

**LAURENS MUNICIPAL  
BROADBAND COMMUNICATIONS UTILITY**

**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 BROADBAND COMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**OFFICIALS**

**December 31, 2011**

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
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 Broadband Communications Utility  
Laurens, Iowa

We have audited the accompanying balance sheets of the Laurens Municipal Broadband Communications Utility (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 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 Broadband Communications Utility, 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 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 9, 2012 on our consideration of the Laurens Municipal Broadband Communications Utility'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 18 through 20 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 Broadband Communications Utility'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. 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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The management of Laurens Municipal Broadband Communications Utility (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 \$831,000 to approximately \$870,000, mainly due to an increase in rates.
- ◆ The Utility's expenses decreased from approximately \$873,000 to approximately \$866,000 due to reduced depreciation and a decrease in the joint use fee to the Light and Power Plant.
- ◆ The Utility's net assets increased approximately \$4,401, which is an improvement from the decrease in net assets of \$42,000 experienced in 2010.

### USING THIS ANNUAL REPORT

Laurens Municipal Broadband Communications Utility 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 is intended to serve as an introduction to Laurens Municipal Broadband Communications Utility'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*

The condensed statement of net assets (in thousands), shown below, shows how assets and liabilities have changed over the past two years.

	<u>2011</u>	<u>2010</u>
Current assets	\$ 332	\$ 291
Capital assets at cost, less accumulated depreciation	<u>112</u>	<u>151</u>
Total assets	<u>444</u>	<u>442</u>
Current liabilities	169	174
Other liabilities	<u>5</u>	<u>2</u>
Total liabilities	<u>174</u>	<u>176</u>
Net assets:		
Invested in capital assets	112	151
Unrestricted	<u>158</u>	<u>115</u>
Total net assets	<u>270</u>	<u>266</u>
Total liabilities and net assets	<u>\$ 444</u>	<u>\$ 442</u>

### *Statements of Revenues, Expenses, and Changes in Net Assets*

Operating revenues are received for providing cable, internet, and telephone services to the residents of the City. Operating expenses are expenses paid to operate the Utility. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses, and changes in net assets for the years ended December 31, 2011 and 2010 is presented below (in thousands):

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Cable services	\$ 271	\$ 258
Telephone services	276	269
Internet services	171	162
Other operating revenue	<u>152</u>	<u>142</u>
Total operating revenue	<u>870</u>	<u>831</u>
Operating expenses:		
Cost of service	520	514
Head end expense	117	147
Customers' accounts expense (recovery)	(7)	1
Administrative and general	<u>236</u>	<u>211</u>
Total operating expenses	<u>866</u>	<u>873</u>
Increase (decrease) in net assets	4	(42)

Net assets, beginning of year	<u>266</u>	<u>308</u>
Net assets, end of year	<u>\$ 270</u>	<u>\$ 266</u>

**CAPITAL ASSETS**

The Utility had approximately \$112,000 and \$151,000, invested in capital assets, net of accumulated depreciation of \$1.1 and \$1.03 million at December 31, 2011 and 2010 respectively. Laurens Municipal Broadband Communications Utility had depreciation expense of \$69,891 in 2011 and \$112,554 in 2010.

**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:

- The need to keep the utility competitive with larger national companies, not only with the services offered, but also the prices of the services.
- The challenge for municipal utilities to comply with ever-changing federal and state legislation.
- The declining usage of land-line telephones and the increasing use of mobile/cellular devices for long distance continue to pressure the Utility’s telephone revenues.
- The increasing demand for more bandwidth from our customers to enhance their use of mobile devices such as lap-tops, smart-phones, and tablets.
- The challenge for municipal utilities to maintain our communications system and yet keep up with changes in technology.
- The effects of a likely increase in rates in 2012 due to the factors previously mentioned.

