

**LAURENS MUNICIPAL
LIGHT AND POWER PLANT**

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

December 31, 2011

**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, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jerry Runneberg	Trustee	April, 2017
Richard Main	Trustee	April, 2013
Ben Storms	Trustee	April, 2015



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of the Laurens Municipal Light and Power Plant (the Utility), a component unit of the City of Laurens, Iowa, for the years ended December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 audits.

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 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 Laurens Municipal Light and Power Plant, a component unit of the City of Laurens, Iowa, as of December 31, 2011 and 2010 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2012 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.

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 6 and 21 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial

statements. We do not express or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on Laurens Municipal Light and Power Plant's basic financial statements. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information 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 9, 2012

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

2011 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues increased from approximately \$2,371,000 in 2010 to approximately \$2,499,000 in 2011, an increase of 5%. This increase resulted mainly from a rate increase implemented in 2011.
- ◆ The Utility's operating expenses decreased 3% in 2011 to a total of \$2,487,000 from a total of \$2,573,000 in 2010. The decline in expense resulted from reduced depreciation expense and engineering expense being capitalized as part of the new generation plant project.
- ◆ The Utility's net assets decreased by approximately \$23,000 in 2011.

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 2011 from approximately \$4,781,000 to \$4,757,000. 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>2011</u>	<u>2010</u>
Current assets	\$ 1,635	1,861
Other assets	739	752
Capital assets at cost, less accumulated depreciation	<u>3,254</u>	<u>3,180</u>
Total assets	<u>5,628</u>	<u>5,793</u>
Current liabilities	862	704
Non-current liabilities	<u>9</u>	<u>308</u>
Total liabilities	<u>871</u>	<u>1,012</u>
Net assets:		
Invested in capital assets, net of related debts	2,884	2,571
Restricted	271	271
Unrestricted – designated	245	280
Unrestricted	<u>1,357</u>	<u>1,659</u>
Total net assets	<u>4,757</u>	<u>4,781</u>
Total liabilities and net assets	<u>\$ 5,628</u>	<u>5,793</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, 2011 and 2010 is presented below (in thousands):

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Sales of electrical energy	\$ 2,499	<u>2,371</u>
Total operating revenue	<u>2,499</u>	<u>2,371</u>
Operating expenses:		
Purchased power	1,169	1,148
Generating plant	648	623
Distribution system	268	390
Transmission system	129	129
Administrative and general	<u>274</u>	<u>283</u>
Total operating expenses	<u>2,488</u>	<u>2,573</u>
Operating income	<u>11</u>	<u>(202)</u>

Non-operating revenue and expenses:		
Other	<u>1</u>	<u>4</u>
Non-operating income	<u>1</u>	<u>4</u>
Increase (decrease) in net assets	12	(198)
Net assets, beginning of year	4,781	5,006
Less: Residual equity transfer to City – funding	<u>(36)</u>	<u>(27)</u>
Net assets, end of year	<u>\$ 4,757</u>	<u>4,781</u>

CAPITAL ASSETS

As of December 31, 2011 and 2010, the Utility had approximately \$3.3 and \$3.2 million invested in capital assets, net of accumulated depreciation of \$7.0 and \$6.6 million. Laurens Municipal Light and Power Plant had depreciation expense of approximately \$275,000 in 2011 and \$393,000 in 2010.

LONG-TERM DEBT

At December 31, 2011, the Utility had \$315,000 in revenue bonds outstanding, a decrease of \$305,000 from 2010. The table below summarizes outstanding debt by type.

	<u>2011</u>	<u>2010</u>
2008 Electric refunding notes	<u>\$ 315,000</u>	<u>620,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Utility continued to improve its financial position during 2011. However the current condition of the economy 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.
- ◆ The age of Neal 4 Generation Plant.
- ◆ The need to secure additional base load power.
- ◆ Federal and/or state legislation that complicates securing additional power resources.
- ◆ Federal and/or state legislation that makes keeping our current generation facilities operational and compliant with emission control measures.
- ◆ The impact an additional rate increase in 2013 will have on our revenues, debt service coverage, and our customers.

