale merchandise | 1,659 |
| Proceeds from redemption of investments | 1,195,410 |
| Purchase of investments | (1,764,380) |
| | 102,129 |
| Net cash (used) by investing activities | 102,129 |
| Net (decrease) in cash and cash equivalents | (26,664) |
| Cash and cash equivalents, beginning of year | 26,664 |
| Cash and cash equivalents, end of year | \$ - |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | |
| (Loss) from operations | \$ (151,895) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 394,240 |
| Change in accounts receivable | 53,380 |
| Change in prepaid expenses | (48,241) |
| Change in inventory | 36,766 |
| Change in accounts payable and accrued expenses | 5,763 |
| Change in customer deposits | 2,298 |
| Change in deferred revenue | (1,961) |
| Change in OPEB liability | 4,447 |
| | 4,447 |
| Net cash provided by operating activities | \$ 294,797 |

See Notes to Financial Statements

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Laurens Municipal Light and Power Plant (the Utility) is a component unit of the City of Laurens. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Laurens Municipal Light and Power Plant generates and distributes electric energy to consumers in Laurens, Iowa. Sales of electricity are billed on the twenty-fifth of each month for usage through the fifteenth of the month. As has been done in prior years, an unbilled receivable in the amount of \$89,645 has been recorded for the period December 15 through December 31. The Utility is billed by their suppliers on a calendar month basis.

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

Reporting Entity

For financial reporting purposes, Laurens Municipal Light and Power Plant has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) 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 Utility 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 Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Laurens Municipal Light and Power Plant are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (1) financed and operated in a manner similar to private business enterprises, where the intent of the governing body 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.

Measurement Focus and Basis of Accounting

The accompanying 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 the related cash flows.

In reporting its financial activity, the Utility applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

NOTES TO FINANCIAL STATEMENTS

pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2010 actual disbursements exceeded the amounts budgeted.

Use of Estimates

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

Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the statement of net assets:

Cash and Cash Equivalents – The Utility considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments are carried at cost which approximates market value.

Accounts Receivable and Allowance for Doubtful Accounts – Accounts receivable as of December 31, 2010 consisted of approximately 863 uncollateralized accounts. Accounts receivable balances older than 90 days for the Utility was approximately \$40,000 for the year ended December 31, 2010.

The Utility uses the allowance method to account for uncollectible accounts receivable.

Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for doubtful accounts and related accounts receivable write-offs. A 1.5% per month penalty is charged for accounts older than 30 days.

The allowance for uncollectible accounts had a balance as of December 31, 2010 of \$26,000.

Inventories – Inventories are stated at the lower of cost or replacement value. Cost is determined on a weighted average method.

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

NOTES TO FINANCIAL STATEMENTS

Capital Assets - Capital assets are carried at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Provisions for depreciation of generating, transmission, and distribution plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Amortization – The cost of acquiring a portion of the common transmission system is being amortized over the remaining useful life of the assets.

Legal fees and other expenses associated with the issuance of the electric revenue notes are being amortized on the straight-line method over the term of the bonds. Amortization charged to expense in 2010 was \$1,941.

Statement of Revenues, Expenses and Changes in Net Assets

Transactions deemed by management to be ongoing, major or central to the production of Utility sales are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

Use of Net Assets

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Subsequent Events

The Utility's management has evaluated events and transactions for potential recognition or disclosure through July 22, 2011, the date of the financial statements.

NOTE 2 - CASH AND INVESTMENTS

The Utility's deposits in financial institutions at December 31, 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 the depositories to ensure there will be no loss of public funds.

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

NOTES TO FINANCIAL STATEMENTS

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district.