**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 Broadband Communications Utility’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 BROADBAND COMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF LAURENS**

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

	2011	2010
<b>Capital assets</b>		
Land	\$ 8,280	8,280
Plant in service	1,204,651	1,174,363
	1,212,931	1,182,643
Less accumulated depreciation	1,101,105	1,031,214
	111,826	151,429
<b>Current assets</b>		
Cash and cash equivalents	258,101	233,209
Accounts receivable (less provision for doubtful accounts of \$6,000)	68,848	52,345
Prepaid expenses	5,478	5,425
<b>Total current assets</b>	332,427	290,979
 <b>Total assets</b>	\$ 444,253	442,408
 <b>Current and accrued liabilities</b>		
Accounts payable	36,693	38,385
Joint use contract payable	125,000	125,000
Other current and accrued liabilities	7,181	10,542
<b>Total current and accrued liabilities</b>	168,874	173,927
 <b>Long-term liabilities</b>		
OPEB obligation	4,708	2,211
<b>Total liabilities</b>	173,582	176,138
 <b>Net assets</b>		
Invested in capital assets, net of related debt	111,826	151,429
Unrestricted	158,845	114,841
<b>Total net assets</b>	270,671	266,270
 <b>Total liabilities and net assets</b>	\$ 444,253	442,408

See Notes to Financial Statements

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF LAURENS**

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

	2011	2010
<b>Operating revenues:</b>	<b>\$ 870,492</b>	<b>830,793</b>
<b>Operating expenses:</b>		
Cost of service	519,516	513,830
Head-end expenses	117,278	146,846
Customers' accounts expense (recovery)	(7,000)	1,200
Administrative and general expense	236,297	210,913
<b>Total operating expenses</b>	<b>866,091</b>	<b>872,789</b>
<b>Change in net assets</b>	4,401	(41,996)
<b>Total net assets, beginning of year</b>	266,270	308,266
<b>Total net assets, end of year</b>	<b>\$ 270,671</b>	<b>266,270</b>

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF LAURENS**

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

	2011	2010
<b>Cash flows from operating activities:</b>		
Cash receipts from customers	\$ 862,189	858,537
Cash payments to suppliers	(664,888)	(703,524)
Cash payments to employees	(142,121)	(100,029)
	55,180	54,984
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(30,288)	(17,619)
	(30,288)	(17,619)
Net cash (used) by capital and related financing activities		
	24,892	37,365
Net increase in cash and cash equivalents		
Cash and cash equivalents, beginning of year	233,209	195,844
Cash and cash equivalents, end of year	\$ 258,101	233,209
 <b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Income (loss) from operations	4,401	(41,996)
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation	69,891	112,554
Change in accounts receivable	(16,503)	27,744
Change in prepaid expenses	(53)	(3,291)
Change in accounts payable	(1,692)	(43,145)
Change in accrued expenses	(3,361)	907
Change in OPEB liability	2,497	2,211
	55,180	54,984
Net cash provided by operating activities	55,180	54,984

See Notes to Financial Statements

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY**  
**A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Laurens Municipal Broadband Communications 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 Broadband Communications Utility (the Utility) provides telephone, cable, and internet services to consumers in Laurens, Iowa. Sales of local telephone, cable and internet services are billed on the fifteenth of each month for service from the first to the end of the month billed. Sales of long distance telephone service are billed on the fifteenth of each month for usage through the fifteenth of the month. The Utility is billed by their telephone, cable, and internet providers 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 Broadband Communications Utility 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 Broadband Communications Utility 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 for the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis to 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 BROADBAND COMMUNICATIONS UTILITY**  
**A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**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 Broadband Communication Utility 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. Disbursements were within budgeted limits for the year ended December 31, 2011.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 492 and 523 uncollateralized accounts. Accounts receivable balances older than 90 days were approximately \$10,278 and \$12,590 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 \$6,000 and \$13,000, respectively.

Inventories – Inventories are stated at the lower of cost or market using the first-in, first-out method.

Capital Assets - Capital assets are carried at cost. The Utility computes depreciation on buildings and equipment using the straight-line method over the estimated useful lives of the property. Lives for the buildings are twenty to fifty years, while the equipment lives range from three to thirty years.

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

**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**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through July 9, 2012, the date the financial statements were issued.