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**

**BALANCE SHEET
AS OF DECEMBER 31, 2011 and 2010**

	Assets	
	2011	2010
Capital Assets		
Land	\$ 80,546	80,546
Plant in service	9,983,713	9,774,375
	10,064,259	9,854,921
Less accumulated depreciation	6,950,005	6,675,081
	3,114,254	3,179,840
Construction in progress	139,494	-
Total capital assets	3,253,748	3,179,840
Other Assets		
Notes receivable - net of current portion	140,537	139,881
Common transmission system - capital improvement fund	226,797	262,499
NIMECA - emissions funds	18,018	17,684
Bond improvement fund	100,000	100,000
Bond reserve fund	143,500	143,500
Bond retirement sinking fund	27,250	27,161
Deferred patronage refund receivable	58,714	52,009
Reserve Fund - Wheelen #2	21,481	-
Other	3,231	10,015
Total other assets	739,528	752,749
Current Assets		
Cash and cash equivalents	-	-
Certificates of deposit	856,500	1,106,500
Accounts receivable - net of provision for doubtful accounts of \$8,810 and \$26,000 respectively	336,541	329,499
Notes receivable - current portion	-	8,199
Joint use contract receivable	125,000	125,000
Inventories	208,734	216,884
Accrued interest receivable	6,985	11,891
Prepaid expenses	101,032	62,926
Total current assets	1,634,792	1,860,899
Total assets	\$ 5,628,068	5,793,488

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

**BALANCE SHEET
AS OF DECEMBER 31, 2011 and 2010**

Liabilities and Net Assets

	2011	2010
Long-Term Debt (less current maturities)		
Electric revenue bonds - net of current portion	\$ -	303,755
OPEB obligation	8,910	4,447
	8,910	308,202
Current and Accrued Liabilities		
Current maturities of revenue bonds	315,000	305,000
Checks in excess of bank balance	173,940	204,950
Accounts payable	279,952	114,671
Customer deposits	38,287	32,681
Other current and accrued liabilities	54,694	47,447
Total current and accrued liabilities	861,873	704,749
Net Assets		
Invested in capital assets, net of related debt	2,883,869	2,571,085
Restricted	270,750	270,661
Unrestricted - designated	244,815	280,183
Unrestricted	1,357,851	1,658,608
Total net assets	4,757,285	4,780,537
Total liabilities and net assets	\$ 5,628,068	5,793,488

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

	2011	2010
Operating revenues:	\$ 2,498,711	\$ 2,370,805
Operating expenses:		
Purchased power	1,169,387	1,147,870
Generating plant - local	35,372	42,965
Generating plant - Neal 4	612,469	579,498
Distribution system - electric	136,978	131,341
Distribution system - communications	130,612	259,081
Transmission system	128,959	128,666
Customers' accounts expense	10,583	8,280
Administrative and general	263,070	274,999
Total operating expenses	2,487,430	2,572,700
Operating income (loss)	11,281	(201,895)
Non-operating expenses:		
Revenues from merchandising	5,188	1,659
Interest earned on investments	28,134	46,976
Amortization of bond issue costs	(1,941)	(1,941)
Interest expense	(30,590)	(39,269)
Loss on disposition of assets	-	(3,714)
Non-operating income	791	3,711
Change in net assets	12,072	(198,184)
Total net assets, beginning of year	4,780,537	5,006,486
Less: Residual equity transfer to City - donation	(35,324)	(27,765)
Total net assets, end of year	\$ 4,757,285	\$ 4,780,537