Interest rate risk – The Utility’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

As of December 31, 2010, the Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 is as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 80,546 | \$ - | \$ - | \$ 80,546 |
| Construction in progress | <u>42,957</u> | <u>-</u> | <u>42,957</u> | <u>-</u> |
| Total capital asses not being depreciated | <u>123,503</u> | <u>-</u> | <u>42,957</u> | <u>80,546</u> |
| Capital assets being depreciated: | | | | |
| Generating plant | 2,490,020 | 46,132 | 30 | 2,536,122 |
| Transmission plant | 1,069,118 | 5,127 | - | 1,074,245 |
| Transmission plant – Corn Belt | 1,275,226 | 45,410 | - | 1,320,636 |
| Distribution plant | 1,895,110 | 593 | 7,973 | 1,887,730 |
| Communication plant | 2,611,502 | 1,214 | - | 2,612,716 |
| Other equipment | <u>330,611</u> | <u>12,315</u> | <u>-</u> | <u>342,926</u> |
| Total capital assets being depreciated | <u>9,671,587</u> | <u>110,791</u> | <u>8,003</u> | <u>9,774,375</u> |
| Less accumulated depreciation for: | | | | |
| Generating plant | 2,189,767 | 68,648 | - | 2,258,415 |
| Transmission plant | 530,390 | 28,072 | - | 558,462 |
| Transmission plant – Corn Belt | 567,665 | 35,245 | 7,973 | 594,937 |
| Distribution plant | 845,709 | 50,485 | - | 896,194 |
| Communication plant | 1,928,849 | 198,974 | - | 2,127,823 |
| Other equipment | <u>226,434</u> | <u>12,816</u> | <u>-</u> | <u>239,250</u> |
| Total accumulated depreciation | <u>6,288,814</u> | <u>394,240</u> | <u>7,973</u> | <u>6,675,081</u> |

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

NOTES TO FINANCIAL STATEMENTS

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-----------|-----------|-------------------|
| Total capital assets being depreciated, net | 3,382,773 | | | 3,099,294 |
| Net capital assets | \$ 3,506,276 | | | \$ 3,179,840 |

NOTE 4 – COMPENSATED ABSENCES

Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. The Utility’s approximate liability for earned but unused vacation was \$10,580 as of December 31, 2010. This amount has been accrued and is reflected on the attached financial statements.

NOTE 5 - PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% (4.30% through June 30, 2010) of their annual salary and the Utility is required to contribute 6.95% (6.65% through June 30, 2010) of annual covered payroll. Contribution requirements are established by State statute. The Utility’s contributions to IPERS for the years ended December 31, 2010, 2009, and 2008 were approximately \$12,867, \$14,841, and \$12,138 respectively, equal to the required contributions for each year.

NOTE 6 – RELATED PARTY TRANSACTIONS

Pursuant to Iowa Code Chapter 28E.18 concerning the joint use of facilities through sharing agreements, the Laurens Municipal Light and Power Plant and the Laurens Municipal Broadband Communications Utility have entered into an agreement whereby the Communications Utility shall pay the Electric Utility the sum of \$175,000 on or before the first day of June each year for the use of a portion of the Communications distribution system for the previous calendar year. The term of this agreement is forty years and payments are due June 1 of each year.

NOTE 7 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts, errors and omissions, injuries to employees, natural disasters, and theft of, damage to and destruction of assets. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Laurens Municipal Light and Power Plant implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions for the year ended December 31, 2010.

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are no retired members in the plan

The medical coverage is administered by Wellmark. Retirees under age 65 pay the same premium for the medical benefit as active employees, which results in an implicit subsidy. The implicit subsidies result in an OPEB liability.

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

Annual OPEB Cost and Net OPEB Obligation. The Utility’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utility, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, 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 Utility’s annual OPEB cost for the year ended December 31, 2010, the amount actually contributed to the plan and changes in the Utility’s net OPEB obligation:

| | | |
|--|--|----------|
| Annual required contribution | | \$ 4,447 |
| Interest on annual required contribution | | - |
| Annual OPEB cost | | 4,447 |
| OPEB Beginning of Year | | - |
| Net OPEB obligation End of Year | | \$ 4,447 |

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2010. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2010.