**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.

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 – 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 \$4,062 and \$3,512 as of December 31, 2011 and 210 respectively. These amounts have been accrued and are reflected on the attached financial statements.

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY**  
**A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – CAPITAL ASSETS**

A summary of capital assets at 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	\$ 8,280	-	-	8,280
Capital assets being depreciated:				
Distribution plant – telephone	84,140	4,097	-	88,237
Other equipment – telephone	46,308	-	-	46,308
Distribution plant – CATV and internet	1,005,920	26,191	-	1,032,111
Other equipment – CATV and internet	<u>37,995</u>	<u>-</u>	<u>-</u>	<u>37,995</u>
Total capital assets being depreciated	<u>1,174,363</u>	<u>30,287</u>	<u>-</u>	<u>1,204,651</u>
Less accumulated depreciation for:				
Distribution plant – telephone	72,914	7,421	-	80,335
Other equipment – telephone	38,907	1,915	-	40,822
Distribution plant – CATV and internet	885,199	59,054	-	944,253
Other equipment – CATV and internet	<u>34,194</u>	<u>1,501</u>	<u>-</u>	<u>35,695</u>
Total accumulated depreciation	<u>1,031,213</u>	<u>69,891</u>	<u>-</u>	<u>1,101,105</u>
Total capital assets being depreciated, net	<u>143,149</u>			<u>103,546</u>
Net capital assets	<u>\$ 151,429</u>			<u>111,826</u>

A summary of capital assets at 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	\$ 8,280	-	-	8,280
Capital assets being depreciated:				
Distribution plant – telephone	84,140	-	-	84,140
Other equipment – telephone	44,749	1,559	-	46,308
Distribution plant – CATV and internet	990,700	15,220	-	1,005,920
Other equipment – CATV and internet	<u>37,155</u>	<u>840</u>	<u>-</u>	<u>37,995</u>
Total capital assets being depreciated	<u>1,156,744</u>	<u>17,619</u>	<u>-</u>	<u>1,174,363</u>

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY**  
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**NOTES TO FINANCIAL STATEMENTS**

Less accumulated depreciation for:			
Distribution plant – telephone	64,329	8,585	- 72,914
Other equipment – telephone	37,747	1,160	- 38,907
Distribution plant – CATV and internet	784,590	100,609	- 885,199
Other equipment – CATV and internet	<u>31,994</u>	<u>2,200</u>	- <u>34,194</u>
Total accumulated depreciation	<u>918,660</u>	<u>112,554</u>	- <u>1,031,214</u>
Total capital assets being depreciated, net	<u>238,084</u>		<u>143,149</u>
Net capital assets	<u>\$ 246,364</u>		<u>151,429</u>

**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 \$8,951, \$6,395, and \$7,570 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 Broadband Communications Utility and the Laurens Municipal Light and Power Plant 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 expenses incurred by Laurens Municipal Light and Power Plant. This agreement was entered into in 2001 for a term of forty years. The future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Amount</u>
2012	\$ 125,000
2013	125,000
2014	125,000
2015	125,000
2016	125,000
2017-2021	625,000
2022-2026	625,000
2027-2031	625,000
2032-2036	625,000
2037-2041	<u>625,000</u>
Total	<u>\$ 3,750,000</u>

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

**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)**

Laurens Municipal Broadband Communications Utility implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions for the years ended December 31, 2011 and 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. This implicit subsidy results 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 years ended December 31, 2011 and 2010, the amount actually contributed to the plan and changes in the Utility’s net OPEB obligation:

	2011	2010
Annual required contribution	\$ 2,497	2,211
Interest on annual required contribution	-	-
Annual OPEB cost	2,497	2,211
Net OPEB obligation beginning of year	2,211	-
Net OPEB obligation end of year	\$ 4,708	2,211

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 and 2010.