See Notes to Financial Statements

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

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

	2011	2010
Cash flows from operating activities:		
Cash receipts from customers	\$ 2,372,275	\$ 2,301,483
Other operating cash receipts	125,000	175,000
Cash payments to suppliers	(2,005,840)	(1,941,351)
Cash payments to employees	(236,336)	(240,335)
Net cash provided by operating activities	255,099	294,797
Cash flows from noncapital financing activities:		
Payments to the city	(35,324)	(27,765)
Net cash (used) by noncapital financing activities	(35,324)	(27,765)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(169,224)	(66,637)
Repayment of revenue bonds	(305,000)	(300,000)
Checks issued in excess of bank balance	(31,010)	204,950
Cash payments for interest	(19,345)	(29,188)
Net cash (used) by capital and related financing activities	(524,579)	(190,875)
Cash flows from investing activities:		
Interest received	33,040	55,973
Collected notes receivable	7,543	408,517
Sale of resale merchandise	5,188	1,659
Proceeds from redemption of investments	1,600,000	1,195,410
Purchase of investments	(1,340,967)	(1,764,380)
Net cash (used) by investing activities	304,804	(102,821)
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:		
Income (loss) from operations	11,281	\$ (201,895)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	274,924	394,240
Change in accounts receivable	(7,042)	53,380
Change in joint use contract receivable	-	50,000
Change in prepaid expenses	(38,106)	(48,241)
Change in inventory	8,150	36,766
Change in accounts payable and accrued expenses	(10,177)	5,763
Change in customer deposits	5,606	2,298
Change in deferred revenue	-	(1,961)
Change in OPEB liability	4,463	4,447
Net cash provided by operating activities	\$ 255,099	\$ 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 accepts 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. 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 (a) 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.

**LAURENS MUNICIPAL LIGHT AND POWER PLANT
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NOTES TO FINANCIAL STATEMENTS

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, 2011, actual disbursements did not exceed the amounts budgeted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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, 2011 and 2010 consisted of approximately 809 and 863 uncollateralized accounts, respectively. Accounts receivable balances older than 90 days for the Utility were approximately \$26,400 and \$40,000 for the years ended December 31, 2011 and 2010 respectively.

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, 2011 and 2010 of \$8,810 and \$26,000, respectively.

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
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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.

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.

NOTE 2 - CASH AND INVESTMENTS

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

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

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NOTES TO FINANCIAL STATEMENTS

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, 2011 and 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, 2011 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>-</u>	<u>139,494</u>	<u>-</u>	<u>139,494</u>
Total capital assets not being depreciated	<u>80,546</u>	<u>139,494</u>	<u>-</u>	<u>220,040</u>
Capital assets being depreciated:				
Generating plant	2,464,323	26,372	-	2,490,695
Transmission plant	1,082,638	-	-	1,082,638
Transmission plant – Corn Belt	1,382,688	164,758	-	1,547,446
Distribution plant	1,888,785	9,501	-	1,898,286
Communication plant	2,612,716	-	-	2,612,716
Other equipment	<u>343,225</u>	<u>8,707</u>	<u>-</u>	<u>351,932</u>
Total capital assets being depreciated	<u>9,774,375</u>	<u>209,338</u>	<u>-</u>	<u>9,983,713</u>
Less accumulated depreciation for:				
Generating plant	2,258,415	67,668	-	2,326,083
Transmission plant	558,462	28,680	-	587,142
Transmission plant – Corn Belt	594,937	45,099	-	640,036
Distribution plant	896,194	43,699	-	939,893
Communication plant	2,127,823	74,394	-	2,202,217
Other equipment	<u>239,250</u>	<u>15,384</u>	<u>-</u>	<u>254,634</u>
Total accumulated depreciation	<u>6,675,081</u>	<u>274,924</u>	<u>-</u>	<u>6,950,005</u>
Total capital assets being depreciated, net	<u>3,099,294</u>			<u>3,033,708</u>
Net capital assets	<u>\$ 3,179,840</u>			<u>3,253,748</u>

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 assets not being depreciated	<u>123,503</u>	<u>-</u>	<u>42,957</u>	<u>80,546</u>