For the year ended December 31, 2010, the Utility did not contribute to the medical plan. The Utility’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of December 31, 2010 are summarized as follows:

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

NOTES TO FINANCIAL STATEMENTS

| Year Ended | Annual OPEB Cost | % of Annual OPEB Cost | Net OPEB Obligation |
|-------------------|---------------------|-----------------------------|------------------------|
| December 31, 2010 | \$ 4,447 | 0% | \$ 4,447 |

Funded Status and Funding Progress. As of January 1, 2010, the most recent actuarial valuation date for the period January 1, 2010 through December 31, 2010, the actuarial accrued liability was \$31,372, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$31,372. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$207,000 and the ratio of the UAAL to covered payroll was 15%. As of December 31, 2010, 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 assumptions 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, will present 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.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include 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 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 January 1, 2010 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the Utility's funding policy. The projected annual medical trend rate is 9%. The ultimate medical trend rate is 6%. Rates are from an aging curve study presented by the Society of Actuaries in February 2006. The modest employee turnover rate was used to determine the Annual retirement and termination probabilities.

NOTE 9 – ELECTRIC REVENUE BONDS

Changes in the electric revenue bonds for the year ended December 31, 2010 are as follows:

| | Beginning Balance | Issued | Paid | Ending Balance |
|----------------------------------|----------------------|--------|---------|-------------------|
| 2008 Electric refunding notes | \$ 920,000 | - | 300,000 | 620,000 |
| Less: Current maturities | (300,000) | | | (305,000) |
| Unamortized discount and charges | (21,326) | | | (11,245) |
| | <u>\$ 598,674</u> | | | <u>303,755</u> |

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

NOTES TO FINANCIAL STATEMENTS

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

| <u>Year Ending December 31,</u> | <u>Revenue Bonds</u> | | <u>Total</u> |
|-------------------------------------|----------------------|-----------------|--------------|
| | <u>Principal</u> | <u>Interest</u> | |
| 2011 | \$ 305,000 | 20,937 | 325,937 |
| 2012 | 315,000 | 11,025 | 326,025 |
| | \$ 620,000 | 31,962 | 651,962 |

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

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to electric revenue sinking account for the purpose of making the bond principal and interest payments when due.
- C. The Utility is to establish a separate Bond Reserve Account into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$143,500.
- D. Additional monthly transfers of \$2,000 to the Bond Improvement Fund shall be made until the sum of \$100,000 has been accumulated. This account is restricted for the purpose of paying for necessary repairs, improvements, and extension to the system.
- E. Sufficient rates are to be charged to generate net revenues adequate to pay the principal and interest on the bonds and to create/maintain the reserves required by the bonds. The net revenues are also to be equal to or greater than 125% of the principal and interest requirements of the next calendar year.

NOTE 10 – RESTRICTED AND DESIGNATED NET ASSETS

Net assets have been restricted and designated in amount necessary to fund the following specific reserves:

| | |
|---|--------------|
| | <u>2010</u> |
| Restricted: | |
| Bond retirement sinking fund | \$ 27,161 |
| Bond reserve fund | 143,500 |
| Bond improvement fund | 100,000 |
| | \$ 270,661 |
| Unrestricted: | |
| Designated: | |
| NIMECA emissions fund | \$ 17,684 |
| Common transmission system – capital improvement fund | 262,499 |
| | 280,183 |
| Undesignated | 1,708,608 |
| | \$ 1,988,791 |

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – NOTES RECEIVABLE

City of Marathon – On January 1, 2004, the Utility received a note for \$194,025 in exchange for the construction of a 69/12.5 KV substation for the City of Marathon. The note requires monthly payments of \$1,288, including interest of 5.00% through February 2024.