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY**  
**A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

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>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost</u>	<u>Net OPEB Obligation</u>
December 31, 2011	\$ 2,497	\$ 0%	\$ 4,708
December 31, 2010	2,211	0%	2,211

Funded Status and Funding Progress. As of January 1, 2010, the most recent actuarial valuation date for the period January 1, 2011 through December 31, 2011, the actuarial accrued liability was \$15,592, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,592. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$148,000 and the ratio of the UAAL to covered payroll was 10.5%. 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 6%. The ultimate medical trend rate is 6%. Rates are from the 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 – CORRECTION OF ERROR**

As of and for the year ended December 31, 2010 the Utility accrued \$175,000 of accounts payable to Laurens Municipal Light and Power Plant. This accrual should have been \$125,000. The error was corrected in the financial statements for the year ended December 31, 2010 as shown below:

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY**  
**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>			
Accounts payable	\$ 213,385	(50,000)	163,385
Net assets	216,270	50,000	266,270
<u>Statement of Revenue, Expenses and Changes in Net Assets</u>			
Cost of service	\$ 563,830	(50,000)	513,830
Change in net assets	(91,996)	50,000	(41,996)
<u>Statement of Cash Flows</u>			
(Loss) from operations	\$ (91,996)	50,000	(41,996)
Change in accounts payable	6,855	(50,000)	(43,145)

**REQUIRED SUPPLEMENTARY INFORMATION**

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2011**

	<u>Actual</u>	<u>Original/Final Budget</u>	<u>Final to Actual Variance</u>
<b>Revenues:</b>			
Use of money and property	\$ 5,940	7,000	(1,060)
Charges for services	849,181	883,000	(33,819)
Miscellaneous	15,371	94,000	(78,629)
	<u>870,492</u>	<u>984,000</u>	<u>(113,508)</u>
<b>Expenses</b>	<u>866,091</u>	<u>984,000</u>	<u>117,909</u>
<b>Excess of Receipts Over Disbursements</b>	4,401	-	<u>\$ 4,401</u>
<b>Net Assets at Beginning of Period</b>	<u>266,270</u>	<u>438,141</u>	
<b>Net Assets at End of Period</b>	<u>\$ 270,671</u>	<u>438,141</u>	

See Notes to Financial Statements

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**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 were within the budgeted limits for the year ended December 31, 2011.

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

**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, 2010	-0-	\$ 15	\$ 15	0.00%	\$ 148	10%
2010	January 1, 2010	-0-	\$ 15	\$ 15	0.00%	\$ 103	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 BROADBAND COMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF LAURENS**

Schedule 1

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

	CABLE TV and INTERNET		TELEPHONE		TOTAL	
	2011	2010	2011	2010	2011	2010
Sale of cable services:						
Basic and digital cable	271,365	258,287	-	-	271,365	258,287
Sale of telephone services:						
Local	-	-	149,317	155,864	149,317	155,864
Long distance	-	-	23,086	17,817	23,086	17,817
Access fees	-	-	103,787	95,771	103,787	95,771
Internet	171,479	161,521	-	-	171,479	161,521
Transport fee credits	-	-	60,000	70,300	60,000	70,300
Special circuits	-	-	25,853	22,914	25,853	22,914
Other	-	-	10,444	10,952	10,444	10,952
USAC - high cost	-	-	1,276	1,100	1,276	1,100
Wireless home sales/commissions	-	-	835	-	835	-
Tower lease fees	5,940	6,480	-	-	5,940	6,480
Converters	23,974	17,822	-	-	23,974	17,822
Penalties	5,475	-	2,290	-	7,765	-
Miscellaneous	14,647	4,132	724	7,833	15,371	11,965
<b>Total operating revenue</b>	<u>492,880</u>	<u>448,242</u>	<u>377,612</u>	<u>382,551</u>	<u>870,492</u>	<u>830,793</u>

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY**  
**A COMPONENT UNIT OF THE CITY OF LAURENS**