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

NOTES TO FINANCIAL STATEMENTS

Capital assets being depreciated:				
Generating plant	2,418,221	46,132	30	2,464,323
Transmission plant	1,077,511	5,127	-	1,082,638
Transmission plant – Corn Belt	1,337,278	45,410	-	1,382,688
Distribution plant	1,896,165	593	7,973	1,888,785
Communication plant	2,611,502	1,214	-	2,612,716
Other equipment	<u>330,910</u>	<u>12,315</u>	-	<u>343,225</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>239,250</u>
Total accumulated depreciation	<u>6,288,814</u>	<u>394,240</u>	<u>7,973</u>	<u>6,675,081</u>
Total capital assets being depreciated, net	<u>3,382,773</u>			<u>3,099,294</u>
Net capital assets	<u>\$ 3,506,276</u>			<u>3,179,840</u>

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 \$7,222 and \$10,580 as of December 31, 2011 and 2010 respectively. 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 5.38% (4.50% through June 30, 2011) of their annual salary and the Utility is required to contribute 8.07% (6.95% through June 30, 2011) of annual covered payroll. Contribution requirements are established by state statute. The Utility’s contributions to IPERS for the years ended December 31, 2011, 2010, and 2009 were approximately \$15,911, \$12,867, and \$14,841 respectively, equal to the required contributions for each year.

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

NOTES TO FINANCIAL STATEMENTS

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 a lease payment for the use of a portion of the distribution system for the previous calendar year. The amount of the lease payment is subject to change based on the actual expenses incurred by the Laurens Municipal Light and Power Plant. This agreement was entered into in 2001 for a term of forty years.

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.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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, 2011 and 2010, the amount actually contributed to the plan and changes in the Utility’s net OPEB obligation:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 4,463	4,447
Interest on annual required contribution	<u>-</u>	<u>-</u>
Annual OPEB cost	4,463	4,447
Net OPEB obligation beginning of year	<u>4,447</u>	<u>-</u>
Net OPEB obligation end of year	<u>\$ 8,910</u>	<u>4,447</u>

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

NOTES TO FINANCIAL STATEMENTS

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, 2011.

For the year ended December 31, 2011, 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, 2011 are summarized as follows:

<u>Year Ended</u>	Percentage Annual <u>OPEB Cost</u>	of Annual <u>OPEB Cost</u>	Net OPEB <u>Obligation</u>
December 31, 2011	\$ 4,463	\$ 0%	\$ 8,910
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, 2011, 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 \$239,000 and the ratio of the UAAL to covered payroll was 13%. As of December 31, 2011 and 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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – ELECTRIC REVENUE BONDS

Changes in the electric revenue bonds for the year ended December 31, 2011 are as follows:

	Beginning Balance	Issued	Paid	Ending Balance
2008 Electric refunding notes	\$ 620,000	-	305,000	315,000
Less: Current maturities	(305,000)			(315,000)
Unamortized discount and charges	(11,245)			-
	\$ 303,755			-

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

Year Ending December 31, 2012	Revenue Bonds		Total
	Principal	Interest	
	315,000	11,025	326,025
	\$ 315,000	11,025	326,025

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:

	2011	2010
Restricted:		
Bond retirement sinking fund	\$ 27,250	\$ 27,161
Bond reserve fund	143,500	143,500
Bond improvement fund	100,000	100,000
	\$ 270,750	\$ 270,661

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

NOTES TO FINANCIAL STATEMENTS

Unrestricted:

Designated:

NIMECA emissions fund	\$ 18,018	\$ 17,684
Common transmission system – capital improvement fund	226,797	262,499
	\$ 244,815	\$ 280,183

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 – SUBSEQUENT EVENTS

The Utility’s management has evaluated events and transactions for potential recognition or disclosure through July 9, 2012, the date of the financial statements.

The Utility has agreed to plans to move forward with the construction of a new generation plant. Contracts that have been signed in connection with the construction include agreeing to the purchase of three 2500 kWh CAT generators for a total of \$1,873,014. The Utility has also signed an agreement to clear the site for the new plant with a cost of \$82,000. These projects are expected to be financed with revenue bonds to be issued in the second half of 2012.