Laurens Industrial Foundation, Inc. – On March 24, 2005, the Utility loaned \$400,000 to Laurens Industrial Foundation, Inc. to be used for economic development within the city. The terms of the note are interest only for the first five years, with the principal balance due March 24, 2010. On March 24, 2010, the note was renewed for an additional five years at an interest rate of 5.00%. This note was paid in full prior to the end of 2010.

NOTE 12 – COMMON TRANSMISSION SYSTEM – CAPITAL IMPROVEMENT FUND

This account is used to record funds deposited with NIMECA to be used for future construction and/or maintenance of the common transmission.

NOTE 13 – CORRECTION OF AN ERROR

As of December 31, 2009, the Utility reported a liability of \$231,875 to the Laurens Municipal Broadband Communications Utility. This liability however was reported in error and the balance sheet as of January 1, 2010 has been adjusted to correct the error as shown below.

| | As Previously Reported | Correction | As Corrected |
|----------------------------|---------------------------|------------|--------------|
| Due Communications Utility | \$ 231,875 | (231,875) | \$ -0- |
| Net Assets | \$ 4,774,611 | 231,875 | \$ 5,006,486 |

REQUIRED SUPPLEMENTARY INFORMATION

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2010**

| | Actual | Original Budget | Final Budget | Final to Actual Variance |
|---|--------------|--------------------|-----------------|-----------------------------|
| Revenues: | | | | |
| Use of money and property | \$ 46,976 | \$ 40,000 | \$ 51,000 | \$ (4,024) |
| Charges for services | 2,420,805 | 2,225,000 | 2,335,000 | 85,805 |
| Miscellaneous | 1,659 | 219,000 | 219,000 | (217,341) |
| | 2,469,440 | 2,484,000 | 2,605,000 | (135,560) |
| Expenses | 2,617,624 | 2,410,000 | 2,605,000 | (12,624) |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | (148,184) | 74,000 | - | (148,184) |
| Net Assets at Beginning of Period | 5,006,486 | 4,962,570 | 4,962,570 | 43,916 |
| Residual equity transfer to City - donation | (27,765) | - | - | (27,765) |
| Net Assets at End of Period | \$ 4,830,537 | \$ 5,036,570 | \$ 4,962,570 | \$ (132,033) |

LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2010

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Disbursements exceeded the budgeted limits for the year ended December 31, 2010.

LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS

**SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(In Thousands)**

Required Supplementary Information

| Year Ended December 31 | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded AAL (UAAL) (c) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a)/c |
|------------------------------|--------------------------------|--|--|--------------------------------------|------------------------------|-------------------------------|---|
| 2010 | January 1, 2010 | -0- | \$ 31 | \$ 31 | 0.00% | \$ 207 | 15% |

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

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS**

Schedule 1

**SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | |
|----------------------|---------------------|
| Sale of electricity: | |
| Residential | \$ 692,739 |
| Commercial | 880,205 |
| Resale | 522,357 |
| Marathon | 128,303 |
| Forfeited discounts | 5,330 |
| Sales of steam | 14,018 |
| Miscellaneous | 2,853 |
| Joint use agreement | 175,000 |
| | <u>\$ 2,420,805</u> |