Schedule 2

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

	CABLE TV and INTERNET		TELEPHONE		TOTAL	
	2011	2010	2011	2010	2011	2010
Cost of service:						
Basic and digital programming	206,030	200,979	-	-	206,030	200,979
Internet fees	43,228	43,981	-	-	43,228	43,981
Transport fees	5,400	5,400	7,139	15,221	12,539	20,621
Switching fees	-	-	55,478	53,451	55,478	53,451
Long-distance fees	-	-	16,313	24,097	16,313	24,097
Access fees	-	-	39,439	29,164	39,439	29,164
Billing fees	-	-	15,834	13,557	15,834	13,557
Illuminet fees	-	-	-	1,948	-	1,948
Directory listing fees	-	-	4,813	51	4,813	51
Wireless fees	-	-	842	982	842	982
Joint use fees	55,000	55,000	70,000	70,000	125,000	125,000
<b>Total cost of service</b>	309,658	305,360	209,858	208,471	519,516	513,831
Head-end system:						
Wages and benefits	14,474	13,018	9,593	9,324	24,067	22,342
Operating expenses and supplies	11,716	7,545	6,652	2,599	18,368	10,144
Maintenance and repairs	4,991	3,298	60	1,281	5,051	4,579
Buildings and grounds	2,083	1,281	1,234	738	3,317	2,019
Depreciation	59,054	100,609	7,421	7,152	66,475	107,761
<b>Total head-end system</b>	92,318	125,751	24,960	21,094	117,278	146,845
Customers' accounts expense:						
Bad debt expense	(3,500)	600	(3,500)	600	(7,000)	1,200
<b>Total customers' accounts expense</b>	(3,500)	600	(3,500)	600	(7,000)	1,200
Administrative and general expense:						
Administrative and general salaries	33,362	23,736	81,637	73,655	114,999	97,391
Office supplies and postage	4,281	3,548	6,319	6,827	10,600	10,375
Audits, legal, and consultation services	1,960	2,076	11,967	13,505	13,927	15,581
Property insurance	1,378	1,641	2,654	3,049	4,032	4,690
Compensation insurance	1,280	638	1,919	1,300	3,199	1,938
Employees' group insurance	17,896	14,575	26,763	27,162	44,659	41,737
Trustees' fees	360	323	540	578	900	901
Dues and subscriptions	1,876	1,382	3,193	3,699	5,069	5,081
Franchise requirements - cost of services to City	15,893	14,108	1,250	190	17,143	14,298
Legal publications	464	301	930	559	1,394	860
Advertising and promotion	478	92	712	177	1,190	269
Convention, meeting, and travel expense	70	91	95	194	165	285
E911 fees	-	-	7,418	5,886	7,418	5,886
Depreciation	1,501	2,200	1,915	2,591	3,416	4,791
Motor vehicle and work equipment expense	1,930	1,565	2,782	2,896	4,712	4,461
Miscellaneous	840	519	2,635	1,850	3,475	2,369
<b>Total administrative and general expense</b>	83,569	66,795	152,729	144,118	236,298	210,913
<b>Total operating expenses</b>	482,045	498,506	384,047	374,283	866,092	872,789

See Accompanying Independent Auditor's Report



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 Broadband Communications Utility:

We have audited the financial statements of Laurens Municipal Broadband Communications Utility (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 Reporting**

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-11 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 at I-C-11 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 Broadband Communications Utility 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 BROADBAND COMMUNICATIONS UTILITY  
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 for it to be reported fairly in accordance with accounting standards 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 adjustments in a timely manner.

Cause – Regular month-end practices did 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 accounts payable is reconciled with the general ledger in a timely manner.

Client Response – We will develop and implement procedures to reconcile accounts payable in a timely manner.

Conclusion – Response accepted.

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
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, customer service and managing a smooth operating enterprise, however the benefit of having a person or persons 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 to the Laurens Municipal Light and Power Plant.

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 BROADBAND COMMUNICATIONS UTILITY  
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 did not exceed the amounts budgeted.
- 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 Trustee minutes but were not.

We identified two bill listings that included the same bill for the trustees to approve. We were able to verify that the bill was not paid twice. We identified two bills that were not included on any bill listing for trustee approval. By being excluded from the bill listing, these bills were not published as required by the Code of Iowa.

Criteria – Chapter 372.13 of the Code of Iowa requires that all payments be published. The list of claims allowed must include 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 on the bill listing for trustee approval.

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 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.