NOTE 14 – CORRECTION OF AN ERROR

As of and for the year ended December 31, 2010 the Utility reported accounts receivable from the Laurens Broadband Communications Utility of \$175,000. This amount should have been \$125,000. The over accrual has been corrected in the financial statements presented herein as of and for the year ended December 31, 2010 as shown below:

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

NOTES TO FINANCIAL STATEMENTS

	As Previously <u>Reported</u>	<u>Correction</u>	As <u>Corrected</u>
<u>Balance Sheet</u>			
Joint use contract receivable	\$ 175,000	(50,000)	125,000
Net assets	4,830,537	(50,000)	4,780,537
<u>Statement of Revenue, Expenses and Changes in Net Assets</u>			
Operating revenue	\$ 2,420,805	(50,000)	2,370,805
Change in net assets	(148,184)	(50,000)	(198,184)
<u>Statement of Cash Flows</u>			
(Loss) from operations	\$ (151,895)	(50,000)	(201,895)
Change in joint use contract receivable	-	50,000	50,000

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, 2011**

	Actual	Original Budget	Final to Actual Variance
Revenues:			
Use of money and property	\$ 28,134	\$ 48,000	\$ (19,866)
Charges for services	2,364,205	2,450,000	\$ (85,795)
Miscellaneous	139,694	214,000	\$ (74,306)
	<u>2,532,033</u>	<u>2,712,000</u>	<u>(179,967)</u>
Expenses	<u>2,519,961</u>	<u>2,667,000</u>	<u>147,039</u>
Excess of Receipts Over Disbursements	12,072	45,000	
Net Assets at Beginning of Period	4,780,537	4,774,611	
Residual equity transfer to City - donation	<u>(35,324)</u>	<u>(45,000)</u>	
Net Assets at End of Period	<u>\$ 4,757,285</u>	<u>\$ 4,774,611</u>	

**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, 2011

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 did not exceed the budgeted limits for the year ended December 31, 2011.

**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
2011	January 1, 2011	-0-	\$ 31	\$ 31	0.00%	\$ 239	13%
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

**SCHEDULES OF OPERATING REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2011 and 2010**

	2011	2010
Sale of electricity:		
Residential	\$ 765,709	692,739
Commercial	964,334	880,205
Resale	496,082	522,357
Marathon	98,120	128,303
Forfeited discounts	5,299	5,330
Sales of steam	7,944	14,018
Miscellaneous	36,223	2,853
Joint use agreement	125,000	125,000
	\$ 2,498,711	2,370,805

See Notes to Financial Statements

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

Schedule 2

**SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

	2011	2010
Purchased energy	\$ 1,169,387	1,147,870
Generating plant - local:		
Operating supervision and labor	22,630	26,572
Fuel	2,917	2,009
Operating supplies	495	582
Maintenance and repairs	682	253
Buildings and grounds maintenance and repairs	7,555	9,619
Depreciation	1,093	3,930
Total local generating plant expenses	35,372	42,965
Generating plant - Neal 4		
Fuel	326,195	329,333
Maintenance and repairs	64,494	49,896
Operating	60,438	56,637
Property taxes	27,860	22,614
Depreciation	66,574	64,719
Other	66,908	56,299
Total Neal 4 generating plant expenses	612,469	579,498
Distribution system - electric:		
Line and station supervision and labor	21,865	20,617
Line and station supplies and expense	7,761	5,662
Street lighting and signals labor and expense	79	48
Meter labor and expense	1,771	-
Customers' installation expense	10,548	8,315
Miscellaneous distribution expense	1,192	865
Maintenance of lines	26,755	33,362
Maintenance of line transformers	5,300	3,615
Maintenance of street lighting and signal systems	3,791	1,470
Maintenance of meters	6,643	6,902
Depreciation	51,273	50,485
Total electric distribution expense	136,978	131,341
Distribution system - communications:		
Line and station supervision and labor	366	206
Operating supplies and expense	3,220	3,268
Customers' installation expense	33,084	33,597
Maintenance of lines	2,990	3,811
Maintenance of nodes, amps and peds	7,379	11,443
Maintenance of voice ports	5,382	4,698
Property taxes	3,799	3,084
Depreciation	74,392	198,974
Total communications distribution expense	130,612	259,081