See Notes to Financial Statements

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS**

Schedule 2

**SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | |
|---|---------------------|
| Purchased energy | <u>\$ 1,147,870</u> |
| Generating plant - local: | |
| Operating supervision and labor | 26,572 |
| Fuel | 2,009 |
| Operating supplies | 582 |
| Maintenance and repairs | 253 |
| Buildings and grounds maintenance and repairs | 9,619 |
| Depreciation | <u>3,930</u> |
| Total local generating plant expenses | 42,965 |
| Generating plant - Neal 4 | |
| Fuel | 329,333 |
| Maintenance and repairs | 49,896 |
| Operating | 56,637 |
| Property taxes | 22,614 |
| Depreciation | 64,719 |
| Other | <u>56,299</u> |
| Total Neal 4 generating plant expenses | 579,498 |
| Distribution system - electric: | |
| Line and station supervision and labor | 20,617 |
| Line and station supplies and expense | 5,662 |
| Street lighting and signals labor and expense | 48 |
| Customers' installation expense | 8,315 |
| Miscellaneous distribution expense | 865 |
| Maintenance of lines | 33,362 |
| Maintenance of line transformers | 3,615 |
| Maintenance of street lighting and signal systems | 1,470 |
| Maintenance of meters | 6,902 |
| Depreciation | <u>50,485</u> |
| Total electric distribution expense | 131,341 |
| Distribution system - communications: | |
| Line and station supervision and labor | 206 |
| Operating supplies and expense | 3,268 |
| Customers' installation expense | 33,597 |
| Maintenance of lines | 3,811 |
| Maintenance of nodes, amps and peds | 11,443 |
| Maintenance of voice ports | 4,698 |
| Property taxes | 3,084 |
| Depreciation | <u>198,974</u> |
| Total communications distribution expense | 259,081 |

See Notes to Financial Statements

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS**

Schedule 2 (continued)

**SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | |
|---|--------------|
| Transmission system: | |
| Amortization | 4,844 |
| Depreciation | 63,317 |
| Capacity assignment costs | 25,837 |
| Other | 34,668 |
| Total transmission system expenses | 128,666 |
| Customers' accounts expense: | |
| Bad debt expense (recoveries) | 675 |
| Meter reading expense | 7,605 |
| Total customers' accounts expense | 8,280 |
| Administrative and general expense: | |
| Administrative and general salaries | 83,597 |
| Conservation expense | 11,791 |
| Office supplies and postage | 11,516 |
| Audits, legal, and consultation services | 33,813 |
| Property insurance | 12,705 |
| Compensation insurance | 1,824 |
| Employees' group insurance | 41,003 |
| Trustees' fees | 900 |
| Dues and subscriptions | 4,950 |
| Franchise requirements - cash payments to City | 30,000 |
| Franchise requirements - cost of services to City | 6,779 |
| Legal publications | 1,452 |
| Advertising and promotion | 370 |
| Convention, meeting, and travel expense | 2,321 |
| E911 fees | - |
| Depreciation | 12,815 |
| Bank service charges | 432 |
| Motor vehicle and work equipment expense | 13,569 |
| Miscellaneous | 5,162 |
| Total administrative and general expense | 274,999 |
| Total operating expense | \$ 2,572,700 |

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of
Laurens Municipal Light and Power Plant
Laurens, Iowa

We have audited the financial statements of Laurens Municipal Light and Power Plant (the Utility), a component unit of the City of Laurens, Iowa, as of and for the year ended December 31, 2010, and have issued our report thereon dated July 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Planning

Management of the Utility is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Utility'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 the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we believe to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified as I-A-10, I-B-10, and I-C-10 in the Schedule of Findings to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies identified as I-D-10 and I-E-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of Laurens Municipal Light and Power Plant and other parties to whom the Utility may report. The report is not intended 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 Utility 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.

T.P. Anderson & Company, P.C.

July 22, 2011

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2010**

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-10 Condition – There is a lack of segregation of duties with respect to accounts receivable, customer receipts, bank reconciliations, and general ledger maintenance.

Criteria – A sound system of internal controls requires that incompatible duties be assigned to more than one employee.

Cause – This issue is due to the limited number of staff at the Utility.

Effect – A material weakness in the Utility’s control system.

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

Client Response – This is difficult with the minimal number of staff but we will continue to work on better segregation of duties.

Conclusion – Response accepted.

I-B-10 Condition – Capital asset information is not maintained at a detail level.

Criteria – Because capital assets are one of the largest items on the Utility’s balance sheet, a detailed schedule should be maintained for these assets. The schedule should show each capital asset individually and include its date of purchase, original cost, depreciation expense and accumulated depreciation.

Cause – Traditionally the Utility has tracked capital assets and accumulated depreciation by category, rather than in detail.