See Notes to Financial Statements

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

Schedule 2 (continued)

**SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

	2011	2010
Transmission system:		
Amortization	4,844	4,844
Depreciation	65,808	63,317
Capacity assignment costs	25,898	25,837
Other	32,409	34,668
Total transmission system expenses	128,959	128,666
Customers' accounts expense:		
Bad debt expense (recoveries)	1,800	675
Meter reading expense	8,783	7,605
Total customers' accounts expense	10,583	8,280
Administrative and general expense:		
Administrative and general salaries	90,087	83,597
Conservation expense	7,939	11,791
Office supplies and postage	10,856	11,516
Audits, legal, and consultation services	10,707	33,813
Property insurance	11,169	12,705
Compensation insurance	3,732	1,824
Employees' group insurance	40,167	41,003
Trustees' fees	900	900
Dues and subscriptions	4,876	4,950
Franchise requirements - cash payments to City	33,000	30,000
Franchise requirements - cost of services to City	10,485	6,779
Legal publications	1,423	1,452
Advertising and promotion	993	370
Convention, meeting, and travel expense	1,050	2,321
E911 fees	-	-
Depreciation	15,784	12,815
Bank service charges	387	432
Motor vehicle and work equipment expense	14,277	13,569
Miscellaneous	5,238	5,162
Total administrative and general expense	263,070	274,999
Total operating expense	\$ 2,487,430	2,572,700



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

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, 2011, and have issued our report thereon dated July 9, 2012. 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 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 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-11 I-B-II, and I-D-11 in the Schedule of Findings to be material weaknesses. Prior year findings have been addressed except for the items referred to in the previous sentence and in the next paragraph.

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 deficiency identified as I-C-11 in the Schedule of Findings to be a significant deficiency.

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, 2011, 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 9, 2012

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

**SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2011**

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-11 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-11 Condition – A material adjustment to Accounts Payable was required in order to present the financial statements fairly 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 accounts payable 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 accounts payable are reconciled to supporting documents on a regular basis.

Client Response – We will develop and implement procedures to reconcile accounts payable on a regular basis.

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, 2011**

I-C-11 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, and 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.

1-D-11 Condition – The financial statements as of and for the year ended December 31, 2010 required a prior period adjustment to correct the accrual of the Joint Use lease payment due from the Laurens Municipal Broadband Communications Utility.

Criteria – A system of internal controls should operate to prevent or detect and correct such an adjustment in a timely manner.

Cause – A standard monthly entry should have been adjusted when the lease payment required was changed.

Effect – The financial statements presented for 2010 were not correct.

Recommendation – When issues that affect the Utility’s financial statements arise, you should review your standard monthly entries to verify if any of the entries should be modified.

Client response – We will implement your recommendation.

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, 2011**

Part II: Other Findings Related to Statutory Reporting:

- II-A-11 Certified Budget - Disbursements during the year ended December 31, 2011 were within the budgeted limits.
- II-B-11 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-11 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-11 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.
- II-E-11 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-11 Board Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- We identified two bills that were not included on any bill listing for trustee approval. By being excluded from a bill listing, these bills were not published as required by the Code of Iowa.
- Criteria – The Code of Iowa requires that all payments be published and detail the payee name, the amount of the payment, and the purpose of the payment.
- Cause – The system used for listing payments for approval and publishing did not operate to identify the omitted items.
- Effect – Certain payments were not included in the list of bills to be published.
- Recommendation – Include all payments to be made in the list of bills presented to the trustees.
- Client response – We will implement your recommendation.
- Conclusion – Response accepted.
- II-G-11 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.
- II-H-11 Revenue Bonds – The Utility did not meet the net revenues requirement of the outstanding revenue bonds.

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

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2011**

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 implemented a further rate increase in March 2012 to address this issue.

Conclusion – Response accepted.