Effect – Controls over capital assets are not as effective as they could be.

Recommendation – The Utility should consider tracking all capital assets using a capital asset/depreciation schedule. If this type of schedule is cost prohibitive to prepare for the Utility’s current capital assets, consider maintaining this information for all new additions.

Client Response – We will consider this recommendation and make improvements to our tracking of capital assets.

Conclusion – Response accepted.

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

- I-C-10 Condition – Material adjustments including a prior period adjustment were required to Notes Receivable, Investments, Accumulated Depreciation and Accounts Payable in order to report them in accordance with accounting principles generally accepted in the United States of America.
- Criteria – An internal control system that is functioning properly should either prevent or detect and correct material misstatements in a timely manner.
- Cause – Regular month-end practices do not include reconciling all general ledger accounts with subsidiary ledgers or supporting documentation.
- Effect – Monthly reports generated by the accounting system were not accurate.
- Recommendation – Procedures should be developed to ensure that all significant general ledger accounts are reconciled to supporting documents on a regular basis.
- Client Response – We will develop and implement procedures to reconcile all significant general ledger accounts on a regular basis.
- Conclusion – Response accepted.
- I-D-10 Condition – The Utility’s management and staff do not possess the expertise to select and apply accounting principles and to prepare full-disclosure financial statements in accordance with accounting principles generally accepted in the United States of America.
- Criteria – A proper system of internal controls assumes that management is able to select and apply appropriate accounting principles in order to present financial statements in accordance with accounting principles generally accepted in the United States of America.
- Cause – The Utility has a strong staff capable of performing duties such as billing, bookkeeping, customer service and managing a smooth operating enterprise, however the benefit of having an employee on staff with the needed accounting expertise has been outweighed by the added cost.
- Effect – Management is not able to, without assistance, prepare financial statements in accordance with the standards.
- Recommendation – Management should consider obtaining professional education training specific to the accounting principles used by the Utility.
- Client Response – We will take steps to train the staff and management in order to become more proficient.
- Conclusion – Response accepted.
- I-E-10 Condition – The Utility utilized a debit card for certain transactions instead of utilizing a credit card.

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

Criteria – A proper control system provides protection for Utility assets. The use of the debit card allows immediate access to Utility funds, and so does not provide adequate protection. Purchases can be made without prior approval using a debit card. Some banking institutions will not reverse fraudulent transactions made with a debit card.

Cause – It has been common practice at the Utility to allow the use of a debit card.

Effect – Inadequate controls over Utility funds.

Recommendation – We recommend the Utility adopt a credit card usage policy, destroy the debit cards, and switch to the use of credit cards at the Utility.

Client Response – We have obtained a sample credit card policy and are working towards making the conversion from a debit to a credit card.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-10 Certified Budget - Disbursements during the year ended December 31, 2010 exceeded the amount budgeted.

Criteria - 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.”

Cause – Material adjustments caused an increase in expenses that caused the overexpenditure.

Effect – Disbursements were made without proper approval.

Recommendation – The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before actual disbursements exceed the amount budgeted.

Client Response – We will amend our budget in accordance with the Code of Iowa in the future if needed.

Conclusion – Response accepted.

II-B-10 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-10 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.

II-D-10 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

- II-E-10 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-10 Board Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-10 Deposits and Investments – We noted no instances noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.
- II-H-10 Revenue Bonds – The Utility did not meet the net revenues requirement of the outstanding revenue bonds.

Criteria – The bond agreement requires the Utility to review its rates annually and to adjust them to ensure that the system generates 125% of the required principal and interest due on the bonds in the next calendar year.

Cause – Management was not aware of this requirement.

Effect – The Utility did not comply with the bond agreement as stated.

Recommendation – The Utility should review its rate structure regularly and ensure that sufficient rates are charged to generate the net revenues required.

Client Response – We have studied our rates and implemented an increase for 2011.

Conclusion – Response accepted.